KEMPER Corp
Form 10-K
February 20, 2019
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K
x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2018
OR
¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
Commission file number: 001-18298
Kemper Corporation
(Exact name of registrant as specified in its charter)

Delaware	95-4255452
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
200 E. Randolph Street, Suite 3300, Chicago, Illinois	60601
(Address of principal executive offices)	(Zip Code)

(312) 661-4600
(Registrant's telephone number, including area code)
Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, $0.10 par value per share	New York Stock Exchange
7.375% Subordinated Debentures due 2054	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None
Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes x No ¨
Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes ¨ No x
Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨
Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes x No ¨
Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. x
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.
Large accelerated filer x Accelerated filer ¨ Non-accelerated filer ¨ Smaller reporting company ¨
Emerging growth company ¨
If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).   Yes ¨   No x

As of June 30, 2018, the aggregate market value of the registrant’s common stock held by non-affiliates of the registrant was $3.9 billion based on the closing sale price as reported on the New York Stock Exchange. Solely for purposes of this calculation, all executive officers and directors of the registrant are considered affiliates.

Registrant had 64,757,594 shares of common stock outstanding as of January 25, 2019.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Proxy Statement for the 2019 Annual Meeting of Shareholders are incorporated by reference into Part III.

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Caution Regarding Forward-Looking Statements

This 2018 Annual Report on Form 10-K (the "2018 Annual Report"), including, but not limited to, the accompanying consolidated financial statements of Kemper Corporation ("Kemper" or the "Registrant") and its subsidiaries (individually and collectively referred to herein as the "Company") and the notes thereto appearing in Item 8 herein (the "Consolidated Financial Statements"), the Management's Discussion and Analysis of Financial Condition and Results of Operations appearing in Item 7 herein (the "MD&A") and the other Exhibits and Financial Statement Schedules filed as a part hereof or incorporated by reference herein, may contain or incorporate by reference information that includes or is based on forward-looking statements within the meaning of the safe-harbor provisions of the Private Securities Litigation Reform Act of 1995.

Forward-looking statements give expectations or forecasts of future events. The reader can identify these statements by the fact that they do not relate strictly to historical or current facts. They use words such as "believe(s)," "goal(s)," "target(s),"
"estimate(s)," "anticipate(s)," "forecast(s)," "project(s)," "plan(s)," "intend(s)," "expect(s)," "might," "may," "could" and other
similar meaning. Forward-looking statements, in particular, include statements relating to future actions, prospective services or products, future performance or results of current and anticipated services or products, sales efforts, expenses, the outcome of contingencies such as legal proceedings, trends in operations and financial results.

Any or all forward-looking statements may turn out to be wrong, and, accordingly, Kemper cautions readers not to place undue reliance on such statements. Kemper bases these statements on current expectations and the current economic environment as of the date of this 2018 Annual Report. They involve a number of risks and uncertainties that are difficult to predict. These statements are not guarantees of future performance; actual results could differ materially from those expressed or implied in the forward-looking statements. Forward-looking statements can be affected by inaccurate assumptions or by known or unknown risks and uncertainties that may be important in determining the Company's actual future results and financial condition.

In addition to the factors discussed below under Item 1A., "Risk Factors," in this 2018 Annual Report, the reader should consider the following list of general factors that, among others, could cause the Company's actual results and financial condition to differ materially from estimated results and financial condition.

Factors related to the legal and regulatory environment in which Kemper and its subsidiaries operate

- Evolving practices and interpretations by regulators and courts that increase operating costs and potential liabilities, particularly any that involve retroactive application of new requirements, including, but not limited to, state initiatives related to unclaimed property laws or claims handling practices with respect to life insurance policies and the proactive use of death verification databases;
- Adverse outcomes in litigation or other legal or regulatory proceedings involving Kemper or its subsidiaries or affiliates;
- Governmental actions, including, but not limited to, implementation of new federal and state laws and regulations, and court decisions interpreting existing laws and regulations or policy provisions;
- Uncertainties related to regulatory approval of insurance rates, policy forms, insurance products, license applications, dividends from insurance subsidiaries, acquisitions of businesses and other matters within the purview of state insurance regulators;

Factors relating to insurance claims and related reserves in the Company's insurance businesses

- The incidence, frequency and severity of catastrophes occurring in any particular reporting period or geographic area, including natural disasters, pandemics and terrorist attacks or other man-made events;
- The number and severity of insurance claims (including those associated with catastrophe losses);
- Changes in facts and circumstances affecting assumptions used in determining loss and loss adjustment expenses ("LAE") reserves, including, but not limited to, the number and severity of insurance claims, changes in claims handling procedures and closure patterns and development patterns;
- The impact of inflation on insurance claims, including, but not limited to, the effects on personal injury claims of increasing medical costs and the effects on property claims attributed to scarcity of resources available to rebuild damaged structures, including labor and materials and the amount of salvage value recovered for damaged property;
- Developments related to insurance policy claims and coverage issues, including, but not limited to, interpretations or decisions by courts or regulators that may govern or influence losses incurred in connection with hurricanes and other

catastrophes;

- Orders, interpretations or other actions by regulators that impact the reporting, adjustment and payment of claims;

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- Changes in the pricing or availability of reinsurance, or in the financial condition of reinsurers and amounts recoverable therefrom;

Factors related to the Company's ability to compete

- Changes in the ratings by rating agencies of Kemper and/or its insurance company subsidiaries with regard to credit, financial strength, claims paying ability and other areas on which the Company is rated;
- The level of success and costs incurred in realizing or maintaining economies of scale, integrating acquired businesses and implementing significant business initiatives, including, but not limited to, those related to expense and claims savings, consolidations, reorganizations and technology;
- Absolute and relative performance of the Company's products and services, including, but not limited to, the level of success achieved in designing and introducing new insurance products;
- The ability of the Company to maintain the availability of critical systems and manage technology initiatives cost-effectively to address insurance industry developments and regulatory requirements;
- Heightened competition, including, with respect to pricing, consolidations of existing competitors or entry of new competitors and alternate distribution channels, introduction of new technologies, emergence of telematics, refinements of existing products and development of new products by current or future competitors;
- Expected benefits and synergies from mergers, acquisitions and/or divestitures that may not be realized to the extent anticipated, within expected time frames or at all, due to a number of factors including, but not limited to, the loss of key agents/brokers, customers or employees, increased costs, fees, expenses and related charges and delays caused by factors outside of the Company's control;

Factors relating to the business environment in which Kemper and its subsidiaries operate

- Changes in general economic conditions, including, but not limited to, performance of financial markets, interest rates, inflation, unemployment rates and fluctuating values of particular investments held by the Company;
- Absolute and relative performance of investments held by the Company;
- Changes in insurance industry trends and significant industry developments;
- Changes in consumer trends and significant consumer or product developments;
- Changes in capital requirements, including the calculations thereof, used by regulators and rating agencies;
- Regulatory, accounting or tax changes that may affect the cost of, or demand for, the Company's products or services or after-tax returns from the Company's investments;
- The impact of required participation in windpools and joint underwriting associations, residual market assessments and assessments for insurance industry insolvencies;
- Changes in distribution channels, methods or costs resulting from changes in laws or regulations, lawsuits or market forces;
- Increased costs and risks related to cybersecurity that could materially affect the Company's operations, including, but not limited to, data breaches, cyber-attacks, virus or malware installation or other system hazards or infiltrations affecting system integrity, availability and performance, and actions taken to minimize and remediate the risks thereof; and

Other risks and uncertainties described from time to time in Kemper's filings with the U.S. Securities and Exchange Commission ("SEC").

Kemper cannot provide any assurances that the results contemplated in any forward-looking statements will be achieved or will be achieved in any particular timetable or that future events or developments will not cause such statements to be inaccurate. Kemper assumes no obligation to correct or update any forward-looking statements publicly for any changes in events or developments or in the Company's expectations or results subsequent to the date of this 2018 Annual Report. Kemper advises the reader, however, to consult any further disclosures Kemper makes on related subjects in its filings with the SEC.

PART I

Item 1. Business.

Kemper is a diversified insurance holding company, with subsidiaries that provide automobile, homeowners, life, health, and other insurance products to individuals and businesses. Kemper’s annual reports on Form 10-K, quarterly reports on Form 10 Q, current reports on Form 8-K and amendments thereto are accessible free of charge through Kemper’s website, kemper.com, and as soon as reasonably practicable after such materials are filed with, or furnished to, the SEC, which also maintains an Internet site at sec.gov that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC.

(a) GENERAL DEVELOPMENT OF BUSINESS

Registrant is a holding company incorporated under the laws of the State of Delaware in 1990, with equity securities traded on the New York Stock Exchange (the “NYSE”). On August 25, 2011, Registrant adopted its current name, Kemper Corporation, and changed its NYSE ticker symbol to KMPR. Prior to the name change, the Registrant was known as Unitrin, Inc. and traded under the NYSE ticker symbol UTR.

Acquisition of Infinity Property and Casualty Corporation

On July 2, 2018, Kemper acquired 100% of the outstanding common stock of Infinity Property and Casualty Corporation (“Infinity”), pursuant to the terms of an Agreement and Plan of Merger, dated February 13, 2018, with total cash, stock and equity-based compensation consideration paid to Infinity shareholders of approximately $1.5 billion (the “Infinity Merger”). Additional information pertaining to the Infinity Merger is contained in Note 3, “Acquisition of Business,” to the Consolidated Financial Statements appearing in Item 8 of Part II of this 2018 Annual Report.

(c) DESCRIPTION OF BUSINESS

The Company is engaged, through its subsidiaries, in the property and casualty insurance and life and health insurance businesses. The Company conducts its operations through three operating segments: Preferred Property & Casualty Insurance, Specialty Property & Casualty Insurance and Life & Health Insurance. The Company conducts its operations solely in the United States.

Kemper’s subsidiaries employ approximately 8,100 full-time associates supporting their operations, of which approximately 1,300 are employed in the Preferred Property & Casualty Insurance segment, approximately 2,600 are employed in the Specialty Property & Casualty Insurance Segment, approximately 3,300 are employed in the Life & Health Insurance segment and the remainder are employed in various corporate and other staff and shared functions.

Property and Casualty Insurance Business

General

The Company's property & casualty insurance business operations are conducted primarily through the Preferred Property & Casualty Insurance and Specialty Property & Casualty Insurance segments. In addition, the Life and Health Insurance segment's career agents also sell contents coverage for personal property to its customers. Collectively, these segments provide preferred automobile, specialty automobile, homeowners, renters, fire, umbrella and other types of property and casualty insurance to individuals and commercial automobile insurance to businesses. Property insurance indemnifies an insured with an interest in physical property for loss of, or damage to, such property. Casualty insurance primarily covers liability for damage to property of, or injury to, a person or entity other than the insured. In most cases, casualty insurance also obligates the insurance company to provide a defense for the insured in litigation arising out of events covered by the policy.

The Preferred Property & Casualty Insurance and Specialty Property & Casualty Insurance segments distribute their products primarily through independent agents and brokers who are paid commissions for their services.

Preferred Property & Casualty Insurance

The Preferred Property & Casualty Insurance segment, based in Chicago, Illinois, conducts business in 45 states and the District of Columbia. As shown in the following table, five states provided 68% of the segment's premium revenues in 2018.

State	Percentage of Total Premiums	
California	22	%
New York	17	%
Texas	15	%
North Carolina	10	%
Illinois	4	%

The Preferred Property & Casualty Insurance segment primarily sells preferred automobile insurance, homeowners insurance and other personal insurance. The segment's insurance products accounted for 22%, 31% and 33% of the Company's consolidated insurance premiums in 2018, 2017 and 2016, respectively. The segment's insurance products are marketed by approximately 4,800 independent insurance agents to individuals who have demonstrated favorable risk characteristics and loss history.

Specialty Property & Casualty Insurance

The Specialty Property & Casualty Insurance segment, based in Chicago, Illinois, conducts business in 43 states. As shown in the following table, three states provided 92% of the segment's premium revenues in 2018.

State	Percentage of Total Premiums	
California	73	%
Texas	10	%
Florida	9	%

The Specialty Property & Casualty Insurance segment provides personal and commercial automobile insurance to value-minded consumers who have had difficulty obtaining standard or preferred risk insurance, usually because of their driving records, claims experience or premium payment history. The segment's insurance products accounted for 60%, 43% and 39% of the Company's consolidated insurance premiums in 2018, 2017 and 2016, respectively. The segment's insurance products are marketed through approximately 21,000 independent agents and brokers.

Property and Casualty Loss and Loss Adjustment Expense Reserves

The Company's reserves for losses and LAE for property and casualty insurance ("Property and Casualty Insurance Reserves") are reported using the Company's estimate of its ultimate liability for losses and LAE for claims that occurred prior to the end of any given accounting period but have not yet been paid.

Property and Casualty Insurance Reserves by business segment at December 31, 2018 and 2017 were:

DOLLARS IN MILLIONS	2018	2017
Business Segments:		
Preferred Property & Casualty Insurance	$452.9	$461.9
Specialty Property & Casualty Insurance	1,387.0	514.4
Life & Health Insurance	4.4	4.1
Total Business Segments	1,844.3	980.4
Discontinued Operations	27.4	33.1
Unallocated Reserves	3.2	3.3
Total Property & Casualty Insurance Reserves	$1,874.9	$1,016.8

In estimating the Company's Property and Casualty Insurance Reserves, the Company's actuaries exercise professional judgment and must consider, and are influenced by, many variables that are difficult to quantify. Accordingly, the process of estimating and establishing the Company's Property and Casualty Insurance Reserves is inherently uncertain and the actual ultimate net cost of claims may vary materially from the estimated amounts reserved. The reserving process is particularly imprecise for claims involving asbestos, environmental matters, construction defect and other emerging and/or long-tailed exposures that may not be discovered or reported until years after the insurance policy period has ended. See MD&A, "Critical Accounting Estimates," under the caption "Property and Casualty Insurance Reserves for Losses and Loss Adjustment Expenses" beginning on page 64 for a discussion of the Company's reserving process and the factors considered by the Company's actuaries in estimating the Company's Property and Casualty Insurance Reserves.

The Company's goal is to ensure that its total reserves for property and casualty insurance losses and LAE are adequate to cover all costs, while minimizing variation from the time reserves for losses and LAE are initially estimated until losses and LAE are fully developed. Changes in the Company's estimates of these losses and LAE, also referred to as "development," will occur over time and may be material. Favorable development is recognized and reported in the Consolidated Financial Statements when the Company decreases its previous estimate of ultimate losses and LAE and results in an increase in net income in the period recognized, whereas adverse development is recognized and reported in the Consolidated Financial Statements when the Company increases its previous estimate of ultimate losses and LAE and results in a decrease in net income.

Development of property and casualty insurance losses and LAE from prior accident years for each of the Company's continuing business segments and discontinued operations in 2018, 2017 and 2016 was:

DOLLARS IN MILLIONS	Favorable (Adverse) Development		
	2018	2017	2016
Continuing Operations:			
Preferred Property & Casualty Insurance	$ 8.3	$ (15.7)	$ 23.4
Specialty Property & Casualty Insurance	(1.7)	(3.8)	(9.1)
Life & Health Insurance	(1.4)	(0.9)	0.1
Total Favorable (Adverse) Development from Continuing Operations, Net	5.2	(20.4)	14.4
Discontinued Operations	2.2	1.5	6.3
Total Favorable (Adverse) Development, Net	$ 7.4	$ (18.9)	$ 20.7

See MD&A, "Loss and LAE Reserve Development," "Preferred Property & Casualty Insurance," "Specialty Property & Casualty Insurance," and "Life & Health Insurance," for the impact of development on the results reported by the Company's business segments. Also see MD&A, "Critical Accounting Estimates," under the caption "Property and Casualty Insurance Reserves for Losses and Loss Adjustment Expenses" beginning on page 64 for additional information about the Company's reserving practices.

See Note 6, "Property and Casualty Insurance Reserves," to the Consolidated Financial Statements for information about incurred and paid claims development for the 2014-2017 accident years as of December 31, 2018, net of reinsurance and

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indemnification, as well as cumulative claim frequency and the total of incurred but not reported ("IBNR") liabilities, including expected development on reported claims included within the net incurred losses and allocated LAE amounts as of December 31, 2018. See Note 6, "Property and Casualty Insurance Reserves," to the Consolidated Financial Statements for a tabular reconciliation of the three most recent annual periods setting forth the Company's Property and Casualty Insurance Reserves as of the beginning of each year, incurred losses and LAE for insured events of the current year, changes in incurred losses and LAE for insured events of prior years, payments of losses and LAE for insured events of the current year, payments of losses and LAE for insured events of prior years and the Company's Property and Casualty Insurance Reserves at the end of the year and additional information regarding the nature of adjustments to incurred losses and LAE for insured events of prior years.

Catastrophe Losses

Catastrophes and natural disasters are inherent risks of the property and casualty insurance business. These catastrophic events and natural disasters include, without limitation, hurricanes, tornadoes, earthquakes, hailstorms, wildfires, high winds and winter storms. Such events result in insured losses that are, and are expected to be, a material factor in the results of operations and financial position of Kemper's property and casualty insurance companies. Further, because the level of insured losses that could occur in any one year cannot be accurately predicted, these losses contribute to material year-to-year fluctuations in the results of operations and financial position of these companies. Specific types of catastrophic events are more likely to occur at certain times within the year than others. This factor adds an element of seasonality to property and casualty insurance claims. The occurrence and severity of catastrophic events cannot be accurately predicted in any year. However, some geographic locations are more susceptible to these events than others. The Company has endeavored to manage its direct insurance exposures in certain regions that are prone to naturally occurring catastrophic events through a combination of geographic diversification, restrictions on the amount and location of new business production in such regions, modifications of, and/or limitations to coverages and deductibles for certain perils in such regions and reinsurance.

The Company has adopted the industry-wide catastrophe classifications of storms and other events promulgated by Insurance Services Office, Inc. ("ISO") to track and report losses related to catastrophes. ISO classifies a disaster as a catastrophe when the event causes $25 million or more in direct insured losses to property and affects a significant number of policyholders and insurers. ISO-classified catastrophes are assigned a unique serial number recognized throughout the insurance industry. The discussions throughout this 2018 Annual Report utilize ISO's definition of catastrophes.

The process of estimating and establishing reserves for catastrophe losses is inherently uncertain and the actual ultimate cost of a claim, net of reinsurance recoveries, may vary materially from the estimated amount reserved. See Item 1A., "Risk Factors," under the caption "Catastrophe losses could materially and adversely affect the Company's results of operations, liquidity and/or financial condition" for a discussion of catastrophe risk. See Note 20, "Catastrophe Reinsurance," to the Consolidated Financial Statements for a discussion of the factors that influence the process of estimating and establishing reserves for catastrophes.

Reinsurance

The Company manages its exposure to catastrophes and other natural disasters through a combination of geographical diversification, restrictions on the amount and location of new business production in such regions, modifications of, and/or limitations to coverages and deductibles for certain perils in such regions and reinsurance. To limit its exposures to catastrophic events, the Company maintains a catastrophe reinsurance program for the property and casualty insurance companies. Coverage for the catastrophe reinsurance program is provided in various layers through multiple excess of loss reinsurance contracts and an aggregate excess property catastrophe reinsurance contract. The Company's insurance subsidiaries also purchase reinsurance from the Florida Hurricane Catastrophe Fund (the "FHCF") for hurricane losses in Florida at retentions lower than those described below for the Company's catastrophe reinsurance program.

The 2019 catastrophe reinsurance program covering the property and casualty insurance companies is provided by (i) three multi-year excess of loss reinsurance contracts, (ii) an annual excess of loss reinsurance contract (the "2019 Annual Excess of Loss Contract") and (iii) an annual aggregate excess property catastrophe reinsurance contract (the "2019 Aggregate Property Catastrophe Reinsurance Contract").

Multi-year Excess of Loss Reinsurance Contracts

The first multi-year excess of loss reinsurance contract provides coverage over the three-year period of January 1, 2017 through December 31, 2019 (the “2017 Reinsurance Contract”). The 2017 Reinsurance Contract provides coverage in two layers, which together provide coverage for losses on individual catastrophes of $200 million in excess of $50 million. Under the 2017 Reinsurance Contract, the percentage of coverage is 31.66% for each year in the three-year period, and participation of each reinsurer remains the same over the entire three-year period. Accordingly, the 2017 Reinsurance Contract provides coverage for 31.66% of losses on individual catastrophes of $200 million in excess of $50 million in 2019.

The second multi-year excess of loss reinsurance contract provides coverage over the three-year period of January 1, 2018 through December 31, 2020 (the "2018 Reinsurance Contract"). The 2018 Reinsurance Contract provides coverage in two layers, which together provide coverage for losses on individual catastrophes of $200 million in excess of $50 million, which is consistent with the coverage provided under the 2017 Reinsurance Contract. Under the 2018 Reinsurance Contract, the percentage of coverage is 31.66% for each year in the three-year period, and participation of each reinsurer remains the same over the entire three-year period. Accordingly, the 2018 Reinsurance Contract provides coverage for 31.66% of losses on individual catastrophes of $200 million in excess of $50 million in 2019.

The third multi-year excess of loss reinsurance contract provides coverage over the three-year period of January 1, 2019 through December 31, 2021 (the "2019 Reinsurance Contract"). The 2019 Reinsurance Contract provides coverage in two layers, which together provide coverage for losses on individual catastrophes of $200 million in excess of $50 million, which is consistent with the coverage provided under the 2017 Reinsurance Contract and 2018 Reinsurance Contract. Under the 2019 Reinsurance Contract, the percentage of coverage is 31.66% for each year in the three-year period, and participation of each reinsurer remains the same over the entire three-year period. Accordingly, the 2019 Reinsurance Contract provides coverage for 31.66% of losses on individual catastrophes of $200 million in excess of $50 million in 2019.

Annual Excess of Loss Reinsurance Contract

The 2019 Annual Excess of Loss Contract provides coverage for the annual period of January 1, 2019 through December 31, 2019. The 2019 Annual Excess of Loss Contract provides coverage for losses on individual catastrophes of $25 million in excess of $250 million, and represents additional coverage when comparing the 2019 and 2018 catastrophe reinsurance programs.

Summary of Excess of Loss Reinsurance Contracts

Coverage on individual catastrophes provided under the three multi-year excess of loss reinsurance contracts for 2019 (January 1, 2019 to December 31, 2019) and the 2019 Annual Excess of Loss Contract is provided in various layers as summarized below.

DOLLARS IN MILLIONS	Catastrophe Losses and LAE In Excess of	Up to	Combined Percentage of Coverage
Retained	$ —	$ 50.0	— %
1st Layer of Coverage	50.0	150.0	95.0
2nd Layer of Coverage	150.0	250.0	95.0
3rd Layer of Coverage	250.0	275.0	95.0

The estimated annual premium in 2019 for the three multi-year excess of loss reinsurance contracts and the 2019 Annual Excess of Loss Contract presented in the preceding table is $10.5 million. In the event that the Company's incurred catastrophe losses and LAE covered by its catastrophe reinsurance program exceed the retention for a particular layer, the program allows for one reinstatement of such coverage. In such an instance, the Company is required to pay a reinstatement premium to the reinsurers to reinstate the full amount of the limit available under such layer. The reinstatement premium for the first layer of coverage is a percentage of the full original premium based on the ratio of the losses in excess of the Company's retention to the reinsurers' coverage limit. The reinstatement premium for the second layer of coverage is a percentage of half the original premium based on the ratio of the losses in excess of the Company's retention to the reinsurers' coverage limit. The reinstatement premium for the third layer of coverage is a percentage of half the original premium based on the ratio of the losses in excess of the Company's retention to the reinsurers' coverage limit.

Aggregate Property Catastrophe Reinsurance Contract

The 2019 Aggregate Property Catastrophe Reinsurance Contract is effective for the period of January 1, 2019 through December 31, 2019 and provides coverage for accumulated catastrophe losses of $50 million in excess of $60 million on property losses arising out of one or more of the following perils from storms or storm systems that are not named storms: (1) windstorm; (2) hail; (3) tornado and (4) fire; including ensuing collapse and water damage.

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Coverage provided under the 2019 Aggregate Property Catastrophe Reinsurance Contract (January 1, 2019 to December 31, 2019) is summarized below.

	Aggregate Catastrophe Losses and LAE	
DOLLARS IN MILLIONS	In Excess of	Up to
Retained	$ —	$ 60.0
Coverage	60.0	110.0

The estimated annual premium for the 2019 Aggregate Property Catastrophe Reinsurance Contract is $11.5 million.

The coverage presented in the preceding tables differs from the coverage provided in 2018. See Note 20, "Catastrophe Reinsurance," to the Consolidated Financial Statements for information pertaining to the 2018 catastrophe reinsurance program for the Company's property and casualty insurance companies. To maintain the same level and percentage of coverage in subsequent years as provided by the catastrophe reinsurance program in 2019, the Company's property and casualty insurance companies will need to purchase additional reinsurance in the future for the portion of coverage expiring at the end of 2019, 2020 and 2021.

Other

In addition to the catastrophe loss exposures caused by natural events described above, Kemper's property and casualty insurance companies are exposed to losses from catastrophic events that are not the result of acts of nature, such as acts of terrorism, the nature, occurrence and severity of which in any period cannot be accurately predicted. The companies have reinsurance coverage to address certain exposures to potential future terrorist attacks. The reinsurance coverage for certified events, as designated by the federal government, is from the Terrorist Risk Insurance Act and the coverage for non-certified events is available in the catastrophe reinsurance program for the property and casualty insurance companies. However, certain perils, such as biological, chemical, nuclear pollution or contamination, are excluded from the reinsurance coverage for non-certified events.

In addition to the catastrophe reinsurance programs described above, Kemper's property and casualty insurance companies utilize other reinsurance arrangements to limit their maximum loss, provide greater diversification of risk and minimize exposures on larger risks.

Under the various reinsurance arrangements, Kemper's property and casualty insurance companies are indemnified by reinsurers for certain losses incurred under insurance policies issued by the reinsurers. As indemnity reinsurance does not discharge an insurer from its direct obligations to policyholders on risks insured, Kemper's property and casualty insurance companies remain directly liable. However, provided that the reinsurers meet their obligations, the net liability for Kemper's property and casualty insurance companies is limited to the amount of risk that they retain. Kemper's property and casualty insurance companies purchase their reinsurance only from reinsurers rated "A-" or better by A. M. Best Co., Inc. ("A.M. Best"), at the time of purchase. A.M. Best is an organization that specializes in rating insurance and reinsurance companies.

For further discussion of the reinsurance programs, see Note 20, "Catastrophe Reinsurance," and Note 21, "Other Reinsurance," to the Consolidated Financial Statements.

Pricing

Pricing levels for property and casualty insurance products are influenced by many factors, including the frequency and severity of claims, state regulation and legislation, competition, general business and economic conditions, including market rates of interest, inflation, expense levels, and judicial decisions. In addition, many state regulators require consideration of investment income when approving or setting rates, which could reduce underwriting margins. See MD&A under the caption "Preferred Property & Casualty Insurance" and "Specialty Property & Casualty Insurance."

Competition

Based on the most recent annual data published by A.M. Best, as of the end of 2017, there were 1,158 property and casualty insurance groups in the United States. Kemper's property and casualty group, adjusted for the inclusion of Infinity, was among the top 7% of property and casualty insurance groups in the United States as measured by net written premiums, policyholders' surplus and net admitted assets in 2017. Among all personal lines automobile insurance writers, Kemper's property and casualty group was the 14th largest writer as measured by net written premiums in 2017.

Rankings by net admitted assets, net premiums written and capital and surplus were:

Measurement	Ordinal Rank	Percentile Rank
Net Admitted Assets	63	94 %
Net Written Premiums	30	97
Capital and Surplus	71	93

In 2017, the U.S. property and casualty insurance industry's estimated net premiums written were $562 billion, of which nearly 80% were accounted for by the top 50 groups of property and casualty insurance companies. Kemper's property and casualty insurance companies, adjusted to include Infinity, wrote 1% of the industry's 2017 premium volume.

The property and casualty insurance industry is highly competitive, particularly with respect to personal automobile insurance. Kemper's property and casualty insurance companies compete on the basis of, among other measures, (i) using suitable pricing segmentation, (ii) maintaining underwriting discipline, (iii) settling claims timely and efficiently, (iv) offering products in selected markets or geographies, (v) utilizing technological innovations for the marketing and sale of insurance, (vi) controlling expenses, (vii) maintaining adequate ratings from A.M. Best and other ratings agencies and (viii) providing quality services to independent agents and policyholders. See Item 1A., "Risk Factors," under the caption "The insurance industry is highly competitive, making it difficult to grow profitability and within expectations of investors."

Life and Health Insurance Business

The Company's Life & Health Insurance segment consists of Kemper's wholly-owned subsidiaries, United Insurance Company of America ("United Insurance"), The Reliable Life Insurance Company ("Reliable"), Union National Life Insurance Company ("Union National Life"), Mutual Savings Life Insurance Company ("Mutual Savings Life"), United Casualty Insurance Company of America ("United Casualty"), Union National Fire Insurance Company ("Union National Fire"), Mutual Savings Fire Insurance Company ("Mutual Savings Fire") and Reserve National Insurance Company ("Reserve National"). As discussed below, United Insurance, Reliable, Union National Life, Mutual Savings Life, United Casualty, Union National Fire and Mutual Savings Fire (the "Kemper Home Service Companies") distribute their products through a network of employee, or "career" agents. Reserve National distributes its products through a network of independent agents and brokers. These career agents, independent agents and brokers are paid commissions for their services. Earned premiums from life insurance accounted for 11%, 16% and 17% of the Company's consolidated insurance premiums earned in 2018, 2017 and 2016, respectively.

As shown in the following table, five states provided 48% of the premium revenues in this segment in 2018.

State	Percentage of Total Premiums
Texas	19 %
Louisiana	11
Alabama	7
Mississippi	6
Florida	5

Kemper Home Service Companies

The Kemper Home Service Companies, based in St. Louis, Missouri, focus on providing individual life and supplemental accident and health insurance products to customers of modest incomes who desire basic protection for themselves and their families. Their leading product is ordinary life insurance, including permanent and term insurance. Face amounts of these policies are lower than those of policies typically sold to higher income customers by other companies in the life insurance industry. Approximately 73% of the Life & Health Insurance segment's premium revenues are generated by the Kemper Home Service Companies.

The Kemper Home Service Companies employ nearly 2,200 career agents to distribute insurance products in 25 states and the District of Columbia. These career agents are full-time employees who call on customers in their homes to sell insurance products, provide services related to policies in force and collect premiums, typically monthly. Premiums average approximately $23 per policy per month with an average face value of $6,200. Permanent and term policies are offered

primarily on a non-participating, guaranteed-cost basis. These career agents also distribute and/or service certain property insurance products for the Kemper Home Service Companies.

Reserve National

Reserve National, based in Oklahoma City, Oklahoma, is licensed in 49 states and the District of Columbia. The Company has traditionally specialized in the sale of individual Medicare Supplement insurance and limited health insurance coverages, such as fixed indemnity, specified disease, and accident-only plans, primarily to individuals in rural areas who often do not have access to a broad array of accident and health insurance products. The Company's insurance products can be tailored to meet individual and family needs. Reserve National's traditional distribution channel consists of approximately 500 independent agents.

Reserve National began expanding its distribution channels during 2013 by launching two marketing channel initiatives —Kemper Senior Solutions and Kemper Benefits. Kemper Senior Solutions markets life insurance and home health care products focusing on the individual, senior-age demographic of the market place. Kemper Benefits sells voluntary products in the employer market place. Brokers and non-exclusive independent agents are utilized to market and distribute products in these new distribution channels. Reserve National currently has approximately 4,300 independent agents appointed in connection with these initiatives.

Reinsurance

Consistent with insurance industry practice, the Company's life and health insurance subsidiaries utilize reinsurance arrangements to limit their maximum loss, provide greater diversification of risk and minimize exposures on larger risks. As the face amounts of the Company's issued policies are relatively small, the ceded risks and corresponding premiums are also relatively small, particularly when compared to other companies in the industry. The segment is also exposed to losses from catastrophes arising from insurance policies distributed by career agents of the Kemper Home Service Companies. Over the last several years, the Kemper Home Service Companies have been intentionally reducing their exposure to catastrophic events through the run-off of their dwelling insurance business. Accordingly, except for reinsurance provided by the FHCF for catastrophe losses in Florida, the Kemper Home Service Companies do not carry any other catastrophe reinsurance coverage.

Lapse Ratio

The lapse ratio is a measure of a life insurer's loss of in-force policies. For a given year, this ratio is commonly computed as the total face amount of individual life insurance policies lapsed, surrendered, expired and decreased during such year, less policies increased and revived during such year, divided by the total face amount of policies at the beginning of the year plus the face amount of policies issued and reinsurance assumed in the prior year. The Life & Health Insurance segment's lapse ratio for individual life insurance was 6% in 2018, 2017 and 2016.

The customer base served by the Kemper Home Service Companies and competing life insurance companies tends to have a higher incidence of lapse than other demographic segments of the population. Thus, to maintain or increase the level of its business, the Kemper Home Service Companies must write a high volume of new policies.

Pricing

Premiums for life and health insurance products are based on assumptions with respect to mortality, morbidity, investment yields, expenses, and lapses and are also affected by state laws and regulations, as well as competition. Pricing assumptions are based on the experience of Kemper's life and health insurance subsidiaries, as well as the industry in general, depending on the factor being considered. The actual profit or loss produced by a product will vary from the anticipated profit if the actual experience differs from the assumptions used in pricing the product.

Premiums for policies sold by the Kemper Home Service Companies are set at levels designed to cover the relatively high cost of "in-home" servicing of such policies. As a result, Kemper Home Service Companies' premiums have a higher expense load than the life insurance industry average.

Premiums for Medicare supplement and other accident and health policies must take into account the rising costs of medical care. The annual rate of medical cost inflation has historically been higher than the general rate of inflation, necessitating frequent rate increases, most of which are subject to approval by state regulators.

Competition

Based on the most recent data published by A.M. Best, as of the end of 2017, there were 398 life and health insurance company groups in the United States. The Company's Life & Health Insurance segment ranked in the top 25% of life and health insurance company groups, as measured by net admitted assets, net premiums written and capital and surplus. Rankings by net admitted assets, net premiums written and capital and surplus were:

Measurement	Ordinal Rank	Percentile Rank
Net Admitted Assets	90	77 %
Net Written Premiums	91	77
Capital and Surplus	96	75

Kemper's life and health insurance subsidiaries generally compete by using appropriate pricing, offering products to selected markets or geographies, controlling expenses, maintaining adequate ratings from A.M. Best and providing competitive services to agents and policyholders.

Investments

The quality, nature and amount of the various types of investments that can be made by insurance companies are regulated by state laws. Depending on the state, these laws permit investments in qualified assets, including, but not limited to, municipal, state and federal government obligations, corporate bonds, real estate, preferred and common stocks, investment partnerships, limited liability investment companies and limited partnerships. In addition, the quality, nature and amount of the various types of investments held by Kemper's insurance subsidiaries affect the amount of asset risk calculated by regulators and rating agencies in determining required capital. See "Regulation" immediately following this subsection and Item 1A., "Risk Factors," under the caption "The Company's investment portfolio is exposed to a variety of risks that may negatively impact net investment income, the change in fair value of equity and convertible securities and cause realized and unrealized losses."

The Company employs a total return investment strategy, with an emphasis on yield, while maintaining liquidity to meet both its short- and medium-term insurance obligations. See the discussions of the Company's investments under the headings "Investment Results," "Investment Quality and Concentrations," "Investments in Limited Liability Companies and Limited Partnerships," "Liquidity and Capital Resources" and "Critical Accounting Estimates," in the MD&A, "Quantitative and Qualitative Disclosures about Market Risk," in Item 7A and Note 4, "Investments," Note 13, "Income from Investments," and Note 22, "Fair Value Measurements," to the Consolidated Financial Statements.

Regulation

Overview of State Regulation

Kemper's insurance subsidiaries are subject to extensive regulation, primarily, but not exclusively, at the state level. Such regulation pertains to a variety of matters, including, but not limited to, policy forms, rate setting, licensing to transact business, market conduct, trade practices, underwriting standards, claims handling practices, transactions with affiliates, payment of dividends, nature and amount of investments, solvency, reserve adequacy, statutory accounting methods, risk management and corporate governance. In addition, insurance regulatory authorities perform periodic examinations of an insurer's financial condition, market conduct activities and other affairs. Some of these matters are discussed in more detail below.

Approval of Policy Rates and Forms

The majority of Kemper's insurance operations are in states requiring prior approval by regulators before proposed policy or coverage forms and rates for property, casualty, or health insurance policies may be implemented and used. The Company's ability to respond to market developments or increased costs can be adversely impacted by lengthy delays in the approval process or by the failure to receive the required approval of state regulators.

Restrictions on Withdrawal, Cancellation and Nonrenewal

Many states have laws restricting an insurer's ability to withdraw from a particular market. Laws that limit an insurer's ability to cancel or non-renew a block of policies by line of business, or that subject their withdrawal to prior approval requirements, may restrict the ability of our insurance subsidiaries to exit unprofitable markets.

Financial Reports and Standards

Insurance companies are required to report their financial condition and results of operation in accordance with statutory accounting principles prescribed or permitted by state insurance regulators in conjunction with the National Association of Insurance Commissioners (“NAIC”). State insurance regulators also prescribe the form and content of statutory financial statements, set minimum reserve and loss ratio requirements and establish standards for the types and amounts of investments. In addition, state laws or regulations require minimum capital and surplus levels and incorporate risk-based capital (“RBC”) standards promulgated by the NAIC. These RBC standards are intended to assess the level of risk inherent in an insurance company’s business and consider items such as asset risk, credit risk, underwriting risk and other business risks relevant to its operations. In accordance with RBC formulas, a company’s RBC requirements are calculated and compared to its total adjusted capital to determine whether regulatory intervention is warranted. At December 31, 2018, the total adjusted capital of each of Kemper’s insurance subsidiaries exceeded the minimum levels required under applicable RBC requirements.

Guaranty Funds and Risk Pools

Kemper’s insurance subsidiaries are required to pay assessments up to prescribed limits to fund policyholder losses or liabilities of insolvent insurance companies under the guaranty fund laws of most states in which they transact business. Kemper’s insurance subsidiaries are also required to participate in various involuntary pools or assigned risk pools, principally involving windstorms and high risk drivers. In most states, the involuntary pool participation of Kemper’s insurance subsidiaries is determined in proportion to their voluntary writings of related lines of business in such states.

Cybersecurity Regulation

Insurance regulators have been focusing increased attention on data security during financial exams, and laws and regulations have been enacted that impose significant requirements and standards for protecting personally identifiable information of insurance company policyholders. For example, the New York Department of Financial Services adopted a sweeping cybersecurity regulation that took effect in 2017 requiring a cybersecurity program which promotes the protection of customer information as well as the information technology systems of regulated entities, and similar regulations have been adopted in a number of other states. In addition, some states have enacted statutes based on a model data security law adopted by the NAIC that imposes additional requirements on insurance companies. The NAIC has also strengthened and enhanced the cybersecurity guidance included in its handbook for state insurance examiners. Additional state laws outside of the insurance industry impose notification requirements in the event of cybersecurity breaches affecting their residents. The Company anticipates a continuing focus on new regulatory and legislative proposals at the state and federal levels that further regulate practices regarding privacy and security of personal information.

Holding Company Regulation, Including Enterprise Risk Management and Governance

We are regulated as an insurance holding company system and are subject to the insurance holding company acts of the states in which our insurance subsidiaries are domiciled and, in some case, additional states in which the insurance subsidiary is deemed commercially domiciled. These acts contain certain reporting requirements as well as restrictions on transactions between an insurer and its affiliates. These holding company laws and regulations generally require insurance companies within an insurance holding company system to register with the insurance department of each state where they are domiciled and to file with those states’ insurance departments certain reports describing capital structure, ownership, financial condition, certain intercompany transactions, an enterprise risk report and general business operations. In addition, various notice and reporting requirements generally apply to transactions between insurance companies and their affiliates within the insurance holding company system, depending on the size and nature of the transactions. Some insurance holding company laws and regulations require prior regulatory approval or, in certain circumstances, prior notice of certain material intercompany transfers of assets as well as certain transactions between insurance companies, their parent holding companies and affiliates.

Dividends

As a holding company with no significant business operations of its own, Kemper relies on dividends from its insurance subsidiaries to meet its obligations. Certain dividends and distributions by an insurance subsidiary are subject to prior approval by the insurance regulators of the state in which it is domiciled or commercially domiciled. See Item 1A., “Risk Factors,” under the caption, “The ability of Kemper to service its debt, to pay dividends to its shareholders and/or make repurchases of its stock may be materially impacted by lack of timely and/or sufficient dividends received from its subsidiaries."

Change in Control Requirements

State insurance laws also impose requirements that must be met prior to a change of control of an insurance company or insurance holding company based on the insurer's state of domicile and, in some cases, additional states in which the insurance subsidiary is deemed commercially domiciled. These requirements may include the advance filing of specific information with the state insurance regulators, a public hearing on the matter, and the review and approval of the change of control by such regulators. The Company has insurance subsidiaries domiciled or deemed commercially domiciled in Alabama, California, Florida, Georgia, Illinois, Indiana, Louisiana, Missouri, New York, Ohio, Oklahoma, Oregon, Texas and Wisconsin. In these states, except Alabama, "control" generally is presumed to exist through the direct or indirect ownership of 10% or more of the voting securities of an insurance company. Control is presumed to exist in Alabama with a 5% or more ownership interest in such securities. Any purchase of Kemper's shares that would result in the purchaser owning Kemper's voting securities in the foregoing percentages for the states indicated would be presumed to result in the acquisition of control of the Company's insurance subsidiaries in those states. Therefore, acquisitions subject to the 10% threshold generally would require the prior approval of insurance regulators in each state in which the Company's insurance subsidiaries are domiciled or deemed commercially domiciled, including those in Alabama, while acquisitions subject to the 5% threshold generally would require the prior approval of only Alabama regulators. Similarly, consistent with the Model Holding Company Act, several of the states in which the Company's insurance subsidiaries are domiciled have enacted legislation that requires either the divesting and/or acquiring company to notify regulators of, and in some cases to receive regulatory approval for, a change in control.

Many state statutes also require pre-acquisition notification to state insurance regulators of a change of control of an insurance company licensed in the state if specific market concentration thresholds would be triggered by the acquisition. Such statutes authorize the issuance of a cease and desist order with respect to the insurance company if certain conditions, such as undue market concentration, would result from the acquisition. These regulatory requirements may deter, delay or prevent transactions effecting control of Kemper or its insurance subsidiaries, or the ownership of Kemper's voting securities, including transactions that could be advantageous to Kemper's shareholders.

Many states have made, or are in the process of making, modifications to their holding company laws. These modifications impose new reporting requirements and substantially expand the oversight and examination powers of state insurance regulators to assess enterprise risks within the entire holding company system that may arise from both insurance and non-insurance subsidiaries. They also impose new reporting requirements on affiliated transactions and divestiture of a controlling interest in an insurance subsidiary.

Federal Government Regulation

Dodd-Frank Wall Street Reform and Consumer Protection Act and Other Financial Reform Efforts

As part of an effort to strengthen the regulation of the financial services market, the Dodd-Frank Wall Street Reform and Consumer Protection Act ("Dodd-Frank Act") was enacted in 2010. The Dodd-Frank Act also created the Federal Insurance Office ("FIO") within the U.S. Department of the Treasury ("Treasury"). The FIO monitors the insurance industry, provides advice to the Financial Stability Oversight Council ("FSOC"), represents the U.S. on international insurance matters, and studies the current regulatory system. The FIO submitted reports to Congress in 2013 and 2014 addressing how to improve and modernize the system of insurance regulation. The Dodd-Frank Act includes a number of financial reforms and regulations that may affect our business and financial reporting. However, there remains uncertainty regarding the future of the Dodd-Frank Act and how it may impact our business.

Additional regulations or new requirements may emerge from activities of various regulatory entities, including the Federal Reserve Board, FIO, FSOC, NAIC and the International Association of Insurance Supervisors ("IAIS"), that are evaluating solvency and capital standards for insurance company groups. The outcome of these actions is uncertain; however, these actions may result in an increase in the level of capital and liquidity required by insurance holding companies.

Affordable Care Act

In 2010, the Patient Protection and Affordable Care Act, or ACA, as well as the Health Care and Education Reconciliation Act of 2010 (collectively, the "Health Care Acts") became law, causing significant changes to the U.S. health care system. Since then, significant regulations have been enacted by the U.S. Department of Health and Human Services, or HHS, the Department of Labor and the Department of Treasury. The legislation and regulations are far-reaching and are intended to expand access to health insurance coverage over time by mandating that most individuals obtain and certain employers offer to their employees health insurance coverage that meets prescribed minimum benefit requirements, as well as establishing minimum loss ratios, rating restrictions, mandates for coverage of defined essential health benefits, restrictions or prohibitions on pre-existing condition exclusions and annual and lifetime policy limits. As a result of the complexity of the law, its impact on health care in the United States, the continuing modification and interpretation of the Health Care Acts made by statute, rule and/or executive order, and the on-going efforts to repeal or replace the ACA, we continue to analyze and refine our estimates of the ultimate impact of the Health Care Acts on our business, cash flows, financial condition and results of operations.

Gramm-Leach-Bliley Act and HIPAA

The federal Gramm-Leach-Bliley Act requires financial institutions, including insurers, to protect the privacy of non-public information, to restrict use of such information and disclosure to non-affiliated third parties, and to provide notices to customers regarding use of their non-public personal information and an opportunity to “opt out” of certain disclosures. State departments of insurance and certain federal agencies adopted implementing regulations as required by federal law.

The federal Health Insurance Portability and Accountability Act of 1996, as amended in 2009 by the HITECH Act, (“HIPAA”), and implementing regulations, impose extensive obligations regarding the privacy and security of protected health information. Covered entities subject to HIPAA, which include issuers of health insurance coverage and health benefit plan sponsors, must implement policies and procedures governing the use, storage and disclosure of such information and related employee training, breach notification procedures and other requirements.

Item 1A. Risk Factors.

Kemper is exposed to numerous risk factors that could cause actual results to differ materially from recent results or anticipated future results. The following discussion details the significant risk factors that are specific to the Company. In addition to those described below, the Company’s business, financial condition and results of operations could be materially affected by other factors not presently known by, or considered material to, the Company. Readers are advised to consider all of these factors along with the other information included in this 2018 Annual Report, including the factors set forth under the caption “Caution Regarding Forward-Looking Statements” beginning on page 1, and to consult any further disclosures Kemper makes on related subjects in its filings with the SEC.

Risks Relating to Legal and Regulatory Environment

Kemper’s insurance subsidiaries are subject to significant regulation, and the evolving legal and regulatory landscape in which they operate could result in increased operating costs, reduced profitability and limited growth.

Kemper’s insurance subsidiaries operate under an extensive insurance regulatory system. Current laws and regulations encompass a wide variety of matters, including policy forms, premium rates, licensing, market conduct, trade practices, claims handling practices, reserve and loss ratio requirements, investment standards, statutory capital and surplus requirements, restrictions on the payment of dividends, approvals of transactions involving a change in control of one or more insurance companies, restrictions on transactions among affiliates and consumer privacy and data security. They also require the filing of annual and quarterly financial reports and holding company reports.

Pre-approval requirements often restrict the companies from implementing premium rate changes for property, casualty and health insurance policies, introducing new, or making changes to existing, policy forms and many other actions. Insurance regulators conduct periodic examinations of Kemper’s insurance subsidiaries and can suspend or delay their operations or licenses, require corrective actions, and impose penalties or other remedies available for compliance failures. For a more detailed discussion of the regulations applicable to Kemper’s subsidiaries and related emerging developments, see “Regulation” in Item 1, beginning on page 11.

These laws and regulations, and their interpretation by the various regulators and courts, are subject to continual revision and expansion. The legal and regulatory landscape within which Kemper’s insurance subsidiaries conduct their businesses is often unpredictable. As industry practices and regulatory, judicial, political, social and other conditions change, issues may emerge, whether intended or not. These changes and emerging issues could adversely affect Kemper’s insurance subsidiaries in a variety of ways, including, for example, by expanding coverages beyond the underwriting intent, increasing the number or size of claims, accelerating the payment of claims or adding to operational costs. Industry practices that were once considered approved, compliant and reasonable may suddenly be deemed unacceptable by virtue of a court or regulatory ruling or changes in regulatory enforcement policies and practices. It is not possible for the Company to predict such shifts in legal or regulatory enforcement or to accurately estimate the impact they may have on the Company and its operations.

One area where the legal and regulatory landscape has experienced significant change is in connection with the mandated use of death verification databases by life insurance companies in their policy administration and claims handling practices. Over the last decade, many states have adopted new laws requiring insurers to proactively use such databases, including the Social Security Administration's Death Master File (the "DMF"), to varying degrees in order to ascertain if an insured may be deceased. More than half of the states have adopted such laws, and Kemper cannot predict whether additional states will enact similar legislation or, if enacted, what form such legislation may take. These laws require the insurer to initiate the claims process even though the insureds' beneficiaries have not submitted a claim, including proof of death, as required by regulator-approved policy forms and the insurer was otherwise unaware of the insured's death. In a related development, many states have expanded the application of their unclaimed property laws, particularly as they relate to life insurance proceeds, and a large number of states have engaged audit firms to examine the practices of life insurance companies with respect to the reporting and remittance of such proceeds under unclaimed property laws. The push to alter practices that were previously considered lawful and appropriate relative to both claims handling and remittance of life insurance policy proceeds under unclaimed property laws has led to the Company's involvement in compliance audits, market conduct examinations and litigation. In 2016, the Company initiated a voluntary, comprehensive process to compare life insurance records against the DMF and other databases to determine if any of its insured may be deceased. See Note 2, "Summary of Accounting Policies and Accounting Changes," and Note 23, "Contingencies," to the Consolidated Financial Statements for further details.

The financial services industry, including insurance companies and their holding company systems, remains under regulatory scrutiny. While it is not possible to predict how new laws or regulations or new interpretations of existing laws and regulations may impact the operations of Kemper's insurance subsidiaries, several developments have the potential to significantly impact such operations. This includes increased legislative and regulatory focus on cybersecurity and adoption of extensive modifications to state holding company laws that substantially expand the oversight and examination powers of insurance regulators beyond licensed insurance companies to their non-insurance affiliates and their organizations as a whole, particularly with respect to enterprise risk. In addition, the Health Care Acts have resulted in regulations affecting health insurers such as Reserve National, and potential changes to the state insurance regulatory system may result from the Dodd-Frank Act. See the discussion of these matters under "Regulation" in Item 1, beginning on page 11.

These new developments and significant changes in, or new interpretations of, existing laws and regulations could make it more expensive for Kemper's insurance subsidiaries to conduct and grow their businesses which could materially impact the Company's operating results.

Legal and regulatory proceedings are unpredictable and could produce one or more unexpected verdicts against the Company that could materially and adversely affect the Company's financial results for any given period.

Kemper and its subsidiaries are from time to time involved in lawsuits, regulatory inquiries and other legal proceedings arising out of the ordinary course of their businesses. Some of these proceedings may involve matters particular to Kemper or one or more of its subsidiaries, while others may pertain to business practices in the industry in which Kemper and its subsidiaries operate. Some lawsuits may seek class action status that, if granted, could expose the Company to potentially significant liability by virtue of the size of the putative classes. These matters often raise difficult factual and legal issues and are subject to uncertainties and complexities. The outcomes of these matters are difficult to predict, and the amounts or ranges of potential loss at particular stages in the proceedings are in most cases difficult or impossible to ascertain. A further complication is that even where the possibility of an adverse outcome is remote under traditional legal analysis, juries sometimes substitute their subjective views in place of facts and established legal principles. Given the unpredictability of the legal and regulatory landscape in which the Company operates, there can be no assurance that one or more of these matters will not produce a result that could materially and adversely affect the Company's financial results for any given period.

For information about the Company's pending legal proceedings, see Note 23, "Contingencies," to the Consolidated Financial Statements.

Risks Relating to Catastrophes and Estimating Property and Casualty Insurance Losses and Loss Adjustment Expenses

Catastrophe losses could materially and adversely affect the Company's results of operations, liquidity and/or financial condition.

Kemper's property and casualty insurance subsidiaries are subject to claims arising out of catastrophes that may have a significant effect on their results of operations, liquidity and financial condition. Catastrophes can be caused by various events, including, but not limited to, hurricanes, tornadoes, windstorms, earthquakes, hailstorms, explosions, severe winter weather and wildfires and may include man-made events, such as terrorist attacks and hazardous material spills. The incidence, frequency and severity of catastrophes are inherently unpredictable and may be impacted by the uncertain effects of climate change. The extent of the Company’s losses from a catastrophe is a function of both the total amount of insured exposure in the geographic area affected by the event and the severity of the event. The Company could experience more than one severe catastrophic event in any given period.

Kemper's life and health insurance subsidiaries are particularly exposed to risks of catastrophic mortality, such as pandemic or other events that result in large numbers of deaths. In addition, the occurrence of such an event in a concentrated geographic area could have a severe disruptive effect on the Company's workforce and business operations. The likelihood and severity of such events cannot be predicted and are difficult to estimate.

The property and casualty insurance subsidiaries use catastrophe modeling tools developed by third parties to project their potential exposure to property damage resulting from catastrophic events under various scenarios. Such models are based on various assumptions and judgments which may turn out to be wrong. The actual impact of one or more catastrophic events could adversely and materially differ from these projections.

Changes in the availability and cost of catastrophe reinsurance and in the ability of reinsurers to meet their obligations could result in Kemper's insurance subsidiaries retaining more risk and could adversely and materially affect the Company's results of operations, financial condition and/or liquidity.

Kemper's property and casualty insurance subsidiaries seek to reduce their exposure to catastrophe losses through the purchase of catastrophe reinsurance. Catastrophe reinsurance does not relieve such subsidiaries of their direct liability to their policyholders. As long as the reinsurers meet their obligations, the net liability for such subsidiaries is limited to the amount of risk that they retain. While such subsidiaries' principal reinsurers are each rated "A-" or better by A.M. Best at the time reinsurance is purchased, the Company cannot be certain that reinsurers will pay the amounts due from them either now, in the future, or on a timely basis. A reinsurer's insolvency or inability to make payments under the terms of its reinsurance agreement could materially and adversely affect the Company's financial position, results of operations and liquidity.

In addition, market conditions beyond the Company's control determine the availability and cost of the reinsurance protection that Kemper's property and casualty insurance subsidiaries may purchase. A decrease in the amount of reinsurance protection that such subsidiaries purchase generally should increase their risk of a more severe loss. If the amount of available reinsurance is reduced, such subsidiaries may be forced to incur additional expenses for reinsurance or may not be able to obtain sufficient reinsurance on acceptable terms, which could adversely affect the ability of such subsidiaries to write future insurance policies or result in their retaining more risk with respect to such policies.

The extent to which Kemper's insurance subsidiaries can manage their catastrophe exposure through underwriting strategies may be limited by law or regulatory action and could adversely and materially affect the Company's results of operations, financial condition and/or liquidity.

Kemper's property and casualty insurance subsidiaries also manage their exposure to catastrophe losses through underwriting strategies such as reducing exposures in, or withdrawing from, catastrophe-prone areas, establishing appropriate guidelines for insurable structures, and setting appropriate rates, deductibles, exclusions and policy limits. The extent to which such subsidiaries can manage their exposure through such strategies may be limited by law or regulatory action. For example, laws and regulations may limit the rate or timing at which insurers may non-renew insurance policies in catastrophe-prone areas or require insurers to participate in wind pools and joint underwriting associations. Generally, an insurer's participation in such pools and associations are based on the insurer's market share determined on a state-wide basis. Accordingly, even though Kemper's property and casualty insurance subsidiaries may not incur a direct insured loss as a result of managing direct catastrophe exposures, they may incur indirect losses from required participation in pools and associations. Laws and regulations requiring prior approval of policy forms and premium rates may limit the ability of Kemper's property and casualty insurance subsidiaries to increase rates or deductibles on a timely basis, which may result in additional losses or lower returns than otherwise would have occurred in an unregulated market. See the risk factor above under the title "Kemper's insurance subsidiaries are subject to significant regulation, and the evolving legal and regulatory landscape in which they operate could result in increased operating costs, reduced profitability and limited growth."

Estimating losses and LAE for determining property and casualty insurance reserves, or determining premium rates, is inherently uncertain, and the Company's results of operations may be materially impacted if the Company's insurance reserves or premium rates are insufficient.

The Company establishes loss and LAE reserves to cover estimated liabilities, which remain unpaid as of the end of each accounting period, and to investigate and settle all claims incurred under the property and casualty insurance policies that it has issued. Loss and LAE reserves are established for claims that have been reported to the Company as of the end of the accounting period, as well as for claims that have occurred but have not yet been reported to the Company. The estimates of loss and LAE reserves are based on the Company’s assessment of the facts and circumstances known to it at the time, as well as estimates of the impact of future trends in the severity of claims, the frequency of claims and other factors.

The process of estimating property and casualty insurance reserves is complex and imprecise. The reserves established by the Company are inherently uncertain estimates and could prove to be inadequate to cover its ultimate losses and expenses for insured events that have occurred. The estimate of the ultimate cost of claims for insured events that have occurred must take into consideration many factors that are dependent on the outcome of future events associated with the reporting, investigation and settlement of claims. The impacts on the Company's estimates of property and casualty insurance reserves from these factors are difficult to assess accurately. A change in any one or more of the factors is likely to result in a projected ultimate loss that is different than the previous projected ultimate loss and may have a material impact on the Company's estimate of the projected ultimate loss. Increases in the estimates of ultimate losses and LAE will decrease earnings, while decreases in such estimates will increase earnings, as reported by the Company in the results of its operations for the periods in which the changes to the estimates are made by the Company. See MD&A, "Critical Accounting Estimates," under the caption "Property and Casualty Insurance Reserves for Losses and Loss Adjustment Expenses" beginning on page 64 for a discussion of the Company's reserving process and the factors considered by the Company's actuaries in estimating the Company's Property and Casualty Insurance Reserves.

The Company's actuaries also consider trends in the severity and frequency of claims and other factors when determining the premium rates to charge for its property and casualty insurance products. An unanticipated change in any one or more of these factors or trends, as well as a change in competitive conditions, may also result in inadequate premium rates charged for insurance policies issued by Kemper's property and casualty insurance subsidiaries in the future. Such pricing inadequacies could have a material impact on the Company's operating results.

Risks Relating to Competition

A downgrade in the ratings of Kemper or its insurance subsidiaries below A- could materially and adversely affect the Company.

Third-party rating agencies assess the financial strength and rate the claims-paying ability of insurance companies based on criteria established by the rating agencies. Third-party ratings are important competitive factors in the insurance industry. Financial strength ratings are used to assess the financial strength and quality of insurers. Ratings agencies may downgrade the ratings of Kemper and/or its insurance subsidiaries or require Kemper to retain more capital in its insurance businesses to maintain existing ratings following developments that they deem negative. This can include factors directly related to the Company, such as an increase in the catastrophic risk retained by Kemper's insurance subsidiaries, or developments in industry or general economic conditions. A downgrade by A.M. Best in the ratings of Kemper's insurance subsidiaries below A-, particularly those operating in the preferred and standard market or offering homeowners insurance, could result in a substantial loss of business if independent agents and brokers or policyholders of such subsidiaries move to other companies with higher claims-paying and financial strength ratings. Any substantial loss of business could materially and adversely affect the financial condition and results of operations of such subsidiaries. A downgrade in Kemper's credit rating by Standard & Poor's ("S&P"), Moody's Investors Services ("Moody's") or Fitch Ratings ("Fitch") may reduce Kemper's ability to access the capital markets or may increase the cost to refinance existing debt.

The insurance industry is highly competitive, making it difficult to grow profitability and within expectations of investors.

The Company's insurance businesses face significant competition, and their ability to compete is affected by a variety of issues relative to others in the industry, such as quality of management, product pricing, service quality, ease of doing business, financial strength and name recognition. Competitive success is based on many factors, including, but not limited to, the following:

- Competitiveness of prices charged for insurance policies;
- Sophistication of pricing segmentation;
- Design and introduction of insurance products to meet emerging consumer trends;
- Selection and retention of agents and other business partners;
- Compensation paid to agents;
- Underwriting discipline;
- Selectiveness of sales markets;
- Effectiveness of marketing materials and name recognition;
- Product and technological innovation;
- Ability to settle claims timely and efficiently;
- Ability to detect and prevent fraudulent insurance claims;
- Effectiveness of deployment and use of information technology across all aspects of operations;
- Ability to control operating expenses;
- Financial strength ratings; and
- Quality of services provided to, and ease of doing business with, independent agents and brokers or policyholders.

The inability to compete effectively in any of the Company's insurance businesses could materially reduce the Company's customer base and revenues and could materially and adversely affect the future results and financial condition of the Company.

See "Competition" in Item 1 of Part I beginning on page 8 and page 11 for more information on the competitive rankings in the property and casualty insurance markets and the life and health insurance markets, respectively, in the United States.

Risks Relating to Technology Initiatives, Security of Personal Data and Availability of Critical Systems

Technology initiatives could present significant economic and competitive challenges to the Company. Failure to complete and implement such initiatives in a timely manner could result in the loss of business and incurrence of internal use software development costs that may not be recoverable.

Data and analytics play an increasingly important role in the insurance industry. The Company may periodically initiate multi-year technology projects to enhance operations or replace aging systems. While technology developments can facilitate the use and enhance the value of data and analytics, streamline business processes and ultimately reduce the cost of operations, technology initiatives can present significant economic and organizational challenges to the Company and potential short-term cost and implementation risks. In addition, projections of expenses and implementation schedules could change materially and costs could escalate over time, while the ultimate utility of a technology initiative could deteriorate over time.

Due to the highly-regulated nature of the financial services industry, the Company also faces rising costs and competing time constraints in adapting technology to meet compliance requirements of new and proposed regulations. The costs to develop and implement systems to replace the Company's aging systems and to comply with new regulatory requirements as needed over time are expected to be material. Due to the complexities involved, there can be no assurances that new multi-year projects will be successful and that the costs incurred to develop and implement replacement systems will be recoverable. Furthermore, failure to implement replacement systems in a timely manner could result in loss of business from the Company's delay or inability to design and introduce new insurance products that meet emerging consumer needs competitive trends.

Failure to maintain the security of personal data may result in lost business, reputational harm, legal costs and regulatory penalties.

Kemper's insurance subsidiaries obtain, process and store vast amounts of personal data that can present significant risks to the Company and its customers and employees. An increasing array of laws and regulations govern the use, transfer and storage of such data, including, for example, social security numbers, credit card data and protected health information. Despite the Company's use of a sophisticated array of security measures and the maintenance of policies and procedures designed to enhance security, the Company's data systems, and those of its third party administrators and other business partners working on behalf of the Company, may be vulnerable to security breaches due to the increasing sophistication of cyber-attacks, viruses, malware and other infiltration, hackers and other external hazards, as well as equipment and system failures and inadvertent errors, negligence or intentional misconduct of employees and/or contractors. The Company also relies on the ability of its business partners to maintain secure systems and processes that comply with legal requirements and protect personal data. These increased risks can result in data loss, business interruption and litigation, and together with expanding regulatory requirements related to personal data privacy and security, expose the Company to potential damages, regulatory fines and other liabilities, reputational risk and significant increases in compliance and litigation costs. There is no guarantee that the cyber risk insurance policies Kemper maintains will be sufficient to cover all of the costs of one or more data breach incidents that could occur.

The Company relies increasingly on electronic payments from policyholders, including, but not limited to, payment by credit and debit cards. Failure to maintain compliance with laws and industry regulations governing such transactions could result in additional costs and damages. For example, in the event of non-compliance with the Payment Card Industry Data Security Standard, an information security framework for organizations that handle cardholder information for the major debit, credit, prepaid, e-purse, ATM and point-of-sale cards, such organizations could prevent Kemper's insurance subsidiaries from collecting premium payments from customers by way of such cards and impose significant fines on Kemper's insurance subsidiaries.

Failure to maintain the availability of critical systems may result in lost business, reputational harm, legal costs and regulatory penalties.

The Company's business operations rely on the continuous availability of its own computer systems, systems and software hosted by vendors, and computer systems used by third party administrators and contractors working on behalf of the Company. In addition to disruptions caused by cyber-attacks or other data breaches, such systems may be adversely affected by natural and man-made catastrophes. The failure of the Company, or its third party administrators or other business partners, to maintain business continuity in the wake of such events may prevent the timely performance of critical processes across its operations, including, for example, insurance policy administration, claims processing, billing, payment processing, treasury and investment operations and payroll. These failures could result in significant loss of business, fines and litigation.

Risks Relating to Investments

The Company's investment portfolio is exposed to a variety of risks that may negatively impact net investment income, the change in fair value of equity and convertible securities and cause realized and unrealized losses.

The Company maintains a diversified investment portfolio that is exposed to significant financial and capital market risks, including interest rate (risk-free and spread), equity price, and liquidity, as well as risks from changes in tax laws and regulations and other risks from changes in general economic conditions.

The interest rate environment has a significant impact on the Company's financial results and position. In recent years, rates have been at or near historic lows. A protracted low interest rate environment would continue to place pressure on net investment income, particularly related to fixed income securities, short-term investments and limited liability investment companies and limited partnerships accounted for under the equity method of accounting ("Equity Method Limited Liability Investments") that invest in distressed and mezzanine debt of other companies. A decline in interest rates would generally increase the carrying value of the Company's fixed income securities and its Equity Method Limited Liability Investments that exhibit debt-like characteristics, but it may adversely affect the Company's investment income as it invests cash in new investments that may yield less than the portfolio's average rate. In a declining interest rate environment, borrowers may seek to refinance their borrowings at lower rates and, accordingly, prepay or redeem securities the Company holds as investments more quickly than the Company initially expected. Such prepayment or redemption action may cause the Company to reinvest the redeemed proceeds in lower yielding investments. An increase in interest rates would generally reduce the carrying value of a substantial portion of the Company's investment portfolio, particularly fixed income securities and Equity Method Limited Liability Investments.

The Company invests a portion of its investment portfolio in equity securities, which generally have more volatile returns than fixed income securities and may experience sustained periods of depressed values. There are multiple factors that could negatively impact the performance of the Company's equity portfolio, including general economic conditions, industry or sector deterioration and issuer-specific concerns. A decline in equity values may result in a decrease in dividend income and significant losses recognized by the Company in the period such changes in fair values occur.

Interest rates and equity returns also have a significant impact on the Company’s pension and other postretirement employee benefit plans. In addition to the impact on carrying values and yields of the underlying assets of the funded plans, interest rates also impact the discounting of the projected and accumulated benefit obligations of the plans. A decrease in interest rates may have a negative impact on the funded status of the plans.

The nature and cash flow needs of the Company and the insurance industry in general present certain liquidity risks that may impact the return of the investment portfolio. If the Company were to experience several significant catastrophic events over a relatively short period of time, investments may have to be sold in advance of their maturity dates to fund payments to claimants, which could result in realized losses. Additionally, increases in illiquidity in the financial markets may increase uncertainty in the valuations of the Company’s investments. This increases the risk that the fair values reported in the Company’s consolidated financial statements may differ from the actual price that may be obtained in an orderly sales transaction.

The Company has also benefited from certain tax laws related to its investment portfolio, including dividends received deductions and tax-exempt investment income. Changes in tax laws may have a detrimental effect on the after-tax return of the Company’s investment portfolio. A reduction in income tax rates could also reduce the demand for tax-preferenced securities and result in a decline in the value of the Company’s investment portfolio of such securities.

The Company’s entire investment portfolio is subject to broad risks inherent in the financial markets, including, but not limited to, inflation, regulatory changes, inactive capital markets, governmental and social stability, economic outlooks, unemployment and recession. Changes to these risks and how the market perceives them may impact the financial performance of the Company’s investments.

Kemper and its insurance subsidiaries are subject to various capital adequacy measurements that are significantly impacted by various characteristics of their invested assets, including, but not limited to, asset type, class, duration and credit rating. The Company’s insurance subsidiaries are also subject to various limitations on the amounts at which they can invest in individual assets or certain asset classes in the aggregate. Asset risk is one factor used by insurance regulators and rating agencies to determine required capital for Kemper’s insurance subsidiaries. Accordingly, a deterioration in the quality of the investments held by Kemper’s insurance subsidiaries or an increase in the investment risk inherent in their investment portfolios could increase capital requirements. See the risk factor below under the title “The ability of Kemper to service its debt, pay dividends to its shareholders and/or make repurchases of its stock may be materially impacted by lack of timely and/or sufficient dividends received from its subsidiaries.” These factors may inhibit the Company from shifting its investment mix to produce higher returns. The Company is also subject to concentration of investment risk to the extent that the portfolio is heavily invested, at any particular time, in specific asset types, classes, industries, sectors or collateral types, among other defining features. Developments and the market’s perception thereof in any of these concentrations may exacerbate the negative effects on the Company’s investment portfolio compared to other companies.

The determination of the fair values of the Company’s investments and whether a decline in the fair value of an investment is other-than-temporary are based on management’s judgment and may prove to be materially different than the actual economic outcome.

The Company holds a significant amount of assets without readily available, active, quoted market prices or for which fair value cannot be measured from actively quoted prices. These assets are generally deemed to require a higher degree of judgment in measuring fair value. The assumptions used by management to measure fair values could turn out to be different than the actual amounts that may be realized in an orderly transaction with a willing market participant could be either lower or higher than the Company’s estimates of fair value.

The Company reviews its investment portfolio for factors that may indicate that a decline in the fair value of an investment is other-than-temporary. This evaluation is based on subjective factors, assumptions and estimates and may be materially different than the actual economic outcome, which may result in the Company recognizing additional losses in the future as new information emerges or recognizing losses currently that may never materialize in the future in an orderly transaction with a willing market participant.

Risks Relating to Servicing Debt, Paying Dividends and/or Repurchasing Stock

The ability of Kemper to service its debt, pay dividends to its shareholders and/or make repurchases of its stock may be materially impacted by lack of timely and/or sufficient dividends received from its subsidiaries.

As a holding company, Kemper depends on the dividend income that it receives from its subsidiaries as the primary source of funds to meet its payment obligations. Kemper’s insurance subsidiaries are subject to significant regulatory restrictions under state insurance laws and regulations that limit their ability to declare and pay dividends. These laws and regulations impose minimum solvency and liquidity requirements on dividends between affiliated companies and require prior notice to, and may require approval from, state insurance regulators before dividends can be paid. In addition, third-party rating agencies monitor statutory capital and surplus levels for capital adequacy. Even though a dividend may be payable without regulatory approval, an insurance subsidiary may forgo paying a dividend to Kemper and retain the capital to maintain or improve the ratings of Kemper's insurance subsidiaries, or to offset increases in required capital from increases in premium volume or investment risk. The inability of one or more of Kemper's insurance subsidiaries to pay sufficient dividends to Kemper may materially affect Kemper's ability to pay its debt obligations on time, to pay dividends to its shareholders or make repurchases of its stock.

General Risks Relating to Mergers, Acquisitions and/or Divestitures

The expected benefits and synergies from mergers, acquisitions and/or divestitures may not be realized to the extent anticipated or within the anticipated time frames.

The Company routinely evaluates opportunities for transactions such as mergers, acquisitions and/or divestitures that would enhance its business and align with the Company's strategic plans. Kemper's ability to achieve the anticipated financial benefits from transactions may not be realized due to any number of factors, including, but not limited to, integration difficulties or failures, the loss of key agents/brokers, customers or employees, unexpected or underestimated liabilities, increased costs, fees, expenses and charges related to transactions, or may be delayed by factors outside of the Company's control. Furthermore, such adverse events could result in a decrease in the estimated fair value of goodwill or other intangible assets established as a result of such transactions, triggering an impairment. These and other factors could have a negative impact on Kemper's financial condition, profitability and results from operations.

Risks Relating to the Infinity Merger

We will incur significant transaction and integration costs in connection with the Infinity Merger.

We expect to incur various costs associated with integrating the operations of Kemper and Infinity. A substantial majority of these costs will be non-recurring expenses resulting from the transaction, including (i) facilities and systems consolidation and integration costs and (ii) employment related costs. We may incur additional unanticipated costs to integrate the businesses. As a result of such integration and consolidation activities, we may abandon, or shorten the useful lives, of assets that we currently use, which may result in us impairing an asset or accelerating depreciation and/or amortization of such assets. Although we expect that the elimination of redundant costs, as well as the realization of other efficiencies related to the integration of the businesses, will offset such incremental, non-recurring costs over time, this net benefit may not be achieved in the near term, or at all.

To be successful, the combined company following the Infinity Merger must retain and motivate key employees, including those experienced with post-acquisition integration, and failure to do so could seriously harm the combined company.

The success of the combined company following the Infinity Merger largely depends on the skills, experience and continued efforts of management and other key personnel for each of Kemper and Infinity. As a result, to be successful, the combined company must retain and motivate executives and other key employees. Certain specified management employees of Infinity have executed retention letters and related employment agreements with Kemper to continue their employment for a period of two years following the Infinity Merger. However, certain key managers and functional area employees will continue to be at-will employees following the Infinity Merger and there is no assurance that these individuals will remain with the combined company. If these personnel were to leave, the combined company may experience increased difficulty in managing the ongoing business operations and integrating the businesses and may not be able to adequately replace such personnel, which could have a material adverse effect on the combined company's overall business, results of operations and financial condition.

We cannot assure our shareholders that the risks described above in this risk factor will not materialize and will not materially adversely affect our business, financial results and stock prices.

Item 1B. Unresolved Staff Comments.

The Company has no unresolved staff comments issued more than 180 days before December 31, 2018, the date of this Annual Report on Form 10-K.

Item 2. Properties.

Owned Properties

Kemper's subsidiaries together own and occupy eleven buildings located in seven states consisting of approximately 400,000 square feet in the aggregate. One of Kemper's subsidiaries owns one building totaling approximately 4,000 square feet which

was vacant at December 31, 2018. Kemper's subsidiaries hold, solely for investment purposes, additional properties that are not occupied by Kemper or its subsidiaries.

Leased Facilities

The Company leases two floors, or approximately 65,000 square feet, in an 83-story office building in Chicago, Illinois, for its corporate headquarters. The lease expires on December 31, 2033. Kemper's property and casualty insurance subsidiaries lease facilities with an aggregate square footage of approximately 490,000 at 28 locations in ten states. The latest expiration date of the existing leases is in May 2026. Kemper's life and health insurance subsidiaries lease facilities with aggregate square footage of approximately 450,000 at 123 locations in 27 states. The latest expiration date of the existing leases is in January 2025. Kemper's corporate data processing operation leases facilities with aggregate square footage of approximately 31,000 square feet at three locations in three states. The latest expiration date of the existing leases is in June 2021.

The properties described above are in good condition. The properties utilized in the Company's operations consist of facilities suitable for general office space, call centers and data processing operations.

Item 3. Legal Proceedings.

Proceedings

Information concerning pending legal proceedings is incorporated herein by reference to Note 23, "Contingencies," to the Consolidated Financial Statements.

Item 4. Mine Safety Disclosures.

Not applicable.

PART II

Item 5. Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

Market Information

Kemper’s common stock is traded on the New York Stock Exchange (the “NYSE”) under the symbol of “KMPR.”

Holders

As of January 25, 2019, the number of record holders of Kemper’s common stock was 3,397.

Dividends

Quarterly information pertaining to payment of dividends on Kemper’s common stock is presented below.

DOLLARS PER SHARE	Three Months Ended				Year Ended
	Mar 31, 2018	Jun 30, 2018	Sep 30, 2018	Dec 31, 2018	Dec 31, 2018
Cash Dividends Paid to Shareholders (per share)	$0.24	$ 0.24	$ 0.24	$ 0.24	$ 0.96

DOLLARS PER SHARE	Three Months Ended				Year Ended
	Mar 31, 2017	Jun 30, 2017	Sep 30, 2017	Dec 31, 2017	Dec 31, 2017
Cash Dividends Paid to Shareholders (per share)	$0.24	$ 0.24	$ 0.24	$ 0.24	$ 0.96

Kemper’s insurance subsidiaries are subject to various state insurance laws that may restrict the ability of these insurance subsidiaries to pay dividends without prior regulatory approval. See MD&A, “Liquidity and Capital Resources” and Note 9, “Shareholders’ Equity,” to the Consolidated Financial Statements for information on Kemper’s ability and intent to pay dividends.

Issuer Purchases of Equity Securities

On August 6, 2014, Kemper’s Board of Directors authorized the repurchase of up to $300.0 million of Kemper’s common stock. As of December 31, 2018, the remaining share repurchase authorization was $243.7 million under the repurchase program. The Company did not repurchase any shares during the three months ended December 31, 2018.

Kemper Common Stock Performance Graph

The following graph assumes $100 invested on December 31, 2013 in (i) Kemper common stock, (ii) the S&P MidCap 400 Index and (iii) the S&P Supercomposite Insurance Index, in each case with dividends reinvested. Kemper is a constituent of each of these two indices.

The comparisons in the graph below are based on historical data and are not intended to forecast the possible future performance of Kemper common stock.

Company / Index	2013	2014	2015	2016	2017	2018
Kemper Corporation	$100.00	$90.69	$96.00	$117.47	186.46	$182.07
S&P MidCap 400 Index	100.00	109.77	107.38	129.65	150.71	134.01
S&P Supercomposite Insurance Index	100.00	108.71	112.67	133.93	155.34	140.32

Item 6. Selected Financial Data.

Selected financial information as of and for the years ended December 31, 2018, 2017, 2016, 2015 and 2014 is presented below. See Note 2, "Summary of Accounting Policies and Accounting Changes", and Note 3, "Acquisition of Business," to the Consolidated Financial Statements for items which may affect comparability of selected financial information across the periods presented.

DOLLARS IN MILLIONS, EXCEPT PER SHARE AMOUNTS	2018	2017	2016	2015	2014
FOR THE YEAR					
Earned Premiums	$3,384.4	$2,350.0	$2,220.0	$2,009.6	$1,862.2
Net Investment Income	340.9	327.2	298.3	302.6	309.1
Other Income	42.2	4.0	3.2	3.7	1.4
Loss from Change in Fair value of Equity and Convertible Securities	(64.3)	—	—	—	—
Net Realized Gains on Sales of Investments	26.4	56.5	33.1	52.1	39.1
Net Impairment Losses Recognized in Earnings	(4.5)	(14.3)	(32.7)	(27.2)	(15.2)
Total Revenues	$3,725.1	$2,723.4	$2,521.9	$2,340.8	$2,196.6
Income from Continuing Operations	$188.4	$119.9	$12.7	$80.2	$112.6
Income from Discontinued Operations	1.7	1.0	4.1	5.5	1.9
Net Income	$190.1	$120.9	$16.8	$85.7	$114.5
Per Unrestricted Share:					
Income from Continuing Operations	$3.22	$2.32	$0.25	$1.55	$2.08
Income from Discontinued Operations	0.03	0.02	0.08	0.10	0.04
Net Income	$3.25	$2.34	$0.33	$1.65	$2.12
Per Unrestricted Share Assuming Dilution:					
Income from Continuing Operations	$3.19	$2.31	$0.25	$1.55	$2.08
Income from Discontinued Operations	0.03	0.02	0.08	0.10	0.04
Net Income	$3.22	$2.33	$0.33	$1.65	$2.12
Dividends Paid to Shareholders Per Share	$0.96	$0.96	$0.96	$0.96	$0.96
AT YEAR END					
Total Assets	$11,544.9	$8,376.2	$8,210.5	$8,036.1	$7,833.4
Insurance Reserves	$5,433.6	$4,537.8	$4,406.7	$4,203.8	$4,007.6
Unearned Premiums	1,424.3	653.9	618.7	613.1	536.9
Long-term Debt, Current and Non-current	909.0	592.3	751.6	750.6	752.1
All Other Liabilities	727.9	476.6	458.3	476.2	446.1
Total Liabilities	8,494.8	6,260.6	6,235.3	6,043.7	5,742.7
Shareholders' Equity	3,050.1	2,115.6	1,975.2	1,992.4	2,090.7
Total Liabilities and Shareholders' Equity	$11,544.9	$8,376.2	$8,210.5	$8,036.1	$7,833.4
Book Value Per Share	$47.10	$41.11	$38.52	$38.82	$39.88

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Index to
Management's Discussion and Analysis of
Financial Condition and Results of Operations

SUMMARY OF RESULTS

Net Income was $190.1 million ($3.25 per unrestricted common share) for the year ended December 31, 2018, compared to $120.9 million ($2.34 per unrestricted common share) for the year ended December 31, 2017. Income from Continuing Operations was $188.4 million ($3.22 per unrestricted common share) in 2018, compared to $119.9 million ($2.32 per unrestricted common share) in 2017.

A reconciliation of Net Income to Adjusted Consolidated Net Operating Income (a non-GAAP financial measure) along with the components of Adjusted Consolidated Net Operating Income is presented below for the years ended December 31, 2018, 2017 and 2016.

DOLLARS IN MILLIONS	2018	2017	Increase (Decrease) in Income from 2017 to 2018	2016	Increase (Decrease) in Income from 2016 to 2017
Net Income	$190.1	120.9	69.2	16.8	104.1
Less Income from Discontinued Operations	1.7	1.0	0.7	4.1	(3.1)
Income from Continuing Operations	188.4	119.9	68.5	12.7	107.2
Less Net Income (Loss) from:					
Change in Fair Value of Equity and Convertible Securities	(50.8)	—	(50.8)	—	—
Net Realized Gains on Sales of Investments	20.9	36.7	(15.8)	21.5	15.2
Net Impairment Losses Recognized in Earnings	(3.6)	(9.3)	5.7	(21.2)	11.9
Acquisition Related Transaction, Integration and Other Costs	(36.5)	—	(36.5)	—	—
Adjusted Consolidated Net Operating Income	258.4	92.5	165.9	12.4	80.1
Components of Adjusted Consolidated Net Operating Income:					
Segment Net Operating Income (Loss) From:					
Preferred Property & Casualty Insurance	$25.7	$(45.4)	$ 71.1	$15.6	$ (61.0)
Specialty Property & Casualty Insurance	115.8	56.3	59.5	(14.5)	70.8
Life & Health Insurance	91.5	91.9	(0.4)	31.0	60.9
Segment Net Operating Income	233.0	102.8	130.2	32.1	70.7
Corporate and Other Net Operating Income (Loss) From:					
Effects of Tax Law Changes	26.4	7.4	19.0	—	7.4
Partial Satisfaction of Judgment	28.2	—	28.2	—	—
Other	(29.2)	(17.7)	(11.5)	(19.7)	2.0
Corporate and Other Net Operating Income (Loss)	25.4	(10.3)	35.7	(19.7)	9.4
Adjusted Consolidated Net Operating Income	$258.4	$92.5	$ 165.9	12.4	$ 80.1

Net Income

2018 Compared with 2017

The Company’s net income increased by $69.2 million in 2018, compared to 2017. In the Preferred Property & Casualty Insurance segment, segment net operating results increased by $71.1 million due primarily to lower catastrophe losses and LAE (excluding reserve development) and the favorable impact of loss and LAE reserve development, partially offset by higher insurance expenses as a percentage of earned premiums. See MD&A, “Preferred Property & Casualty Insurance,” beginning on page 33 for additional discussion of the segment’s results. In the Specialty Property & Casualty Insurance segment, segment net operating results increased by $59.5 million due primarily to the impact of lower underlying losses and LAE as a percentage of earned premiums on a higher level of earned premiums, higher net investment income and lower levels of adverse loss and LAE reserve development, partially offset by the impact of higher insurance expenses as a percentage of earned premiums on a higher level of earned premiums and driven by the amortization of purchase accounting adjustments associated with Kemper's acquisition of Infinity. See MD&A, "Specialty Property & Casualty Insurance," beginning on page 40 for additional discussion

SUMMARY OF RESULTS (Continued)

of the segment's results. In the Life & Health Insurance segment, segment net operating income decreased by $0.4 million due primarily to higher policyholders' benefits and incurred losses and LAE and lower net investment income, almost entirely offset by lower income tax expense due to the lower corporate income tax rate in 2018. See MD&A, "Life & Health Insurance," beginning on page 45 for additional discussion of the segment's results. Additionally, the Company's results were impacted in 2018, compared to 2017, by transaction and integration costs associated with Kemper's acquisition of Infinity and a loss from the change in the fair value of the Company's equity security portfolio, for which such changes are recorded through the Consolidated Statement of Income in 2018, compared to Accumulated Other Comprehensive Income, in 2017, partially offset by the positive effects of tax law changes and the partial satisfaction of a legal judgment. See MD&A, "Investment Results," beginning on page 50 and MD&A, "Income Taxes," beginning on page 57 and Note 23, "Contingencies." to the Consolidated Financial Statements for additional discussion.

2017 Compared with 2016

The Company's net income increased by $104.1 million in 2017, compared to 2016. In the Preferred Property & Casualty Insurance segment, segment net operating results deteriorated by $61.0 million due primarily to higher incurred catastrophe losses and LAE (excluding reserve development) and an unfavorable change in loss and LAE reserve development, partially offset by higher net investment income. See MD&A, "Preferred Property & Casualty Insurance," beginning on page 33 for additional discussion of the segment's results. In the Specialty Property & Casualty Insurance segment, segment net operating results increased by $70.8 million due primarily to lower underlying losses and LAE as a percentage of earned premiums, lower insurance expenses as a percentage of earned premiums and higher net investment income. See MD&A, "Specialty Property & Casualty Insurance," beginning on page 40 for additional discussion of the segment's results. In the Life & Health Insurance segment, segment net operating income increased by $60.9 million due primarily to a $50.5 million after-tax charge in 2016 to recognize the impact of using death verification databases in the Company's operations, including to determine its IBNR liability for unpaid claims and claims adjustment expenses for life insurance products. See MD&A, "Life & Health Insurance," beginning on page 45 for additional discussion of the segment's results. The Company's results were also positively impacted in 2017, compared to 2016, by higher net realized gains on sales of investments, lower impairment losses recognized in earnings and a lower unallocated net operating loss, due primarily to an income tax benefit of $7.4 million to recognize the effects of changes in the federal income tax law. See MD&A, "Investment Results," beginning on page 50 and MD&A, "Income Taxes," beginning on page 57 for additional information.

Revenues

2018 Compared with 2017

Earned Premiums were $3,384.4 million in 2018, compared to $2,350.0 million in 2017, an increase of $1,034.4 million driven primarily by growth in Kemper's legacy specialty personal automobile insurance and the acquisition of Infinity. Earned Premiums increased by $1,021.7 million, $0.4 million and $12.3 million in the Specialty Property & Casualty Insurance segment, Preferred Property & Casualty Insurance Segment and Life & Health Insurance segment, respectively. See MD&A, "Specialty Property & Casualty Insurance," beginning on page 40, MD&A, "Preferred Property & Casualty Insurance," beginning on page 33 and MD&A, "Life & Health Insurance," beginning on page 45 for discussion of the changes in each segment's earned premiums.

Net Investment Income increased by $13.7 million in 2018 due primarily to a higher level of investments in fixed income securities and short-term securities, partially offset by a lower rate of return from Alternative Investments, lower yields on fixed income securities and the impact of presenting Fair Value Option Investments within Loss from Change in Fair Value of Equity and Convertible Securities (outside of Net Investment Income) as of January 1, 2018. Net Investment Income from Alternative Investments, which consist of Equity Method Limited Liability Investments, Fair Value Option Investments and other limited liability investments included in Equity Securities at Fair Value or Equity Securities at Modified Cost, decreased by $17.3 million. Alternative investment income from Equity Method Limited Liability Investments decreased by $13.8 million. Alternative investment income from limited liability investments included in either Equity Securities at Fair Value or Equity Securities at Modified Cost decreased by $2.2 million for the year ended December 31, 2018, compared to the same period in 2017. No Net Investment Income was recorded on Fair Value Option Investments for the year ended December 31, 2018, compared to $1.3 million for the same period in 2017. See MD&A, “Investment Results,” under the sub-caption “Net Investment Income” beginning on page 50 for additional discussion.

Other Income increased by $38.2 million for the year ended December 31, 2018, compared to the same period in 2017, due primarily to the the partial satisfaction of a final judgment against Computer Sciences Corporation (“CSC”). See Note 23, SUMMARY OF RESULTS (Continued)

"Contingencies." to the Consolidated Financial Statements for additional discussion. The Company cannot make any assurance as to the additional amounts of the final judgment that will actually be collected or when they may be received. The unpaid balance of the final judgment is treated as a gain contingency for accounting purposes and accordingly, is not recognized in the Consolidated Financial Statements.

The Company adopted Accounting Standards Update ("ASU") 2016-01, Financial Instruments—Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities, in 2018. As a result of adoption, beginning in 2018, changes in the fair value of the Company's investments in equity securities with readily determinable fair values are recognized in the Consolidated Statements of Income. Loss from Change in Fair Value of Equity and Convertible Securities recognized in the Consolidated Statements of Income was $64.3 million in 2018. Prior to 2018, changes in the fair value of equity securities were recognized in other comprehensive income. See MD&A, "Investment Results," under the sub-caption "Loss from Change in Fair Value of Equity and Convertible Securities" beginning on page 51 for additional discussion

Net Realized Gains on Sales of Investments were $26.4 million in 2018, compared to $56.5 million in 2017. See MD&A, "Investment Results," under the sub-caption "Net Realized Gains on Sales of Investments" beginning on page 52 for additional discussion. Net Impairment Losses Recognized in Earnings in 2018 and 2017 were $4.5 million and $14.3 million, respectively. See MD&A, "Investment Results," under the sub-caption "Net Impairment Losses Recognized in Earnings" beginning on page 52 for additional discussion. The Company cannot predict when or if similar investment gains or losses may occur in the future.

2017 Compared with 2016

Earned Premiums were $2,350.0 million in 2017, compared to $2,220.0 million in 2016, an increase of $130.0 million. Earned Premiums increased by $132.4 million and $8.8 million in the Specialty Property & Casualty Insurance and Life & Health Insurance segments, respectively. Earned Premiums decreased by $11.2 million in the Preferred Property & Casualty Insurance segment. See MD&A, "Preferred Property & Casualty Insurance," beginning on page 33, MD&A "Specialty Property & Casualty Insurance," beginning on page 40, and MD&A, "Life & Health Insurance," beginning on page 45 for discussion of the changes in each segment's earned premiums.

Net Investment Income increased by $28.9 million in 2017 due primarily to higher investment returns from Alternative Investments and higher levels of investments in fixed income securities, partially offset by lower yields on fixed income securities. Net Investment Income from Alternative Investments, which consist of Equity Method Limited Liability Investments, Fair Value Option Investments and other limited liability investments included in Equity Securities, increased by $27.1 million. Alternative investment income from Equity Method Limited Liability Investments, other limited liability investments included in Equity Securities, and Fair Value Option Investments increased by $17.3 million, $6.6 million and $3.2 million, respectively, in 2017, compared to 2016. See MD&A, "Investment Results," under the sub-caption "Net Investment Income" beginning on page 50 for additional discussion.

Net Realized Gains on Sales of Investments were $56.5 million in 2017, compared to $33.1 million in 2016. See MD&A, "Investment Results," under the sub-caption "Net Realized Gains on Sales of Investments" beginning on page 52 for additional discussion. Net Impairment Losses Recognized in Earnings in 2017 and 2016 were $14.3 million and $32.7 million, respectively. See MD&A, "Investment Results," under the sub-caption "Net Impairment Losses Recognized in Earnings" beginning on page 52 for additional discussion. The Company cannot predict when or if similar investment gains or losses may occur in the future.

CATASTROPHES

Catastrophes and natural disasters are inherent risks of the property and casualty insurance business. These catastrophic events and natural disasters include, without limitation, hurricanes, tornadoes, earthquakes, hailstorms, wildfires, high winds and winter storms. Such events result in insured losses that are, and will continue to be, a material factor in the results of operations and financial position of the Company's property and casualty insurance companies. Further, because the level of these insured losses occurring in any one year cannot be accurately predicted, these losses may contribute to material year-to-year fluctuations in the results of operations and financial position of these companies. Specific types of catastrophic events are more likely to occur at certain times within the year than others. This factor adds an element of seasonality to property and casualty insurance claims. The Company has adopted the industry-wide catastrophe classifications of storms and other events promulgated by ISO to track and report losses related to catastrophes. ISO classifies a disaster as a catastrophe when the event causes $25.0 million or more in direct insured losses to property and affects a significant number of policyholders and insurers. ISO-classified catastrophes are assigned a unique serial number recognized throughout the insurance industry.

Kemper Corporation and Subsidiaries
Management's Discussion and Analysis of Financial Condition and Results of Operations—(Continued)

CATASTROPHES (Continued)
The number of ISO-classified catastrophic events and catastrophe losses and LAE, net of reinsurance recoveries, (excluding loss and LAE reserve development) by range of loss and business segment for the years ended December 31, 2018, 2017 and 2016 are presented below.

	Year Ended					
	Dec 31, 2018		Dec 31, 2017		Dec 31, 2016	
DOLLARS IN MILLIONS	Number of Events	Losses and LAE	Number of Events	Losses and LAE	Number of Events	Losses and LAE
Range of Losses and LAE Per Event:						
Below $5	45	$ 34.7	39	$ 61.3	39	$ 37.6
$5 - $10	4	27.6	1	5.3	2	13.5
$10 - $15	—	—	2	21.4	—	—
$15 - $20	—	—	—	—	—	—
$20 - $25	—	—	1	24.4	—	—
Greater Than $25	1	33.7	2	72.5	2	64.0
Total	50	$ 96.0	45	$ 184.9	43	$ 115.1
Preferred Property & Casualty Insurance		$ 87.3		$ 173.5		$ 103.1
Specialty Property & Casualty Insurance		4.7		5.5		6.5
Life & Health Insurance		4.0		5.9		5.5
Total Catastrophe Losses and LAE		$ 96.0		$ 184.9		$ 115.1

Catastrophe Reinsurance
The Company primarily manages its exposure to catastrophes and other natural disasters through a combination of geographical diversification, restrictions on the amount and location of new business production in such regions, modifications of, and/or limitations to coverages and deductibles for certain perils in such regions and a catastrophe reinsurance program for the Company's Preferred Property & Casualty Insurance and Specialty Property & Casualty Insurance segments. Coverage under the catastrophe reinsurance program is provided in various contracts and layers. The Company's Preferred Property & Casualty Insurance and Specialty Property & Casualty Insurance segments also purchase reinsurance from the FHCF for hurricane losses in Florida at retentions lower than its catastrophe reinsurance program. The Life & Health Insurance segment also purchases reinsurance from the FHCF for hurricane losses in Florida. Except for the coverage provided by the FHCF, the Life & Health Insurance segment does not carry any other catastrophe reinsurance coverage.
In 2018 and 2017, the Company had catastrophe reinsurance recoveries of $31.8 million and $11.9 million under its catastrophe reinsurance programs, respectively. Catastrophe recoveries under the FHCF were not material in 2018 or 2017. In 2018 and 2017, the Company paid $0.4 million and $0.8 million in reinstatement premium, respectively. The Company did not pay any reinstatement premium in 2016.
See the "Reinsurance" subsection of the "Property and Casualty Insurance Business" and "Life and Health Insurance Business" sections of Item 1(c), "Description of Business," and Note 20, "Catastrophe Reinsurance," to the Consolidated Financial Statements for additional information on the Company's reinsurance programs.

LOSS AND LAE RESERVE DEVELOPMENT

Increases (decreases) in the Company's property and casualty loss and LAE reserves for the years ended December 31, 2018, 2017 and 2016 to recognize adverse (favorable) loss and LAE reserve development from prior accident years in continuing operations, hereinafter also referred to as "reserve development" in the discussion of segment results, are presented below.

DOLLARS IN MILLIONS	2018	2017	2016
Preferred Property & Casualty Insurance:			
Non-catastrophe	$(0.1)	$20.4	$(4.4)
Catastrophe	(8.2)	(4.7)	(19.0)
Total	(8.3)	15.7	(23.4)
Specialty Property & Casualty Insurance:			
Non-catastrophe	2.0	4.1	9.3
Catastrophe	(0.3)	(0.3)	(0.2)
Total	1.7	3.8	9.1
Life & Health Insurance:			
Non-catastrophe	1.3	0.4	—
Catastrophe	0.1	0.5	(0.1)
Total	1.4	0.9	(0.1)
Increase (Decrease) in Total Loss and LAE Reserves Related to Prior Years:			
Non-catastrophe	3.2	24.9	4.9
Catastrophe	(8.4)	(4.5)	(19.3)
Increase (Decrease) in Total Loss and LAE Reserves Related to Prior Years	$(5.2)	$20.4	$(14.4)

See MD&A, "Preferred Property & Casualty Insurance," MD&A, "Specialty Property & Casualty Insurance," MD&A, "Life & Health Insurance," and Note 6, "Property and Casualty Insurance Reserves," to the Consolidated Financial Statements for additional information on the Company's reserve development. See MD&A, "Critical Accounting Estimates," of this 2018 Annual Report for additional information pertaining to the Company's process of estimating property and casualty insurance reserves for losses and LAE, and the estimated variability thereof, development of property and casualty insurance losses and LAE, and a discussion of some of the variables that may impact them.

NON-GAAP FINANCIAL MEASURES

Pursuant to the rules and regulations of the SEC, the Company is required to file consolidated financial statements prepared in accordance with the accounting principles generally accepted in the United States ("GAAP"). The Company is permitted to include non-GAAP financial measures in its filings provided that they are defined along with an explanation of their usefulness to investors, are no more prominent than the comparable GAAP financial measures and are reconciled to such GAAP financial measures.

These non-GAAP financial measures should not be considered a substitute for the comparable GAAP financial measures, as they do not fully recognize the overall profitability of the Company's businesses.

Underlying Combined Ratio

The following discussions of segment results use the non-GAAP financial measures of (i) Underlying Losses and LAE and (ii) Underlying Combined Ratio. Underlying Losses and LAE (also referred to in the discussion as "Current Year Non-catastrophe Losses and LAE") exclude the impact of catastrophe losses and loss and LAE reserve development from prior years from the Company's Incurred Losses and LAE, which is the most directly comparable GAAP financial measure. The Underlying Combined Ratio is computed by adding the Current Year Non-catastrophe Losses and LAE Ratio with the Insurance Expense Ratio. The most directly comparable GAAP financial measure is the Combined Ratio, which is computed by adding total incurred losses and LAE, including the impact of catastrophe losses and loss and LAE reserve development from prior years, with the Insurance Expense Ratio. The Company believes Underlying Losses and LAE and the Underlying Combined Ratio are useful to investors and are used by management to reveal the trends in the Company's Preferred Property & Casualty Insurance and Specialty Property &

Casualty Insurance businesses that may be obscured by catastrophe losses and prior year reserve development. These catastrophe losses may cause the Company’s loss trends to vary significantly between

NON-GAAP FINANCIAL MEASURES

periods as a result of their incidence of occurrence and magnitude and can have a significant impact on incurred losses and LAE and the combined ratio. Prior-year reserve developments are caused by unexpected loss development on historical reserves. Because reserve development relates to the re-estimation of losses from earlier years, it has no bearing on the performance of the Company’s insurance products that were in force in the current period. The Company believes it is useful for investors to evaluate these components separately and in the aggregate when reviewing the Company’s underwriting performance.

Adjusted Consolidated Net Operating Income

Adjusted Consolidated Net Operating Income is an after-tax, non-GAAP financial measure and is computed by excluding from Income from Continuing Operations the after-tax impact of:

1) Income (Loss) from Change in Fair Value of Equity and Convertible Securities;
2) Net Realized Gains on Sales of Investments;
3) Net Impairment Losses Recognized in Earnings related to investments;
4) Acquisition Related Transaction, Integration and Other Costs;
5) Loss from Early Extinguishment of Debt; and
6) Significant non-recurring or infrequent items that may not be indicative of ongoing operations.

Significant non-recurring items are excluded when (a) the nature of the charge or gain is such that it is reasonably unlikely to recur within two years, and (b) there has been no similar charge or gain within the prior two years. The most directly comparable GAAP financial measure is Income from Continuing Operations. There were no applicable significant non-recurring items that the Company excluded from the calculation of Adjusted Consolidated Net Operating Income for the years ended December 31, 2018, 2017 or 2016.

The Company believes that Adjusted Consolidated Net Operating Income provides investors with a valuable measure of its ongoing performance because it reveals underlying operational performance trends that otherwise might be less apparent if the items were not excluded. Income (Loss) from Change in Fair Value of Equity and Convertible Securities, Net Realized Gains on Sales of Investments and Net Impairment Losses Recognized in Earnings related to investments included in the Company’s results may vary significantly between periods and are generally driven by business decisions and external economic developments such as capital market conditions that impact the values of the Company’s investments, the timing of which is unrelated to the insurance underwriting process. Acquisition Related Transaction, Integration and Other Costs may vary significantly between periods and are generally driven by the timing of acquisitions and business decisions which are unrelated to the insurance underwriting process. Loss from Early Extinguishment of Debt is driven by the Company’s financing and refinancing decisions and capital needs, as well as external economic developments such as debt market conditions, the timing of which is unrelated to the insurance underwriting process. Significant non-recurring items are excluded because, by their nature, they are not indicative of the Company’s business or economic trends.

Kemper Corporation and Subsidiaries
Management's Discussion and Analysis of Financial Condition and Results of Operations—(Continued)

PREFERRED PROPERTY & CASUALTY INSURANCE

Selected financial information for the Preferred Property & Casualty Insurance segment is presented below.

DOLLARS IN MILLIONS	2018	2017	2016
Net Premiums Written	$748.8	$726.1	$737.3
Earned Premiums	$730.7	$730.3	$741.5
Net Investment Income	61.8	58.9	48.6
Total Revenues	792.5	789.2	790.1
Incurred Losses and LAE related to:			
Current Year:			
Non-catastrophe Losses and LAE	459.4	460.3	465.6
Catastrophe Losses and LAE	87.3	173.5	103.1
Prior Years:			
Non-catastrophe Losses and LAE	(0.1)	20.4	(4.4)
Catastrophe Losses and LAE	(8.2)	(4.7)	(19.0)
Total Incurred Losses and LAE	538.4	649.5	545.3
Insurance Expenses	225.5	217.8	229.0
Operating Profit (Loss)	28.6	(78.1)	15.8
Income Tax Benefit (Expense)	(2.9)	32.7	(0.2)
Segment Net Operating Income (Loss)	$25.7	$(45.4)	$15.6

	2018	2017	2016
Ratios Based On Earned Premiums			
Current Year Non-catastrophe Losses and LAE Ratio	62.9 %	62.9 %	62.8 %
Current Year Catastrophe Losses and LAE Ratio	11.9	23.8	13.9
Prior Years Non-catastrophe Losses and LAE Ratio	—	2.8	(0.6)
Prior Years Catastrophe Losses and LAE Ratio	(1.1)	(0.6)	(2.6)
Total Incurred Loss and LAE Ratio	73.7	88.9	73.5
Insurance Expense Ratio	30.9	29.8	30.9
Combined Ratio	104.6 %	118.7 %	104.4 %
Underlying Combined Ratio			
Current Year Non-catastrophe Losses and LAE Ratio	62.9 %	62.9 %	62.8 %
Insurance Expense Ratio	30.9	29.8	30.9
Underlying Combined Ratio	93.8 %	92.7 %	93.7 %
Non-GAAP Measure Reconciliation			
Combined Ratio	104.6 %	118.7 %	104.4 %
Less:			
Current Year Catastrophe Losses and LAE Ratio	11.9	23.8	13.9
Prior Years Non-catastrophe Losses and LAE Ratio	—	2.8	(0.6)
Prior Years Catastrophe Losses and LAE Ratio	(1.1)	(0.6)	(2.6)
Underlying Combined Ratio	93.8 %	92.7 %	93.7 %

PREFERRED PROPERTY & CASUALTY INSURANCE (Continued)

CATASTROPHE FREQUENCY AND SEVERITY

DOLLARS IN MILLIONS	Dec 31, 2018 Number of Events	Dec 31, 2018 Losses and LAE	Dec 31, 2017 Number of Events	Dec 31, 2017 Losses and LAE
Range of Losses and LAE Per Event:				
Below $5	45	$ 32.9	39	$ 53.2
$5 - $10	3	21.3	2	14.4
$10 - $15	—	—	1	10.0
$15 - $20	—	—	—	—
$20 - $25	—	—	1	24.3
Greater Than $25	1	33.1	2	71.6
Total	49	$ 87.3	45	$ 173.5

INSURANCE RESERVES

DOLLARS IN MILLIONS	Dec 31, 2018	Dec 31, 2017
Insurance Reserves:		
Preferred Automobile	$ 270.0	$ 285.6
Homeowners	147.9	139.7
Other	35.0	36.6
Insurance Reserves	$ 452.9	$ 461.9
Insurance Reserves:		
Loss Reserves:		
Case	$ 312.5	$ 336.2
Incurred But Not Reported	110.0	95.3
Total Loss Reserves	422.5	431.5
LAE Reserves	30.4	30.4
Insurance Reserves	$ 452.9	$ 461.9

See MD&A, “Critical Accounting Estimates,” under the caption “Property and Casualty Insurance Reserves for Losses and Loss Adjustment Expenses” beginning on page 64 for additional information pertaining to the Company’s process of estimating property and casualty insurance reserves for losses and LAE, development of property and casualty insurance losses and LAE from prior accident years, also referred to as “reserve development” in the discussion of segment results, estimated variability of property and casualty insurance reserves for losses and LAE, and a discussion of some of the variables that may impact development of property and casualty insurance losses and LAE and the estimated variability of property and casualty insurance reserves for losses and LAE.

Overall

2018 Compared with 2017

The Preferred Property & Casualty Insurance segment reported Segment Net Operating Income of $25.7 million for the year ended December 31, 2018, compared to Segment Net Operating Loss of $45.4 million in 2017. Segment net operating results improved by $71.1 million due primarily to lower current year catastrophe losses and LAE (excluding loss and LAE reserve development) and the favorable impact of loss and LAE reserve development, partially offset by higher insurance expense as a percentage of earned premiums.

PREFERRED PROPERTY & CASUALTY INSURANCE (Continued)

Earned Premiums in the Preferred Property & Casualty Insurance segment increased by $0.4 million in 2018, compared to 2017, as higher average earned premium accounted for an increase of $21.4 million, partially offset by a decrease in volume of $21.0 million. All product lines experienced an increase in average earned premium, although the overall impact on Earned Premiums was driven primarily by preferred personal automobile insurance, which had increases due to higher average earned premium of $19.5 million. The lower volume was driven by homeowners insurance and preferred personal automobile insurance which had volume decreases of $15.5 million and $2.1 million, respectively.

Net Investment Income in the Preferred Property & Casualty Insurance segment increased by $2.9 million in 2018, compared to 2017, due primarily to higher levels of fixed maturity investments and higher income from fixed maturity investments, partially offset by lower income from Alternative Investments. The Preferred Property & Casualty Insurance segment reported Net Investment Income from Alternative Investments of $18.6 million 2018, compared to $22.5 million in 2017.

Underlying losses and LAE as a percentage of earned premiums were 62.9% in both 2018 and 2017. Underlying incurred losses and LAE exclude the impact of catastrophes and loss and LAE reserve development. Catastrophe losses and LAE (excluding reserve development) were $87.3 million in 2018, compared to $173.5 million in 2017, which is a decrease of $86.2 million due primarily to lower losses on California wildfires in 2018, compared 2017, due in part to reinsurance recoveries in 2018 under the aggregate property catastrophe reinsurance contract and fewer catastrophe losses and LAE (excluding reserve development) from events with greater than $20.0 million in losses and LAE. Favorable loss and LAE reserve development (including catastrophe reserve development) was $8.3 million in 2018, compared to adverse development of $15.7 million in 2017. Adverse development in 2017 was driven primarily by preferred personal automobile insurance.

Insurance expenses were $225.5 million, or 30.9% of earned premiums, in 2018, an increase of 1.1 percentage points compared to 2017, driven primarily by increased ceded premiums in 2018 under the Company’s aggregate property catastrophe reinsurance contract.

The Preferred Property & Casualty Insurance segment’s effective income tax rate differs from the federal statutory income tax rate due primarily to tax-exempt investment income and dividends received deductions. Tax-exempt investment income and dividends received deductions were $8.5 million in 2018, compared to $13.9 million in 2017.

2017 Compared with 2016

The Preferred Property & Casualty Insurance segment reported Segment Net Operating Loss of $45.4 million for the year ended December 31, 2017, compared to Segment Net Operating Income of $15.6 million in 2016. Segment net operating results deteriorated by $61.0 million due primarily to higher incurred catastrophe losses and LAE (excluding reserve development) and an unfavorable change in loss and LAE reserve development, partially offset by higher net investment income and cost containment measures.

Earned premiums in the Preferred Property & Casualty Insurance segment decreased by $11.2 million in 2017, compared to 2016 as lower volume accounted for a decrease of $32.6 million, while higher average earned premium accounted for an increase of $21.4 million. The lower volume was driven primarily by preferred personal automobile insurance and homeowners insurance, which had volume decreases of $16.6 million and $13.2 million, respectively.

Net Investment Income in the Preferred Property & Casualty Insurance segment increased by $10.3 million in 2017, compared to 2016, due primarily to higher investment income from Alternative Investments, and to a lesser extent, higher levels of non-alternative investments. The Preferred Property & Casualty Insurance segment reported Net Investment Income from Alternative Investments of $22.5 million in 2017, compared to $12.6 million in 2016.

Underlying losses and LAE as a percentage of earned premiums were 62.9% in 2017, an increase of 0.1% percentage points, compared to 2016, driven primarily by increases in preferred automobile insurance, partially offset by decreases in homeowners insurance. Catastrophe losses and LAE (excluding reserve development) were $173.5 million in 2017, compared to $103.1 million in 2016, which is an increase of $70.4 million due primarily to California wildfires and higher average severity on catastrophic events with losses and LAE (excluding reserve development) of less than $15.0 million in 2017, compared to 2016. This increase was partially offset by two large catastrophes, both Texas hailstorms, occurring in 2016, with aggregated estimated losses and LAE of $61.9 million, compared to one such Texas hailstorm, occurring in 2017, with estimated losses and LAE of $43.9 million. Adverse loss and LAE reserve development (including catastrophe reserve development) was $15.7 million in 2017, compared to favorable development of $23.4 million in 2016. Adverse development in 2017 was driven primarily by preferred automobile insurance.

PREFERRED PROPERTY & CASUALTY INSURANCE (Continued)

Insurance expenses were $217.8 million, or 29.8% of earned premiums, in 2017, an improvement of 1.1 percentage points compared to 2016, driven primarily by cost reduction initiatives and an increase in the percentage of software development costs eligible for capitalization.

The Preferred Property & Casualty Insurance segment's effective income tax rate differs from the federal statutory income tax rate due primarily to tax-exempt investment income and dividends received deductions. Tax-exempt investment income and dividends received deductions were $13.9 million in 2017, compared to $13.7 million in 2016.

Preferred Personal Automobile Insurance

Selected financial information for the preferred personal automobile insurance product line is presented below.

DOLLARS IN MILLIONS	2018	2017	2016
Net Premiums Written	$462.1	$424.4	$426.1
Earned Premiums	$440.2	$422.8	$424.6
Incurred Losses and LAE related to:			
Current Year:			
Non-catastrophe Losses and LAE	308.8	309.0	308.0
Catastrophe Losses and LAE	7.2	11.3	11.6
Prior Years:			
Non-catastrophe Losses and LAE	(5.7)	19.5	4.9
Catastrophe Losses and LAE	(0.1)	(0.2)	(0.3)
Total Incurred Losses and LAE	$310.2	$339.6	$324.2
Ratios Based On Earned Premiums			
Current Year Non-catastrophe Losses and LAE Ratio	70.2 %	73.0 %	72.6 %
Current Year Catastrophe Losses and LAE Ratio	1.6	2.7	2.7
Prior Years Non-catastrophe Losses and LAE Ratio	(1.3)	4.6	1.2
Prior Years Catastrophe Losses and LAE Ratio	—	—	(0.1)
Total Incurred Loss and LAE Ratio	70.5 %	80.3 %	76.4 %

2018 Compared with 2017

Earned premiums in preferred personal automobile insurance increased by $17.4 million in 2018, compared to 2017, as higher average earned premium accounted for an increase of $19.5, while lower volume accounted for a decrease of $2.1 million. The decrease in earned premium attributed to lower volume was primarily due to the run-off of the direct-to-consumer business. Incurred losses and LAE were $310.2 million, or 70.5% of earned premiums, in 2018, compared to $339.6 million, or 80.3% of earned premiums, in 2017. Incurred losses and LAE as a percentage of earned premiums decreased due primarily to a favorable change in loss and LAE reserve development, lower underlying losses and LAE as a percentage of related earned premiums and lower catastrophe losses and LAE (excluding reserve development). Underlying losses and LAE as a percentage of related earned premiums were 70.2% in 2018, compared to 73.0% in 2017, which was an improvement of 2.8 percentage points due primarily to lower frequency of claims and higher average earned premiums, partially offset by higher severity of losses, particularly on bodily injury coverages. Catastrophe losses and LAE (excluding reserve development) were $7.2 million in 2018, compared to $11.3 million in 2017. Favorable loss and LAE reserve development was $5.8 million in 2018, compared to adverse development of $19.3 million in 2017.

PREFERRED PROPERTY & CASUALTY INSURANCE (Continued)

2017 Compared with 2016

Earned premiums in preferred personal automobile insurance decreased by $1.8 million in 2017, compared to 2016, as lower volume accounted for a decrease of $16.6 million, while higher average earned premium accounted for an increase of $14.8 million. The run-off of the direct-to-consumer business accounted for approximately 60% of the decrease in earned premiums attributed to lower volume. Incurred losses and LAE were $339.6 million, or 80.3% of earned premiums, in 2017, compared to $324.2 million, or 76.4% of earned premiums, in 2016. Incurred losses and LAE as a percentage of earned premiums increased due primarily to a higher level of adverse loss and LAE reserve development and higher underlying losses and LAE as a percentage of related earned premiums. Underlying losses and LAE as a percentage of related earned premiums were 73.0% in 2017, compared to 72.6% in 2016, which was a deterioration of 0.4 percentage points due primarily to higher severity of losses, particularly on bodily injury coverages, partially offset by lower frequency of claims on most coverages, particularly bodily injury. Catastrophe losses and LAE (excluding reserve development) were $11.3 million in 2017, compared to $11.6 million in 2016, both periods experiencing higher losses than average due primarily to Hurricane Harvey in 2017, and hailstorms in Texas in 2017 and 2016. Adverse loss and LAE reserve development was $19.3 million in 2017, compared to $4.6 million in 2016.

Homeowners Insurance

Selected financial information for the homeowners insurance product line is presented below.

DOLLARS IN MILLIONS	2018	2017	2016
Net Premiums Written	$247.3	$260.5	$267.4
Earned Premiums	$250.1	$264.8	$271.9
Incurred Losses and LAE related to:			
Current Year:			
Non-catastrophe Losses and LAE	131.5	129.5	135.5
Catastrophe Losses and LAE	75.2	157.3	89.0
Prior Years:			
Non-catastrophe Losses and LAE	10.4	4.7	(3.2)
Catastrophe Losses and LAE	(7.2)	(3.7)	(16.8)
Total Incurred Losses and LAE	$209.9	$287.8	$204.5
Ratios Based On Earned Premiums			
Current Year Non-catastrophe Losses and LAE Ratio	52.5 %	48.9 %	49.9 %
Current Year Catastrophe Losses and LAE Ratio	30.1	59.4	32.7
Prior Years Non-catastrophe Losses and LAE Ratio	4.2	1.8	(1.2)
Prior Years Catastrophe Losses and LAE Ratio	(2.9)	(1.4)	(6.2)
Total Incurred Loss and LAE Ratio	83.9 %	108.7 %	75.2 %

PREFERRED PROPERTY & CASUALTY INSURANCE (Continued)

2018 Compared with 2017

Earned premiums in homeowners insurance decreased by $14.7 million in 2018, compared to 2017, as lower volume accounted for a decrease of $15.5 million, while higher average earned premium accounted for an increase of $0.8 million. Incurred losses and LAE were $209.9 million, or 83.9% of earned premiums, in 2018, compared to $287.8 million, or 108.7% of earned premiums, in 2017. Incurred losses and LAE as a percentage of earned premiums decreased due to reinsurance recoveries from the Company's 2018 catastrophe aggregate reinsurance program, partially offset by an unfavorable change in loss and LAE reserve development and higher underlying losses and LAE as a percentage of earned premiums. Underlying losses and LAE as a percentage of earned premiums were 52.5% in 2018, compared to 48.9% in 2017, a deterioration of 3.6 percentage points due primarily to higher severity of losses, and to a lesser extent, higher frequency of claims, partially offset by higher average earned premium. Catastrophe losses and LAE (excluding reserve development) were $75.2 million in 2018, compared to $157.3 million in 2017. This decrease was driven primarily by fewer catastrophe losses and LAE (excluding reserve development) from events with greater than $20.0 million in losses and LAE and reinsurance recoveries under the Company's 2018 aggregate property catastrophe reinsurance program. Loss and LAE reserve development was adverse by $3.2 million in 2018, compared to $1.0 million in 2017.

2017 Compared with 2016

Earned premiums in homeowners insurance decreased by $7.1 million in 2017, compared to 2016, as lower volume accounted for a decrease of $13.2 million, while higher average earned premium accounted for an increase of $6.1 million. Incurred losses and LAE were $287.8 million, or 108.7% of earned premiums, in 2017, compared to $204.5 million, or 75.2% of earned premiums, in 2016. Incurred losses and LAE as a percentage of earned premiums increased due to higher incurred catastrophe losses and LAE (excluding reserve development) and an unfavorable change in loss and LAE reserve development, partially offset by lower underlying losses and LAE as a percentage of earned premiums. Underlying losses and LAE as a percentage of earned premiums were 48.9% in 2017, compared to 49.9% in 2016, which was an improvement of 1.0 percentage points due primarily to lower frequency of claims, partially offset by higher severity of losses. Catastrophe losses and LAE (excluding reserve development) were $157.3 million in 2017, compared to $89.0 million in 2016. This increase was driven primarily by California wildfires, with estimated losses and LAE of $53.3 million, and higher average severity on catastrophic events in 2017 with losses and LAE (excluding reserve development) of less than $15 million, compared to 2016, partially offset by the impact of the aggregate losses and LAE from the two aforementioned Texas hailstorms that occurred in 2016 exceeding the losses and LAE from the aforementioned Texas hailstorm that occurred in March of 2017. Loss and LAE reserve development was adverse by $1.0 million in 2017, compared to favorable development of $20.0 million in 2016.

PREFERRED PROPERTY & CASUALTY INSURANCE (Continued)

Other Personal Insurance

Other personal insurance products include umbrella, dwelling fire, inland marine, earthquake, boat owners and other liability coverages. Selected financial information for other personal insurance product lines is presented below.

DOLLARS IN MILLIONS	2018	2017	2016
Net Premiums Written	$39.4	$41.2	$43.8
Earned Premiums	$40.4	$42.7	$45.0
Incurred Losses and LAE related to:			
Current Year:			
Non-catastrophe Losses and LAE	19.1	21.8	22.1
Catastrophe Losses and LAE	4.9	4.9	2.5
Prior Years:			
Non-catastrophe Losses and LAE	(4.8)	(3.8)	(6.1)
Catastrophe Losses and LAE	(0.9)	(0.8)	(1.9)
Total Incurred Losses and LAE	$18.3	$22.1	$16.6
Ratios Based On Earned Premiums			
Current Year Non-catastrophe Losses and LAE Ratio	47.3 %	51.1 %	49.1 %
Current Year Catastrophe Losses and LAE Ratio	12.1	11.5	5.6
Prior Years Non-catastrophe Losses and LAE Ratio	(11.9)	(8.9)	(13.6)
Prior Years Catastrophe Losses and LAE Ratio	(2.2)	(1.9)	(4.2)
Total Incurred Loss and LAE Ratio	45.3 %	51.8 %	36.9 %

2018 Compared with 2017

Earned premiums in other personal insurance decreased by $2.3 million in 2018, compared to 2017, as lower volume accounted for a decrease of $3.4 million, while higher average earned premium accounted for an increase of $1.1 million. Incurred losses and LAE were $18.3 million, or 45.3% of earned premiums, in 2018, compared to $22.1 million, or 51.8% of earned premiums, in 2017. Incurred losses and LAE as a percentage of earned premiums decreased due to lower underlying losses and LAE as a percentage of earned premiums and a higher level of favorable loss and LAE reserve development. Underlying losses and LAE as a percentage of earned premiums were 47.3% in 2018, compared to 51.1% in 2017, which was an improvement of 3.8 percentage points due primarily to lower frequency of claims and higher average earned premiums, partially offset by higher severity of losse