S&P Global
Market Intelligence

The Allstate Corporation

NYSE:ALL

Earnings Call

Thursday, August 1, 2024 2:00 PM GMT

CALL PARTICIPANTS 2

PRESENTATION 3

QUESTION AND ANSWER 7

Call Participants

EXECUTIVES

Brent Vandermause
Head of Investor Relations

Jesse Edward Merten
Executive VP & CFO

Mario Rizzo
President of Property & Liability and Director

Thomas Joseph Wilson
Chairman of the Board, President & CEO

ANALYSTS

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

Charles William Lederer
Citigroup Inc., Research Division

David Kenneth Motemaden
Evercore ISI Institutional Equities, Research Division

Jack Matten
BMO Capital Markets Equity Research

Jamminder Singh Bhullar
JPMorgan Chase & Co, Research Division

Jian Huang
Morgan Stanley, Research Division

Yaron Joseph Kinar
Jefferies LLC, Research Division

Presentation

Operator

Good day, and thank you for standing by. Welcome to Allstate's Second Quarter Earnings Investor Call. [Operator Instructions] As a reminder, please be aware that this call is being recorded. And now I'd like to introduce your host for today's program, Brent Vandermause, Head of Investor Relations. Please go ahead, sir.

Brent Vandermause
Head of Investor Relations

Thank you, Jonathan. Good morning. Welcome to Allstate's Second Quarter 2024 Earnings Conference Call. Yesterday, following the close of the market, we issued our news release and investor supplement, filed our 10-Q and posted related material on our website at allstateinvestors.com. Our management team will provide perspective on our strategy and an update on our results. After prepared remarks, we will have a question-and-answer session.

As noted on the first slide of the presentation, our discussion will contain non-GAAP measures, for which there are reconciliations in the news release and investor supplement and forward-looking statements about Allstate's operations. Allstate's results may differ materially from these statements so please refer to our 10-K for 2023 and other public documents for information on potential risks. As some of you know, this will be my final earnings call as the leader of our Investor Relations team since I will be transitioning to a new role. Investor Relations will be in the capable hands of [Alastair Gobin,] who will be a great partner for you all.

And now I'll turn it over to Tom.

Thomas Joseph Wilson
Chairman of the Board, President & CEO

Well, good morning. Thank you for investing your time at Allstate. I'll provide an overview of results. Mario and Jesse will go through operating performance, and then we'll address questions. Let's start on Slide 2.

Allstate strategy has two components: increase personal property-liability market share and expand protection provided to customers, which are shown in the 2 ovals on the left. On the right-hand side, you could see highlights in the second quarter. Net income was $301 million in a quarter with elevated catastrophes. The auto profit improvement plan is being successfully executed. National General continues on a 4-year profitable growth trajectory. The Homeowners business had good results with an improved underlying combined ratio and underwriting profit for the first 6 months of the year. Net investment income was up almost 17% over the prior year quarter as the fixed income portfolio continues to benefit from repositioning into longer duration and higher yielding assets. Protection Services has had another good quarter led by profitable growth in protection plans.

Let's move to Slide 3 and show how the operational execution improved underlying results in the quarter. Revenues increased to $15.7 billion, reflecting higher average property liability earned premiums and that was mostly from rate increases in auto and homeowners insurance and increased net investment income. Net investment income for the second quarter was $712 million higher than the prior year quarter reflecting that fixed income duration extension in 2022 and 2023. And then which also included lowering public equity holdings to take advantage of higher fixed income yields. Adjusted net income was $429 million or $1.61 per diluted share.

Now I'll turn it over to Mario for property liability results.

Mario Rizzo
President of Property & Liability and Director

Thanks, Tom. I'll start by covering Slide 4. On the top left of the table, you can see property liability earned premiums of $13.3 billion increased 11.9% in the second quarter, driven by higher average premiums. The underwriting loss of $145 million improved by $1.9 billion compared to the prior year quarter due to improved underlying margins and lower catastrophes. The expense ratio of 21.3 was 0.8 points higher than prior year due to increased advertising as we continue to accelerate growth investments in rate adequate states and risk segments. The adjusted expense ratio, which excludes advertising costs and other noncore expenses was down 1.6 points in the quarter.

The chart on the right depicts the components of the 101.1 combined ratio. Catastrophe losses of $2.1 billion were 6.7 points favorable to the prior year quarter. The underlying combined ratio of 85.3 improved by 7.6 points compared to the prior year quarter with the improvement driven by higher average earned premium and moderating loss cost trends. Prior year reserve reestimates, excluding catastrophes, had only a minor impact on current quarter results as favorable development in personal auto and homeowners insurance offset increases in personal umbrella liabilities and commercial auto reserves related to the transportation network contracts we began exiting in late 2022.

Turning to Slide 5. You can see that we continue to successfully execute our profit improvement plan. The second quarter recorded auto insurance combined ratio of 95.9 improved by 12.4 points compared to the prior year quarter. The bars in the chart show consistent improvement in the quarter underlying combined ratio. I will note that we have adjusted 2022 and 2023 reported quarterly figures to reflect the updated average severity estimates as of the end of each of those years to remove the volatility related to intra-year severity adjustments. You can see that the Auto business has seen 6 sequential quarters of underlying combined ratio improvement with an underlying combined ratio of 93.5 in the second quarter of 2024.

The dark blue line in the chart shows how rate increases throughout 2022 and 2023 pushed average premiums above underlying losses and expenses represented by the light blue line starting in the second half of 2023. As average premium increases have outpaced loss and expense, profitability has improved. Relative to the prior year quarter, average underlying loss and expense was 5.5% higher, as you can see in the second row of the table. This reflects higher current year incurred severity estimates primarily driven by bodily injury coverage, offset by lower accident frequency as well as higher advertising investments. Physical damage severity increases continue to moderate, while bodily injury severity continues to trend above inflation. Our claims team is focused on operational actions to mitigate the impact of inflationary trends including identifying injuries earlier in the claims process to improve overall cycle time and focus on fast and fair resolution.

Let's review Homeowners insurance on Slide 6 which had improved underlying performance. Allstate is an industry leader in Homeowners insurance, generating low 90s combined ratios over the last 10 years, as you can see in the chart on the right. This performance compares favorably to the industry, which experienced an underwriting loss and a 103 combined ratio over that same time period.

Moving to the table on the left. Allstate Protection homeowners written premium increased by 13.7% compared to prior year, reflecting both higher average gross written premium per policy and policy in force growth of 2.2%. The second quarter combined ratio of 111.5 resulted in $375 million of underwriting losses compared to the $1.3 billion loss in the prior year. The underlying combined ratio of 63.5 improved by 4.1 points due to higher average premium and lower noncatastrophe claim frequency, which more than offset modest increases in noncatastrophe severity. For the first 6 months of 2024, Homeowners insurance generated an underwriting profit of $189 million.

Moving to Slide 7. Let's discuss Transformative Growth, our multiyear strategy to create a low-cost digital insurer with broad distribution. The 5 components of Transformative Growth are shown in the blue panels on the left side of the page, and we continue to make good progress on all of them. On the right-hand side, we show the tangible outcomes and proof points that we're delivering through this transformation, which improve the customer experience and support our objective to profitably grow market share over time. Two examples of those tangible outcomes that I'd highlight are the new affordable, simple and connected auto insurance product that was built on our new technology platform and is now available in

19 states. And that in the second quarter, we increased our advertising investment by approximately $300 million to support growth efforts in states with attractive returns.

Moving to Slide 8. We'll double-click on the multichannel distribution strategy, which enables us to serve customers based on their personal preferences. Our exclusive agents are available for local customers seeking personalized advice to fulfill broad insurance needs. Agency productivity has increased and bundling rates at point of sale are at all-time highs. Enhancements to direct capabilities and increased advertising attract more self-directed customers with new business production in the direct channel in the second quarter, nearly double that of the prior year.

The National General acquisition significantly expanded the independent agent channel. If you look at the distribution of new business we write, shown in the pie charts on the bottom of the slide, you can see the power of Expanded Customer Access. The combination of broader distribution capabilities, increased advertising greater pricing sophistication and product expansion has resulted in a 90% increase in new business applications since 2020 with a much more balanced split across distribution channels.

Now let's turn to Slide 9 to delve deeper into how the National General acquisition has allowed us to better serve customers who prefer to engage with independent agents. The $4 billion acquisition included a number of businesses, including personal auto insurance, group health, individual accident and health, and digital marketing platforms. Prior to the acquisition, we offered insurance in the independent agent channel through both the Allstate and Encompass brands, with the Encompass brands solely dedicated to selling through IAs. With the acquisition of National General, we now go to market in the independent agency channel, primarily through the National General brand.

Through the ownership of National General since January of 2021, we have significantly increased the number of customers we protect through independent agents, having added almost 1.7 million policies in force reflecting a compound annual growth rate of 8% in policies over the past 4 years and bringing premiums written to over $5.1 billion for the first 6 months of this year. Underwriting margins remain attractive and National General is now one of the largest independent agent personal lines insurers with expansion into lower risk customer segments supporting additional growth going forward in the IA channel.

Slide 10 reviews property liability policies in force for all brands. Given the successful execution of the Auto Insurance profit improvement plan, investments in growth will that offer attractive return opportunities. These higher growth investments led to a 17% increase in Personal Auto new business applications in the second quarter, as you can see at the top of the chart on the left. The green bars show the components of that growth in new policy sales. The first 2 bars reflect the drivers of the 23% increase in new business volume in the Allstate brand. Higher productivity per exclusive agents drove a 9% new business increase compared to prior year and advertising investments and enhancements to direct operations resulted in a 92% increase in the direct channel compared to the prior year.

The last 2 green bars reflect national general growth in both the nonstandard auto business and higher sales volume from the Custom360 middle market offering that we continue to roll out. On the right, you can see that total protection auto policies enforced decreased by 1.6% compared to prior year as the Allstate brand decrease was partially offset by growth at National General. Allstate brand auto policies in force decreased by 4.5% compared to prior year as policies lost from customer defections more than offset the increase in new policy sales. Allstate brand auto retention of 85.7 did improve by 0.2 points compared to prior year as the negative impact of large rate increases in 2022 and 2023 continues to moderate. National General growth of 548,000 policies in force offset almost 60% of the Allstate brand decrease. While margin improvement actions have negatively impacted policy growth, the actions were necessary to mitigate loss cost trends during a period of rapid loss cost inflation.

And now I'll turn it over to Jesse.

Jesse Edward Merten
Executive VP & CFO

All right. Thank you, Mario. Slide 11 details profitable growth in Protection Services. In the second quarter, revenues in these businesses increased to $773 million, which was 12.7% higher than the prior year quarter. This result was primarily driven by growth in Allstate Protection Plans. Revenues in our Roadside business decreased 22.7% compared to the prior year quarter, reflecting the impact of exiting a large unprofitable wholesale account. In the table on the right, you will see adjusted net income of $55 million in the second quarter increased $14 million compared to the prior year quarter, with most businesses showing improvements. Profitable growth in Allstate Protection plans resulted in adjusted net income of $41 million, a $10 million increase compared to the prior year quarter as revenue growth and improved claims trends continue to benefit the bottom line.

Slide 12 provides additional insight into the shareholder value created by protection plans. Since acquiring SquareTrade in 2017 for $1.4 billion, this has become a significant growth platform with scale and attractive profitability. Protection Plans provides warranties for a wide range of products, including consumer electronics, computers and tablets, TVs, mobile phones, major appliances and furniture. The power of the Allstate brand has helped to secure partnerships with large retailers in North America.

We sell Allstate Protection Plans at point of sale through successful retailers such as Costco, Home Depot, Sam's Club, Target and Walmart, all under the Allstate brand. We're also expanding internationally into Europe and Asia. As you can see from the charts to the right, broad distribution and customer-focused operational execution has resulted in rapid growth in this business. Revenue has grown 20% compared to the same 12-month period in 2023, while returns have been strong. Adjusted net income over the last 12 months totaled $139 million and almost $700 million cumulatively since 2017.

Now let's shift to Slide 13 to discuss investment results. Result again benefited from active portfolio management that seeks to optimize return per unit of risk across the enterprise. Net investment income, shown in the chart on the left, totaled $712 million in the quarter, which is $102 million above the second quarter of last year. Market-based income of $667 million, which is shown in blue, was $131 million above the prior year quarter as the fixed income portfolio continues to benefit from repositioning into longer duration and higher yielding assets. Performance-based income of $107 million, shown in black, was $20 million below the prior year quarter due to lower real estate investment results.

The performance-based portfolio is constructed to enhance long-term returns and volatility on these assets from quarter-to-quarter is expected. On the right, you can see our annualized portfolio return in total and by strategy over a short-term and long-term horizon. The market-based portfolio delivers predictable earnings while the performance-based portfolio enhances risk and return and diversifies the $71 billion investment portfolio.

Moving to Slide 14. The Health and Benefits business continues to perform well. Revenues of $620 million increased by $45 million compared to the prior year quarter, driven by premium growth in group and individual health. Adjusted net income of $58 million in the second quarter was slightly higher than the prior year quarter, reflecting increased group health and employee benefits adjusted net income that was partially offset by a decrease in individual health. As a reminder, the decision to pursue a divestiture of these businesses was based on a belief that potential buyers with complementary products and capabilities will unlock value beyond what is achievable by Allstate. The process is progressing well and has confirmed our strategic logic.

Slide 15 recaps Allstate strategy in this quarter's results. Auto and Homeowners insurance profitability has improved. National General is profitably growing policies in force. We're accelerating transformative growth to increase auto and homeowners' policies in force. Proactive risk and return management of the investment portfolio continues to generate value. And Protection Plans is expanding with broadened product offerings and distribution. We're confident that this strategy will continue to create value for our shareholders. And with that context, let's open the line for your questions.

Question and Answer

Operator

Our first question for today comes from the line of Gregory Peters from Raymond James.

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

So for my first question, I'll focus on growth. And Tom, I know you've been talking about transformational growth now for several years and we're seeing this strong increase in new issued applications. So I'm wondering if you might help us understand how you think that new issued application result is going to drive increased policies in force in the auto stats that we see in some of your supplements.

Thomas Joseph Wilson
Chairman of the Board, President & CEO

Good morning Greg. Thank you for both being here and paying attention over years, appreciate it. Mario talked about the growth by channel. And we highlighted National General this quarter because it's a $10 billion business on an annual basis. And we feel like the market is really not looking through that one in terms of growth as much. Transformative Growth includes what we're doing in National General. But to your point, it really also includes remaking a lot of the business processes inside the Allstate brand. So let me make a couple of comments about that and give it to Mario to talk about specific things he's doing in various geographies.

It's just the most macro view growth driven by 2 factors: sell more, as you point out and keep more. And so we spent a bunch of time Mario talked about selling more. We feel good about the trajectory there. You can see the benefits of the increased advertising and the direct volume Mario talked about. And that also will translate into increased growth in productivity in the Allstate agent channel as we roll it out. So the other question then is, of course, how many do you keep? And retention was up slightly in the quarter versus the prior year quarter. If you kind of look over the last 12 months, it's been reasonably flat in Auto Insurance.

I assume you're talking about Auto Insurance, by the way. We can talk about Home as well because I think that's a great opportunity for us. But on Auto Insurance, it's been relatively flat and normally, you would expect as rate increases come down, you would expect retention to increase. It's not clear what that trend will be at this point in time. And the reason I say that is not that I think traditional economics of don't ask me to pay a lot more and more likely to stay breakdown, it's just that the price elasticity curves broke down when we raised prices over the last couple of years. So it's a little hard to tell what the tail on that will be because it's hard to figure out attribution of why did in the face of 33% increase in rates we were able to hold retention pretty well. Some have been -- maybe car people understood their car is worth more, maybe they had a bunch of cash the government gave them.

Some of its competitors were also raising rates, so you can't really do attribution as to why we are where we are. So looking forward, we said it's a little hard to tell exactly what retention will do in the future. To the extent, it goes up because we are taking fewer price increases. That's almost -- it's pretty close to one in terms of movement retention rate and growth, which is really a good thing, obviously. But we're not waiting around to see what happens there. We're working on improving the customer experience. We have a goal of improving 20 million customer interactions on an annual basis by next year, and we're well along the goal on that. So we're doing a whole bunch of continuous improvement. We've got new tech tools out there, new products, all of which are designed around improving retention and growth.

Mario, do you want to talk about specific aspects of growth in terms of states or something?

Mario Rizzo
President of Property & Liability and Director

Sure. Thanks for the question, Greg. So maybe the place I'd start, like Tom said, retention is obviously critically important to growth, and we're pleased with the fact that retention is stabilizing. But we also recognize there's a handful of states that we have taken some pretty significant rate increases more recently. California, New York, New Jersey, those are going to continue to have an impact on retention going forward. But absent those 3 states, we kind of like the trends that are emerging. But I want to talk a little bit about new business production and get at your question. So Greg, where I would start would be kind of how did we get here? And the reality is, as we've been implementing the auto profit improvement plan over the past couple of years, that's obviously being executed on a state-by-state, market-by-market basis.

But as states have gotten to a rate adequate level. We've begun to lean in and invest more in growth to drive production in those states. And that would include things like unwinding underwriting guidelines to restrict business, increasing advertising spend, both nationally and locally. And as where we sit right now, as I'd say, about 2/3 of our states, the premium volume represented like 2/3 of our states, are what we would consider at profit target levels. And then there's about another 10% or so that are kind of on the path to getting there. So overall, we feel really good about the vast majority of the country in terms of geographically where we're comfortable investing. And you see the momentum that's really been building over the course of the year.

Last quarter, production was up about 9% in total. This quarter, it was up 17% as we further ramped up growth investments, and we're going to continue to do that. At the same time, you've seen us take less rate, which, as Tom mentioned, helps retention. But we're going to continue to be diligent about staying on top of loss cost trends really broadly across states. And as I mentioned, there are some states that aren't in that growth category right now that we've got to get to target levels of profitability. We're going to continue to focus on taking rates that are necessary there and when we're successful, those will become additive to the parts of the country where we can invest. So that kind of got us to where we're at in terms of geography and new business. And the good news is we're seeing the growth across brands and across channels.

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

Great. I guess in a related question as a follow-up -- my follow-up would be on the expense ratio side. You called out the increased advertising expense in the second quarter. I think it was 3 points of your property liability combined ratio. When we look forward, what kind of expectation do you have about how maybe the adjusted expense ratio is going to move through the balance of this year and sort of what your longer-term objectives are there?

Thomas Joseph Wilson
Chairman of the Board, President & CEO

Let me answer that both first by going up and then coming down a little bit. So Transform Growth had 5 components that Mario walked through. We've -- on each of those, the underlying assumptions between whether that was a good thing to do or not we've proven out. We haven't -- they all are not working all at the same time right now so that you're seeing the growth we think we can get, which is to increase market share. So we're confident we're going to increase market share in personal property liability. When you get into what's retention next quarter? What happens in new business exporter? We're confident that all of those things will work in the same direction. As it relates to expenses, we think we need to continue. I mean we wanted to affordable, simple, connected protection. Affordable means low price.

That means we're going to continue to reduce costs. And so we've got a whole bunch of things we're working on now that are -- we've been working on for a couple of years as you point out, that are starting to generate benefits. But we have more to go. Like we don't -- we think there's with the age of digitization and the things we can do in our business, we can still drive cost on. As it relates to advertising, the reason we broke that out separately is that, that does relate to the fact of we don't want people to be to miscommunicate to people that we think taking advertising down and making that lower is a good idea because we think growth creates value for shareholders as long as we're operating at attractive returns. We've got a good set of capabilities there, and I'd be happy to talk about that. If anybody wants to get there, but we're comfortable that we can continue to invest in growth, get good returns, lower expenses at the same time, increased market share, which then will lead to a re-rating of the earnings multiple.

Operator

And our next question comes from the line of Jimmy Bhullar from JPMorgan.

Jamminder Singh Bhullar
JPMorgan Chase & Co, Research Division

I just had a question on what you're seeing in terms of competitive trends in the personal auto market, both in terms of pricing and advertising. It seems like margins for most of the companies are getting closer to normal. So wondering if that -- if you're starting to see some of them get aggressive on price? I know certainly advertising spending has been going up a lot. But what are you seeing out there?

Thomas Joseph Wilson
Chairman of the Board, President & CEO

Let me talk about advertising, and Mario can jump in on pricing. And of course, there's a lot of competitors, but let's focus on the biggest competitors for time being and business is the ones that are mostly in play here. So from a -- as we were just talking about, growth is good for shareholders, it's good because we're earning good returns. Secondly, we're leveraging capabilities over a broader capital base, which drives more shareholder value creation, and then that should lead to a re-rating other multiple. And then you say, what needs to be true for you to do good advertising and to head into a fight on that one. And first, you got to have a product that's differentiated and appeals to customers. So we have that with our new ASC Auto product. We know it from the close to quote ratios higher with the product.

You've got to have -- you got to be getting attractive returns when we talked about that at length. You got to have a great brand because that increases consideration like if people view the -- first time people have heard of you, your dollar of advertising done is effective. Obviously, we have a great brand and great consideration. You have to have broad access and this ties together with transforming growth. We advertise, you can go to exclusive agent, you can go on our website, you can go to direct. So you want to make sure that however they want to come to, they had advertising dollars effectively used. Then I would say advertising today, though, is a game of precision, much as Auto Insurance pricing went through this great push on sophistication, those who are good at sophistication win.

And you can see that when you look at the combined ratios of people like Allstate, Progressive, GEICO, we all have really good combined ratios because we're sophisticated in how we price our product. Same thing is true in advertising today. So you have to be good at search and we don't just listen to ourselves. We had external reviews, and we're really good at search. You have to be good at a bidding strategy. How much you're bidding for elite? We're good at bidding for elite. It's not like we're perfect. We got other stuff we need to do. You got to figure out how you're using different kind of messaging for different groups. And you can imagine with the proliferation of number of media channels, number of messages you can do now, particularly with AI, the number of segments you have, your pricing sophistication, it gets complicated really fast and we're really good at it.

So when we go into this and we're thinking about us increasing the advertising versus other people, you're like, well, how good are you? And we think we're good at it. If you look at where we are with Arity and our telematics work, that's to really end run around having more information on who you bid on because we track 15% of the U.S. population they're driving. So we can decide how good a driver you are without even sticking a device on you or an app on your phone or a device in your car. So will competition increase in advertising? Probably.

It will be from those carriers who have the same kind of capabilities we do. So we're fully up to winning that game. I think there will be some other people who hold back or even drop out because they don't have the capabilities and expertise to do it. So that's where we are in the advertising, good for shareholders because it's good for growth. And we use the money effectively. Mario, do you want talk about pricing environment?

Mario Rizzo
President of Property & Liability and Director

Yes. And Jimmy, thanks for the question. I'll answer the question broadly, but I'd put a caveat around it that, obviously, what I'm going to say is going to vary by company and it's going to vary geographically because the business has just operated that way, and there's a lot of competitors in the market.

But I would say, by and large, as we discussed this morning and as many of our competitors have reported profitability in auto is improving as loss cost trends have improved. And all of the things being equal, when that happens and margins are better, there's just less rate activity in the system, and that's what we're saying companies generally taking less rate than they were over the last couple of years. Again, that will vary by company. Some started later than others and are still catching up. Others are a little further along. But generally, we see less rate getting pushed through. And then certainly, that varies geographically as well.

Having said that, I would just take that along with what Tom talked about in terms of advertising and say that when you take the totality of where we're positioned and what we're building with Transformative Growth, we like where we're positioned in our ability to be able to increase growth investments and be successful in a competitive marketplace. That's what we're building, and we like our chances.

Jamminder Singh Bhullar
JPMorgan Chase & Co, Research Division

And then just on the benefit sale, we're late in the year and there hasn't been an announcement, but maybe talk a little bit about how the process is going. And I'm assuming it's probably not going to close this year, but are you still assuming the close within the next few months, even if it drags on to next year?

Jesse Edward Merten
Executive VP & CFO

Jimmy, it's Jesse. First, I guess I would start by reminding everyone, the they're great businesses, you saw it in the results that I covered. So we're really happy to continue to focus on execution in the operations. It might be helpful if I give you a little bit of a window into the process to help you understand of where we're at and where we're going. So if you think about our process, we started out with a preference for a single transaction. But in the same note, we were unwilling to compromise value for that preference, right? So we spent a lot of time with a single transaction buyer that thought they could, in the end, change the terms and/or that we didn't have better options, quite frankly. So we spent a lot of time on a process there and, ultimately, what we decided was to work with other buyers.

And that has created a delay in things, it just has. But we're confident that by making that switch, we'll get a better outcome. A better outcome for our shareholders, a better outcome for the businesses. So what I would say right now, and I don't want to get into timing of announcements of close, what I would say is that we're likely to be in a position to announce transactions this year, and you'll get more details about the what and the how, when those announcements come. But that's just a little bit of a window into the process and why you still haven't heard anything, if that's helpful.

Jamminder Singh Bhullar
JPMorgan Chase & Co, Research Division

And do you intend to sell, dispose of the entire unit eventually, even if it goes into pieces? Or are there some pieces you might decide to retain?

Jesse Edward Merten
Executive VP & CFO

We still intend to make the divestiture of the Health and Benefits segment.

Operator

And our next question comes from the line of Bob Huang from Morgan Stanley.

Jian Huang
Morgan Stanley, Research Division

Maybe one on Homeowners. I think last year, when it comes to cat losses, severe convective storm was a one in '18 event, if I remember correctly, which obviously was a headwind to your cat numbers. Just given how things are developing so far, curious how is it tracking this year? Is it going to be more of a worse than one in '18 event? Just pace on what we have in the first half, curious in terms of like how are the weathers are developing for the Homeowner side.

Thomas Joseph Wilson
Chairman of the Board, President & CEO

Bob, it's Tom. Thanks for the question on Homeowners. I would look at Homeowners on a longer-term basis than 1 year. So if you look over the last 11 years, we've made 3/4 of the profit that the whole industry has made because we have a pretty sophisticated business model, we've talked about before and be happy to go into, but we're good at homeowners. It's currently turning into a, I guess, what we do domestically, we call the hard market but a lot of people are bailing on growth in that market because they were either part of the 25% or they were part of the negative amount that led to us having 3 quarters, so that entire profit pool when we have less than 10% of the total business. So we think that is a great growth opportunity. As it relates to this year, too hard to predict weather. It comes and goes.

For the first 6 months, we made money on an underwriting basis. That makes me feel better than last year, where we didn't make money for the whole year. The prior 10 years, we've made money in each of those 10 years. So I feel good about our business model. As it relates to any individual quarter, they're -- the key thing for us is to be there for our customers. Like when I got a problem and we're good at getting there fast. We want to be there to take care of their claims. They tell their friends. Our Homeowners as you saw the unit growth is up. It's particularly -- we're doing extremely well in our Allstate agents with bundling customers. So other people are interested in that segment. We're just killing it right now on cross line sales.

So we feel good about that. Some of that is the hard market. Some of it's great relationships. Some of it is the product and the pricing we have. It all kind of comes together. So we like the business. We think it's got good long-term growth potential. And we -- on a quarterly basis, I wouldn't get too focused on whether it's up or down this second quarter is -- you can decide it's either higher or lower depending on which period of time you wanted to evaluate it against. And so I would just say focus on the long-term results from it.

Jian Huang
Morgan Stanley, Research Division

My second question, a little bit of a shot in the dark here. For the DOJ lawsuit for National General, there has been precedent where under [Faria] Civil Enforcement Actions, where SEC can potentially get involved. Under the current litigation environment, do you expect that the National General case should get SEC involved at some point down the road? I'm not sure if that's the question you can answer at this point.

Thomas Joseph Wilson
Chairman of the Board, President & CEO

Well, we don't give a lot of specifics on active litigation, obviously. And I certainly can't speak for what other people want to do when we have -- I don't know what the SEC will or will not choose to do. What I can give us a little bit of information. This is -- the lawsuit is in reference to a lender-placed insurance program, so that stuff sold through agents. It's focused on auto insurance. Our program was transparent. Borrowers were treated fairly. And we're confident that we will prevail in this and that the lawsuits will have no impact on our ongoing business.

Operator

And our next question comes from the line of Michael Zaremski from BMO.

Jack Matten
BMO Capital Markets Equity Research

This is Jack on for Mike. Just a follow-up on the advertising spend strategy. I'm curious how your strategy and focus today compares to the last cycle? And more specifically, how much of your ad spend has historically been geared toward direct-to-consumer targeted sales versus supporting your agents? And then how is that evolving today given the success of your transformative growth strategy in your lower expense base?

Thomas Joseph Wilson
Chairman of the Board, President & CEO

Jack, I would say that the third component of transformative growth was, increase the sophistication and investment in new customer acquisition. We didn't talk about it here much, but we've gotten much more sophisticated versus the last time we did this. But I think other people have too. So I'm not -- like I don't want to conclude we're 5 miles ahead of everybody else but we're good. And so we feel much better about our sophistication. The way in which we go through the allocation of investment is think about it as upper and lower funnel. Upper funnel being get the brand out there, do some TV advertisements to make sure people are considering you when they're getting insurance. So you'll notice that more advertising on TV.

Then there's what we call lower funnel, which is you're on the website, you're cruising around for a new car, and we pop something into your web browsing that says, "Hey, what about Allstate" or we use addressable TV to do it. So there's lots of different ways we try to do, what I would call, lower funnel. And the first one, you do because we are off a little bit for the last couple of years in terms of down in advertising, we've increased our upper funnel some just because we want people to remember there, we got a great brand because we've been investing in it forever. It's got great unaided recognition, and we want to keep investing in that. The biggest portion of our increase would be in the lower funnel piece. That gets tightly tied to what Mario described, which is really by state, by market, by risk class, and it's highly sophisticated in terms of how we do that.

As it relates to both of those upper and lower funnel work for all of the Allstate brand channels, so agents and direct. Our agents also do some of their own lead generation, where they go to mortgage brokers or other people in their local areas and buy leads. I think there is an area where we need to bring increased sophistication to it because we're just better at doing it globally than you would be if you limit to Boeing or something like that. So there's increased sophistication there. But think of it as a large machine has got a number of different levers we can pull, and we have -- it has got good gauges on it, so we can tell what's coming out on the other end. And so we're constantly turning and dialing those levers and watching the gauges so that we beat our current competition.

Jack Matten
BMO Capital Markets Equity Research

That's helpful. And then maybe switching gears to auto loss cost trends. If you look at the average underlying loss you disclosed, it's now running slightly lower compared to 2023. I guess does that mean you're now seeing frequency benefits more than offsetting higher severity. And I'm curious how you view the sustainability of current favorable frequency trends. I know last quarter, you mentioned favorable weather. Just curious how those pieces are moving.

Thomas Joseph Wilson
Chairman of the Board, President & CEO

Jack, I'll let Mario jump into both frequency and severity and by coverage. I can just say it's nice to have it be about halfway through the call on loss costs and be talking about growth, which is much more optimistic. A year ago that would have been in the first, second and third question. So it's a good question. Mario will go to it, but I'm happy we're talking about growth because we think that's where we're going to create a lot of shareholder value. So Mario, over to you.

Mario Rizzo
President of Property & Liability and Director

Sure. Thanks, Jack. I guess the place I'd start is as much as we dig into the components of profitability, they're all important, but we shouldn't lose sight of the fact that the way we manage the auto business is to generate mid-90s combined ratios across the entirety of the system. And we use levers like rates and we look at pure premium, whether that's frequency and severity and expenses, they all matter. And certainly, the loss trend helps inform what we need to do with some of the other levers. What I would say, as I mentioned, that the negative trend, the negative 0.8% that you see in the supplement, as I mentioned in my prepared remarks, there's a little bit of noise in there in terms of year-over-year comparisons because we were moving severity targets around intra-quarter last year.

So the adjusted numbers, it's slightly positive, it's about 1%. So it's not all that different. But I would say it's -- favorable frequency has continued through the first half of the year. It's been offset by higher severity predominantly in bodily injury, which continues to run above inflation. And on the physical damage side, we continue to see some good tailwinds with things like used car prices and stabilizing repair costs and so on. But that's kind of the overall loss trend that we're reacting to. In terms of the sustainability of frequency, it's a really difficult question to answer. Things like weather and geography and risk segments all come into play. Frequency has been better than it was a year ago. When we look at our telematics data, which gives us a lot of rich information, miles driven per operator is up a little bit, but trips are shorter. So that could be having an impact on frequency.

Weather favorably impacted frequency in the first quarter. And the other thing I'd say is as we've been looking to improve profitability over the last couple of years and not growing, the risk segmentation and the mix of our auto book has shifted around a bit to higher lifetime value, let lower frequency type business, that's having an impact as well. So there's a lot of moving parts in there. One thing I will say is as we go forward and write more new business, that will impact prospective frequency trends, but I'll go back to where I started. We manage the system in its entirety to generate mid-90s combined ratio profitability, and we're going to continue to do that despite how our frequency bounces around.

Operator

And our next question comes from the line of Yaron Kinar from Jefferies.

Yaron Joseph Kinar
Jefferies LLC, Research Division

I wanted to go back to growth or continue to focus on growth. I think ever since the Transformative Growth program was announced and launched. Clearly, you've had some issues with COVID, and the aftermath of COVID. But now that we're hopefully starting to come out of that transitionary period and all the levers from Transformative Growth are kind of kicking in, can you maybe help us think through. I'm not even asking about a 1- or 2-year horizon, but maybe over the cycle, what you think reasonable growth expectations should be on a PIF basis for Allstate. And I say this also in the context of I think we see some of the industry leaders in growth, achieving pretty consistent, call it, high -- mid- to high single-digit growth in PIF. Do you think that you can be at that level?

Thomas Joseph Wilson
Chairman of the Board, President & CEO

So we haven't given out a target for PIF growth, but it's the right way to think about it. Because when you're looking at market share, a lot of times, market share is done in the industry by premiums. Also charge more, have fewer customers will presumably could increase your market share on that basis, that's not our goal. Our goal is PIF growth. If you want to assume that if you said, okay, the U.S. economy in terms of number of cars, house and stuff like that, it's going to be a low single-digit increase, I don't know, so 1%. There's not going to be a whole bunch of more new cars in houses in the United States. And so obviously, PIF growth has got to be higher than that, and it is higher than that. You can see right now in Homeowners because we're winning in that business.

When you look at how far up is up, we don't have a limit on that, if you look at National General, which is one of the reasons we called it out. It's got every bit as good a growth as some of those our competitors who get much higher valuations than we do, and it's got really good profitability. So we know how to do it. And the question is how do you translate it into and what is the timing? We think there's great growth potential here. And that when you put on, just call it -- if you take 1% for the overall growth in assets in the United States, you put on top of that what would be modest increases in premiums, then you should get revenue growth, which is above 5%. And so what does that turn into? You can do the math as well as we can.

But we think there's great potential here. When you look at other people, we don't think they figured out how to turn lead into gold. They're just really good at what they do. We think we can be every bit as good in the Allstate brand and growing that business. Particularly now that we've gotten direct, what I would say is improved and unleashed that. And you can see that from Mario's charts on how much new business we're writing there. So we think there's lots of potential, like we're very optimistic, but we don't have, here's our magic number that we're going to get to. But whatever the number is, it would lead to a higher valuation of earnings than we currently have.

Yaron Joseph Kinar
Jefferies LLC, Research Division

Same question. Does the company have reps and warranties insurance associated with the NatGen acquisition that's still in effect?

Thomas Joseph Wilson
Chairman of the Board, President & CEO

If you're relating to the DOJ lawsuit, I don't think that will impact what eventually happens. But let me just reiterate, we're really confident in where we are with that claim.

Operator

And our next question comes from the line of David Motemaden from Evercore ISI.

David Kenneth Motemaden
Evercore ISI Institutional Equities, Research Division

I was wondering if you could just talk about within the auto underlying loss ratio, if there's any way to size if there was any one time or unsustainable benefit from frequency in there, one of your peers had called out, I think it was a 2.5 point benefit from unsustainable factors in the quarter. I wonder if you could give us any insight in terms of, if any, of the improvement was driven by something that is unsustainable within the auto business?

Thomas Joseph Wilson
Chairman of the Board, President & CEO

No. Let me give you a little -- I'll give you the summary and then go through. Mario, you can jump in if you want. I don't know how you determine what's sustainable or not sustainable in frequency. Examples, if in the winter, if it snows at 3 p.m., and it's kind of wet and then the temperature drops quickly and it turns the ice by the time you get to 5:30 rush hour, a bunch of cars get in accidents. If it snows at 2 a.m., it doesn't matter so much. So I'm not really sure how you -- and that's just one example of the myriad of things that Mario talked about how far are you driving? How often do you drive? How fast you drive? What city you drive in? Who else drives?

Like I don't know how you -- I don't know if they -- I don't know who it was on that -- I don't remember who said that, but I'm not sure how we would be able to with our math and the precision that we have, be able to determine what's sustainable or unsustainable. What I would come back to is what Mario said, we price on what it is. So what it is, is what we factor in. Just the frequency goes down in a quarter, we don't suddenly decrease rates. Just like if it goes up in a quarter, we don't suddenly increase rates. We price to get a mid-90s combined ratio in auto insurance, and that's what we'll keep doing.

David Kenneth Motemaden
Evercore ISI Institutional Equities, Research Division

Got it. That's helpful. Understood. It is pretty complex to do that. So that's fair. My follow-up question is just on ad spend? And just I think in the past, you've shown -- I think it was the states that are under 96 combined. I guess, I'm assuming that clearly went up this quarter. And I guess I'm wondering, are there any states where you're holding back on ad spend? And if so, could you just size how big those are as a percentage of the total book?

Thomas Joseph Wilson
Chairman of the Board, President & CEO

I'll let Mario answer the percentage question. I would say in hold back, I was trying -- think of it as a lever that -- a dial that you turned. Some states were wide open and testing really high levels. Other states were at what we think is appropriate there. So we're constantly managing and testing and learning in a live market on how much we bid on stuff. I mean there's just -- it's very sophisticated. So it's not like there's a go or no-go level. But there is, to your point, important from a macro standpoint, like how many states you're making money.

Mario Rizzo
President of Property & Liability and Director

Yes. And David, what I'd say, I'd go back to what I said earlier. As we look at that kind of same mix of states, about 2/3 in terms of premium volume of states are at or below our target combined ratio. And I'd say about another 10% or so are on the path to getting there with rate that we've already approved. I guess there's a handful of states that we're not leaning in and that's true beyond just the advertising spend, but it would be around things like underwriting guidelines and so on. As much as we've talked about California, New York, New Jersey. California, we got approval for a 30% rate. We are writing new business across all channels in California.

As a matter of fact, we filed an additional 6.9% rate to stay ahead of the loss trend because you don't want to get behind in California. But we are now writing in California, and we're spending some marketing dollars there. The two that on the other side of the country, New York and New Jersey, are ones that we're still effectively managing what we write. And we're writing very low volumes of business. Having said that, we've gotten rate approvals in New York. We're in active conversations with the department on a 24% rate that we filed that we hope to get resolution on hopefully reasonably soon. And then we'll revisit that stance. And in New Jersey, we got rate approved at the end of last year. We just implemented another low teens rate in July, and we've got another one coming in December.

And as we evaluate where that positions us we'll reassess our risk appetite and how much we want to invest. And I'll go back to saying what I've said multiple times, our objective function is to be able to write in every state. But the reality is we need to see a path to attractive returns and profitability to be able to do that. Once we get there, then we'll expand our appetite across geographies.

Thomas Joseph Wilson
Chairman of the Board, President & CEO

I would just add a couple of things. First, I don't think we'll ever be at 100%. But I also think that the high-growth competitors that your -- or competitor, I guess, that you're comparing us to, it probably has the same situation. Like not everything goes well in every state in this business. So I can see what people are trying to do.

You're trying to triangulate between the gap of a small decrease in auto insurance to what's the increase is going to be and how does that translate into the increase in valuation multiple. Appropriate thing, we're focused on it as well. I would just say that the gap between the current growth and what potential is, is probably narrower than the gap that between the valuation. Like our valuation multiple could be substantially higher even with small moves in the growth rate. You have to decide what you think that's worth and whether you want to pay for it or not. But I think that focusing, it's not going to be a one-to-one thing, and it's not all going to happen at the same time. But we're confident we can grow like we know how to run this business.

Operator

And our next question comes from the line of Vikram Gandhi from HSBC. Vikram you might have your phone on mute. We're still not hearing you. Would you like me to proceed...

Thomas Joseph Wilson
Chairman of the Board, President & CEO

Why don't we go to the next question?

Operator

Our next question then comes from the line of Charles Lederer from Citi.

Charles William Lederer
Citigroup Inc., Research Division

Can you talk about the new issued app mix on Slide 8. I guess how does your customer appetite differ across channels as you open things back up? And how do you see that impacting your margins given direct tends to have a higher upfront expense ratio as I understand it?

Thomas Joseph Wilson
Chairman of the Board, President & CEO

First, I would say we want all customers, all locations or most locations, but all risk levels. Mario, do you want to talk about maybe specialist, non-general or not-standard, standard.

Mario Rizzo
President of Property & Liability and Director

Yes, Charlie, I'd say from a channel perspective, like in the Allstate brand, we have differentiated pricing between agency and direct. So we have the ability to do that to match the cost of doing business in the channel with the price that we charge. In terms of underwriting risk appetite, we write in standard and preferred across the entirety of the risk segment. And if we have the right price in the agent channel, we'll write in the agent channel, and we'll also write it in indirect. So there's very few exceptions in terms of different underwriting standards across channels. In terms of brands, the one risk segment that I think is new in the sense of we acquired it when we acquired National General is the nonstandard auto business, which historically Allstate really didn't participate in, in a meaningful way.

That's a very well-run business. That's the lion's share currently of the nonstandard auto premium, generating really strong growth, unit growth of just under 12% with really strong profitability. And the one thing I'd say on that segment of business, there tend to be a lot of shoppers in that segment. So you can turn growth on and off a lot more rapidly. You tend to be able to reprice the book pretty quickly because the retention is lower. And I think that's become a real growth lever for us. As you can see in our numbers, we've been able to grow that business, grow it profitably because we now have the right capabilities to write in that segment, which we didn't have when we started Transformative Growth.

So but we're -- as Tom mentioned, we're positioned to write across channels, across brand and equally importantly, across risk segments through National General in nonstandard Auto. But now, as I've talked about, Custom360 and rolling out middle market standard preferred and Homeowner product, we can go upmarket in the independent agent channel as well. But we're positioned to write across the entirety of the system.

Thomas Joseph Wilson
Chairman of the Board, President & CEO

Okay. Thank you all for spending your time with us. As we move forward, we'll keep doing what we do well, which is to serve our customers. We're going to work on accelerating our growth in the profit liability business, making sure we're proactively investing and we didn't have spent a lot of time on that today, but we've had really great results in our investment portfolio. And then expanding our protection offerings through great platforms like Protection Plans. Thank you all. We'll see you next quarter.

Operator

Thank you, ladies and gentlemen, for your participation in today's conference. This does conclude the program. You may now disconnect. Good day.