S&P Capital IQ

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The Allstate Corporation NYSE:ALL

FQ1 2012 Earnings Call Transcripts

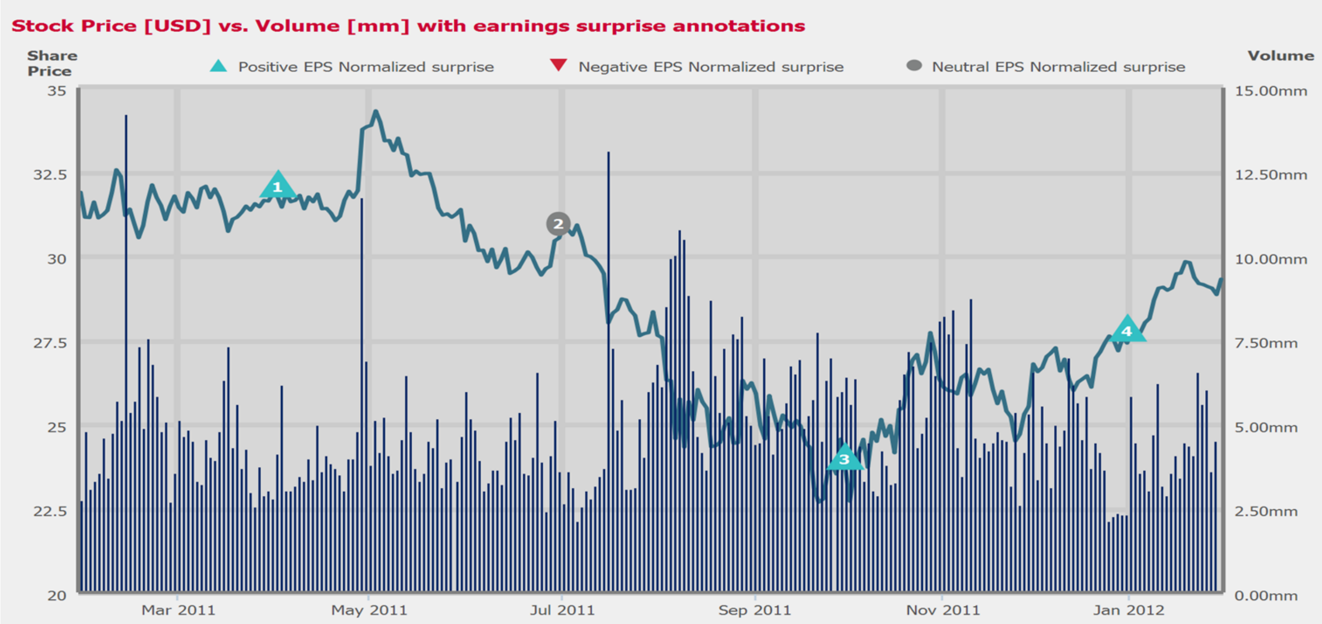
Thursday, May 03, 2012 1:00 PM GMT

S&P Capital IQ Estimates

	-FQ1 2012-			-FQ2 2012-	-FY 2012-	-FY 2013-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	1.10	1.42	▲29.09	0.96	4.00	4.13
Revenue (mm)	6681.88	6630.00	▼(0.78 %)	6734.53	26932.22	27101.83

Currency: USD

Consensus as of May-03-2012 12:26 PM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ1 2011	0.68	0.93	▲1 36.76 %
FQ2 2011	(1.55)	(1.23)	NM
FQ3 2011	0.12	0.16	▲2 33.33 %
FQ4 2011	0.96	1.48	▲3 54.17 %

Call Participants

EXECUTIVES

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President of Emerging Businesses - Allstate Insurance Company

Judith Pepple Greffin
Former Chief Investment Officer of Allstate Insurance Co. and EVP of Allstate Insurance Co.

Matthew E. Winter
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Robert Block

Steven E. Shebik
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Presentation

Operator

Good day, ladies and gentlemen, and welcome to The Allstate Corporation First Quarter 2012 Earnings Conference Call. [Operator Instructions] As a reminder, this conference call is being recorded. I would now like to introduce your host for today's conference, Mr. Robert Block, Senior Vice President of Investor Relations. Sir, you may begin.

Robert Block

Thanks, Matt. Good morning, and thanks for joining us today for Allstate's first quarter 2012 earnings conference call. We'll begin this morning with some prepared remarks from Tom Wilson, Steven Shebik and me. Following that, we will open it up for your questions. Joining us for the Q&A session are Don Civgin, Head of Allstate Financial and Insurance; Judy Greffin, Chief Investment Officer; Sam Pilch, our Controller; and Matt Winter, Head of Auto, Home and Agencies.

Late yesterday, we issued our press release and investor supplement, as well as our 10-Q for the first quarter of 2012. We also posted a slide presentation, which will be used in conjunction with our prepared remarks. As noted in our press release and 10-Q, Allstate adopted new deferred acquisition cost accounting guidance on a retrospective basis as of January 1, 2012. Accordingly, all prior period balances have been adjusted. The DAC and shareholders' equity balances were reduced by $572 million and $376 million, respectively, when compared to the previously reported December 31, 2011 balances. We filed an 8-K yesterday reflecting these adjustments, and we added a few pages in our investor supplement that have details on the adjustments. All of these documents can be accessed from our website.

Referring to the first slide of the presentation, this discussion may contain forward-looking statements regarding Allstate's operations. Actual results may differ materially from those statements. So please refer to our 10-K for 2011, our 10-Q for the first quarter 2012, our 8-Ks filed yesterday in May 2 and our most recent press release for information on potential risks. This discussion will contain some non-GAAP measures for which there are reconciliations in our press release and on our website.

As always, I'll be available after this call to answer any follow-up questions you may have.

Now let's begin with Tom Wilson.

Thomas J. Wilson
Chairman & CEO

Good morning, and thank you for joining us on what I know is a very busy day for you. I'll cover our performance relative to our 2012 priorities. Within the context of our overall strategy, Bob and Steve will follow with more details on the drivers of our results.

If you go to Slide 2, our strategy is to sell unique protection products to different customer segments. The left side prefers the personal assistance of a local agent, whereas the right side is very comfortable purchasing directly from a call center or over the Web. So lower segments -- the segments on the lower half of the grid are less price sensitive than the upper half. So we serve all 4 segments of customers.

Our 2012 priorities are to maintain auto profitability, to raise returns in homeowners and the annuity businesses, to grow insurance premiums and to proactively manage our investments and capital. So this strategy and those 2012 priorities are designed to enable us to achieve the goal of producing operating return on equity of 13% by 2014.

Turning to Slide 3. It was a good start for 2012, with strong financial results for the first quarter. On a consolidated basis, we generated net income of $766 million. It was an increase over the prior year first quarter of 46%, and it was driven primarily by improvements in operating results. On an operating income basis, we increased almost 44% to $710 million or $1.42 per diluted share. The underlying Property-Liability combined ratio for the quarter was 88.1, which is 1.8 points better than Q1 of 2011.

Now we made progress in each of our priority areas. We maintained auto profitability in the first quarter, with the Allstate brand standard auto combined ratio of 95.2, an increase of 0.2 points compared to Q1 of 2011. Now there's some pressure on the cost side of business, which we're addressing to protect our margins. We continue to improve returns in homeowners, with an underlying combined ratio for the Allstate brand of 67, which is 7 points better than the first quarter of last year and essentially, equal to the fourth quarter of last year. We remain focused on our profit improvement actions in this line, as continued improvement is a critical component to achieving the goal of 13% operating ROE by 2014.

Allstate Financial's operating income was up largely based on higher partnership income. While we made some improvement in returns on the annuity business due to higher partnership income, the low interest rate environment continues to be a challenge for us in raising returns in that business.

Overall, premiums increased, reflecting the acquisition of Esurance, higher average homeowner premiums and growth in the emerging businesses. Esurance's policies in force grew in the first quarter from the year-end 2011, as benefits of our new marketing programs begin to be realized. We did have an expected reduction in auto policies and Allstate Agency channel, reflecting profit improvement actions in the auto line in Florida and New York and the impact of raising homeowner prices for multi-line customers. Our investment results were very good despite the challenging interest rate environment.

Finally, from a capital management perspective, we raised the dividend and repurchased $300 million from the current stock buyback authorization. Our book value per share increased 8% and 6.6% from the first quarter of 2011 and year-end 2011, respectively.

So now Bob and Steve will provide more details on our results for the quarter.

Robert Block

Turning to Slide 4, we show our top and bottom line results for Property-Liability. Overall, the results were mixed for growth, but profitability was strong. Property-Liability net written premium of $6.46 billion grew 4% versus the first quarter of 2011, due primarily to the acquisition of Esurance, which grew net premiums and policies in force as expected. Allstate brand standard auto net written premium of $3.9 billion declined 1.2% from the first quarter of 2011, as auto profitability actions in New York and Florida and higher homeowner prices hampered growth.

Unit growth also declined from prior year. The volume of new issued applications was comparable to each of the last 3 quarters but did decline 10.8% from the first quarter of 2011. Average premium on a gross written basis increased 1.8% compared to the first quarter of 2011. We received approval for rate changes in 10 states averaging 5.8% in those states. Retention ratio at 88.7 was down slightly from prior year, driven primarily by Florida and New York. The balance of the country experienced an increase in retention from the first quarter of 2011.

Allstate brand homeowners net written premium grew 2.7% from the first quarter of 2011, as rate actions designed to improve profitability continue to more than offset the reduction in units. We received approval for rate changes in 13 states averaging 7.9% in those states or 2% on a countrywide basis.

For the quarter, net written premium for Allstate brand emerging businesses, Encompass and Esurance all positively contributed to the top line. We also experienced favorable sequential unit growth in our Canadian operations, Encompass and Esurance.

Moving to the bottom half of the slide, the combined ratio for Property-Liability was 92.1, an improvement from the first quarter of 2011 of 2.8 points. The underlying Property-Liability combined ratio was 88.1, 1.8 points better than prior year and well within the annual range we provided earlier this year.

The next slide provides the loss trends in rate actions for the Allstate brand standard auto. On the top half of the slide are the gross frequency and paid severity trends for bodily injury and property damage coverages, which account for about 45% of the incurred losses for Allstate brand standard auto. For the first quarter of 2012, both bodily injury and property damage frequencies improved relative to the prior year for the fourth consecutive quarter. While bodily injury and property damage paid severities were above prior year for the first quarter, the increase moderated relative to the fourth quarter 2011.

In the lower left-hand corner of the slide, we added a chart on approved rate changes. For Allstate brand standard auto, we averaged about 4% increase over the last 4 quarters, a pace which has kept the combined ratio relatively level.

In the lower right-hand corner, we provided the combined ratio results for the last few years. In the first quarter of 2012, the combined ratio was 95.2 for Allstate brand standard auto, an increase from prior year of 0.2 points. Breaking the combined ratio apart, the loss ratio for the Allstate brand standard auto improved by 0.7 points compared to prior year's first quarter, while the underwriting expense ratio increased by 0.9 points. On an underlying combined ratio basis, the results for the first quarter were essentially flat with prior year. We remain vigilant in our efforts to maintain auto margins.

On Slide 6, we display similar charts detailing approved rate changes and loss trends for Allstate brand homeowners. We continue to gain approval for rate changes in the 8% to 9% range countrywide. The chart in the upper right-hand corner provides the trends for loss cost, excluding catastrophes. Frequency results for the first quarter of 2012 were below prior year, while paid severity was flat. The rate actions we have taken, coupled with the moderating loss cost trends, produced an underlying combined ratio of 67.0, an improvement of 7 points from the first quarter of 2011. On a reported basis, the combined ratio for the quarter was 80.2, 11.2 points better than prior year, reflecting the improvement in the underlying combined ratio and lower catastrophe losses in the first quarter of 2012 versus the first quarter of 2011. We continue to focus on raising returns in this business.

Shifting the focus to Allstate Financial on Slide 7, we provide results for the top line, the bottom line and returns by product. The results for the first quarter continue to reflect progress towards improving overall returns while shifting our focus to underwritten products. While total premiums and contract charges declined for the quarter, premiums and contract charges for underwritten products increased 3.5% to $535 million compared to the prior year.

Allstate Agencies continue to generate strong growth over prior year, with a 16% increase in issued life insurance policies. We recorded operating income of $150 million, an increase of $37 million from prior year. The increase in operating income included a $39 million after-tax benefit from a classification of equity method limited partnership income as net investment income in 2012.

Allstate Financial reported net income for the first quarter of 200 -- or excuse me, $112 million, up $10 million from the first quarter of 2011. The increase resulted from an improvement in operating income in the absence of a loss on the wind-down of the Allstate Bank in 2011, partially offset by current year realized capital losses compared to realized capital gains in the prior year. Operating income return on attributed equity of 8.8% improved 0.5 points from the fourth quarter of 2011, with life insurance at 11.3% return, while accident and health insurance provided a 15.5% return.

The favorable movement in the return for immediate annuities was driven primarily by the reclassification of equity method limited partnership income and is consistent with our previously disclosed intent to change our asset allocation for long-term immediate annuities. This shift may result in more volatile investment income but should lead to higher total returns.

Now I'll turn it over to Steve Shebik.

Steven E. Shebik
CFO & Executive VP

Thanks, Bob. We continue to proactively manage the investment portfolio, supporting our key objective of managing investment yields and creating value. On Slide 8, you can see the size and composition of our overall portfolio. Improved fixed income and equity valuations, along with a positive cash flow from our Property-Liability business, more than offset the expected reduction of Allstate Financial's spread-based liabilities, raising the portfolio valuation to $97 billion at quarter end.

Our portfolio actions during the first quarter continue to optimize our fixed income portfolio's position on the yield curve, shifting out of longer-term municipal bonds and shorter-term lower yielding treasuries into intermediate-term investment grade corporate bonds. Additionally, we shifted from public equity holdings to high yield corporate bonds. These actions benefited us as credit spreads narrowed, improving fixed income valuations and also supported our average fixed income portfolio yield.

Slide 9 highlights the portfolio income in yield trend. As Bob mentioned, we made a prospective change this quarter to classify our equity method limited partnership results in net investment income. We believe that this presentation will closely align the results of our expanding strategies in alternative investments and private asset ownership with the liabilities they support. Including the effects of this change, net investment income for the first quarter was $1,011,000,000, and the total portfolio yield was 4.6%, with both measures increasing compared to the prior year quarter and the fourth quarter of 2011.

If the results of these limited partnerships had not been reclassified, net investment income would have been $915 million or $67 million less than the first quarter of 2011, driven by the expected reduction in Allstate Financial liabilities. The total portfolio yield would have been 4.3%, consistent with prior year's first quarter but lower than the fourth quarter of 2011.

On Slide 10, you can see we realized gains of $168 million in the first quarter of 2012, an increase of $72 million compared to the first quarter of 2011. Realized gains in the quarter were primarily from the sale of public equities. Our impairment losses were the lowest recorded since the third quarter of 2007. Derivative results also improved, reflecting a reduced usage of derivatives to manage rate risk and favorable results with respect to our credit position.

Finally, moving on to Slide 11, we finished the first quarter of 2012 with $19.2 billion in shareholders' equity, an increase of approximately $900 million from year-end 2011. Statutory surplus for both Property-Liability and like remained strong, and deployable asset at the holding company level increased to $2.7 billion at quarter's end. We continued to buy back our stock during the first quarter, repurchasing shares worth $300 million. We now have repurchased $406 million of our $1 billion authorization. We also raised the first quarter dividend at the February board meeting. As Tom mentioned, our book value per share rose to $38.57, a new high for Allstate, 6.6% above year-end 2011.
Now let's open it up for your questions.

Question and Answer

Operator

[Operator Instructions] Our first question is from Michael Nannizzi of Goldman Sachs.

Michael Steven Nannizzi
Goldman Sachs Group Inc., Research Division

Just one question on ad spend and Esurance in particular. How are you thinking about advertising there? And is the first quarter kind of an indication whether from a dollars perspective or a kind of combined ratio perspective how you're thinking about Esurance? And just one follow-up.

Thomas J. Wilson
Chairman & CEO

Michael, this is Tom. The -- Don might want to make a comment about the first quarter seasonality Esurance, but let me give you some perspective on sort of how we allocate resources. Each brand stands on its own. So the advertising for the Allstate brand is separate and distinct, and we'll invest whatever we need to do to keep that brand strong and that business growing. The same is true for Esurance. So we look at the economics of those in total. We do not put those together and have a total ad spend budget. We do what we think makes sense. Obviously, we launched a new program in December of last year with Esurance. And along with that, we increased our ad spend, and we like what the have there. Don, you might want to talk a little bit about just first quarter results on Esurance.

Don Civgin
President of Emerging Businesses - Allstate Insurance Company

Yes. The -- first of all, Esurance does have a more seasonal business than Allstate, and so their first quarter spend tends to be higher. We spend about $45 million in advertising in the first quarter, and we did that as -- partially, as Tom said, because the launch of the new campaign, the rebranding of Esurance, we wanted to get some weight behind it. I'm happy to say it's working as well as we expected it to. So we're seeing good response rates, good customer mix changes, conversion ratio is improving as we would have expected. So I think, as Tom said, we'll continue to spend money so long as it's economic to do so. And at the moment, it feels like we're spending the right amount, subject to the seasonality of the first quarter.

Michael Steven Nannizzi
Goldman Sachs Group Inc., Research Division

Got it. And then just on Answer Financial, where does that roll into the financial? Is that in other or does that roll into a fee line somewhere? I just wanted to get an idea of where that was and kind of what the magnitude and kind of year-over-year change there was.

Don Civgin
President of Emerging Businesses - Allstate Insurance Company

The year-over-year change is minimal, but it's actually very small. But it rolls up into other. So it's not under Esurance.

Michael Steven Nannizzi
Goldman Sachs Group Inc., Research Division

It's in the other line. Okay, great.

Operator

Our next question is from Mike Zaremski of Crédit Suisse.

Michael Zaremski
Crédit Suisse AG, Research Division

Underlying combined ratio in home, high 60s, past 2 quarters. I think that's relative to your longer-term goal of low 60s. So we're not that far away. Would you say the -- you're making progress ahead of plan? Or has the driver just been more benign catastrophe losses the past 2 quarters?

Matthew E. Winter
President and President of Allstate Insurance Company

Yes. Mike, this is Matt. I'll try to answer that for you. We had some great product and profit improvement in that line. I'd say about 60% of it was temporary and 40% sustainable. So a large portion was cats and weather x cats. But a significant portion was rates, inspections, correct class actions, the nonrenewal actions and the blocking and tackling that's been done. So I think we're -- I wouldn't say we're ahead of plan or behind plan. I think we are making significant progress about where we thought we'd be, and we feel confident that we're doing the type of fundamental steps necessary to improve the long-term profitability on the business. And we continue a plan that includes rollout of a new homeowners product, house and home, that helps us deal with roof costs specifically. There is some pressure from pricing on roofing. Roof prices fell 2 years in a row from 2008 but had their first increase of 12% in 2011. So we know we have to get out in front of that, and we are with our new product. So we feel pretty confident that fundamentals have helped us dramatically, but it's no denying the fact that first quarter was helped also significantly by just the lack of cats and the weather x cats.

Michael Zaremski
Crédit Suisse AG, Research Division

So the 40% was sustainable then. So should we continue to expect high single-digit rate increases in home going to the back half of the year?

Matthew E. Winter
President and President of Allstate Insurance Company

I think that's an acceptable range to think about.

Michael Zaremski
Crédit Suisse AG, Research Division

Okay. And then lastly on auto. Can you talk about the competitive environment in auto? And can you also comment on the knock-on effect raising home insurance rates is having on the PIF there?

Matthew E. Winter
President and President of Allstate Insurance Company

Sure. Well, obviously, there is an impact of taking homeowners rate actions on not only home but also on our auto customers and our PIF. We're also in places where it's necessary taking rate actions on the auto side, which is compounding that. So when you combine the 2, it's having, what I'd say, is a chilling effect on our ability to grow PIF right now, as we have a core focus on the profitability side. We feel like that's the right balance right now. We believe that growth in the absence of profitability is the wrong strategy. And so we're pretty disciplined right now as far as focusing on getting rate adequate both in homeowners and auto and accepting but not liking the fact that it can impact our ability to grow. The competitive environment is interesting. I think some of the multi-line companies are now raising their homeowners rates a little later than I think we did in some -- a few early adopters. So my expectation is that we will no longer be alone in the marketplace taking rate, that -- now that many of our competitors, even though you may think of them as auto-only competitors, they're offering nonproprietary homeowners products in an attempt to bundle. So even those traditional auto-only companies are getting some of these collateral impact on the raising of homeowners rates. And that's especially true for that market segment, the personal touch loyalists who prefer to bundle their products and aren't looking for independent providers of their individual insurance products.

Thomas J. Wilson
Chairman & CEO

Can I -- let me add to that. I think as you're thinking about growth, really should start with looking at a different customer segments, begin the analysis there, then drop into products. So as Matt just said, the Allstate Agency service those people who want local advice assistance, want branded products by bundles, like bundled product. And so when you're looking at the efforts to maintain homeowner returns, at the same time, you try to grow your auto business and obviously compound that. And of course, we have our issues in New York and Florida. If you look at Esurance, on the other hand, that's the self-serve side of that matrix. You can see that Esurance is growing and competing effectively with GEICO and Progressive. And then if you look on the Encompass side, that was -- we will not turn that business. They've gotten a lot smaller. That was really our issue. We've changed leadership. I don't think we've got it all in the right -- it's headed in the right direction, but we don't have it fixed yet. So I think, really, as we're thinking about growth in the future, it's helpful to set that in the context the way Matt did of who are the customer groups that you're serving and how do you grow within that customer group.

Michael Zaremski
Crédit Suisse AG, Research Division

Okay. And just -- sorry, real quickly. So in terms of Matt said taking rate actions in auto, there's this chart on Slide 5 that shows about 4% rate changes. And then how do I reconcile that with -- in the supplement, Page 18, it shows about 5.5% rate increases in auto.

Matthew E. Winter
President and President of Allstate Insurance Company

I think the -- on Slide 5, you're talking about approved rate changes. And I think in the supplement, it's what's been earned in?

Robert Block

No. The difference is, the 5.8% -- this is Bob -- that you see in the supplement, that's where the -- that's the average of the rates taken in the state specific. What's on the chart is the 4 quarter moving countrywide impact of rates. So they're 2 different numbers.

Michael Zaremski
Crédit Suisse AG, Research Division

So would the supplement be kind of a more leading indicator that you're accelerating?

Robert Block

No. If you took the 4 quarters of the supplement for the countrywide, you'd get the 4%. And add them up, you'd get close to 4%.

Operator

Our next question is from Bob Glasspiegel of Langen McAlenney.

Robert Ray Glasspiegel
Langen McAlenney

On the auto, I thought the frequency and the severity trends in total were quite benign. And with Progressive's commentary and GEICO reporting over 100, there's some nervousness about what's going on in auto. I mean, you've been reporting steady 7 to 8 points better than the industry, auto underwriting and contracting. I'm just trying to understand the difference between what you're seeing and they're seeing. I'm wondering if the fact that they're growing much more rapidly and you're contracting could be feeding into it.

Thomas J. Wilson
Chairman & CEO

Bob, this is Tom. It's hard to comment on what other people's results are. I mean, obviously, I think Progressive got hit with some reserve changes that they had to make down in Florida. I can't speak to

GEICO since they're not -- they don't publicly disclose all the stuff that you can really go over. I would say, when you look at our practices in auto insurance, we pay attention to it at a very local level. We have good operating discipline around it. We're watching the trends. You see that the countrywide ones, the frequency is down, but a lot of frequency is down because of New York and Florida. So we're looking at a level below that. Matt and his team are on top of that, so they have a number of places where they are managing rate. That's why you see some -- 10 states had some increases. So we believe in small frequent adjustments rather than large and infrequent in terms of managing our business from a customer standpoint.

Robert Ray Glasspiegel
Langen McAlenney

Okay. Just a bookkeeping question. You have $4.6 billion of limited partnerships. What's the amount of that, that's impacted by the EMA geography change?

Thomas J. Wilson
Chairman & CEO

About 60% of that is impacted by the EMA. I think it's about $2.5 billion.

Robert Ray Glasspiegel
Langen McAlenney

And the split between PC and life of those 2?

Thomas J. Wilson
Chairman & CEO

PC is about 2/3, life is about 1/3. You can see that in the underlying numbers. In the 10-Q, we have those splits.

Robert Ray Glasspiegel
Langen McAlenney

PC is bigger?

Thomas J. Wilson
Chairman & CEO

PC is bigger. Yes.

Operator

The next question is from Josh Shanker from Deutsche Bank.

Joshua David Shanker
Deutsche Bank AG, Research Division

Looking at the policy count to client in homeowners, it was negative $110,000. And I want to know, where are you in reshaping the homeowners portfolio through risk management and price increases? How many years until we get to stability? And I also noticed that the decline in auto was a little higher but about the same. Is it possible that Allstate's begun to grow in unbundled homeowners policies?

Thomas J. Wilson
Chairman & CEO

Josh, you broke up on a few of those, but -- so -- but I think we got it. Matt, do you want to...

Matthew E. Winter
President and President of Allstate Insurance Company

Yes, I think I heard enough. If I start answering a different question than you asked, please [indiscernible].

Joshua David Shanker
Deutsche Bank AG, Research Division

I can ask again if you want. Look, you guys can take it for what you want, and I'll steer you if I get misdirected.

Thomas J. Wilson
Chairman & CEO

Okay, good.

Matthew E. Winter
President and President of Allstate Insurance Company

Okay. Now I lost my train of thought on what your original question of the...

Joshua David Shanker
Deutsche Bank AG, Research Division

Homeowners reshaping the portfolio, where are we in the long-term process? And are you growing in unbundled auto at this time?

Matthew E. Winter
President and President of Allstate Insurance Company

Okay. So I don't think it's prudent for me to guess a percentage of how far we are along in our path. I would say we've made significant progress in taking a look at our homeowners offerings on a state-by-state and region-by-region and even locality basis to determine where we believe we have long-term prospects of making an acceptable return for the acceptable level of risk. And we began that process and have done a great deal of work there. As a result, we're making decisions about those areas where we will begin offering nonproprietary homeowners products and brokering products so that we can serve our customers with a complete portfolio but not necessarily always with an Allstate-branded product. And so we are doing a fair amount of work in our brokering operation and on our E&S segment to take a look at more, I'd say, more of a refined view of looking at our markets and determining what product should be offered where. That takes some time. It takes some time to build up the brokering capability, to build up the linkages from a technology standpoint so we can serve those customers the same way we would serve customers with our Allstate-branded product. And we are, I think, making excellent progress there. To your unbundled question, look, homeowners is often the lead product in our marketplaces. In some areas, it is their #1 go-to customer product and then they follow with auto. It is possible that we are seeing some areas where they're getting homeowners products, and for whatever reason, we do not then get to follow on auto. But our focus and our incentives and our goal is to provide a bundled product offering, deep relationship with multi-products to our customers, so they can get the true full value of working with an Allstate agent.

Thomas J. Wilson
Chairman & CEO

Josh, this is Tom. Maybe to give you a little longer-term perspective, too. In 2005, I think it was after Katrina, we looked and said, "Should we get out of the business?" And we broke it into 3 buckets: one was make it cats, hurricanes and earthquakes; two was non-model cats; and three was just sort of the normal slip, fall, low severity, high-frequency events. And so we went off at all -- we went at all 3 of those components. We went first at the cat thing. I would say we made tremendous progress here, and we're pretty close to being where we want to be. But there are a few states where we still got some more work to do. But we like what we've done in Florida, what we've done around the coast. We're down over 1 million policies in homeowners as a result of many of those changes. The second piece was non-model cats. That's the part that popped really in '08, '09, '10 and '11. And as Matt said, we've been hard at work on that for the last 3 years, and I totally agree that it's hard to predict when that one will be done because you got to figure out what the weather will be in the future. And then the third piece was just the normal slips and falls. And we got a little behind in '08, '09 as cost increases due to commodity prices and oil prices spiking in those periods. Our actual underlying severities on non-catastrophe-related stuff went up. So I feel like we've made a lot of progress on that piece, too. So I would say #1 and #3, we're pretty far along, and #2, a little harder to sort out. About 75% or so of our homeowners business that's written comes with another product. So we're not there. That said, we'd like -- as Matt said, we'd like it to be a lead line. When Matt and his team get this -- get house and home rolled out, get the pricing right, we believe that being a provider of a wide variety of products for that personal touch loyalist customer who likes to bundle stuff will be a competitive advantage for us.

Joshua David Shanker
Deutsche Bank AG, Research Division

And quickly on Florida and New York. The loss ratios were off the charts. Have you overshot the mark in terms of your -- trying to get profits out of there at the expense of new customers?

Matthew E. Winter
President and President of Allstate Insurance Company

No, I don't believe we've overshot the mark. I think that those 2 markets are obviously extremely volatile and extremely difficult. We have challenges there on the regulatory and legislative side. We have some challenges in some of the PIF trends. We've taken firm and decisive action there. I do not believe we've overreacted there. We're trying to reposition and stabilize and ensure that when we begin growing, that it is all profitable growth. And so I actually think the team and the agents in those 2 regions have done exceptionally well in managing through very difficult circumstances and still maintaining good customer relationships and good customer satisfaction. So I don't feel like we've overshot the target. I think that we're -- we've hit pretty much a bull's-eye on both of those, and we'll continue our efforts in a careful, disciplined way.

Thomas J. Wilson
Chairman & CEO

And there were some reserve changes, too.

Operator

Our next question is from Jay Gelb from Barclays.

Jay H. Gelb
Barclays PLC, Research Division

I was wondering if you can talk about -- excuse me, 2 issues, first, in Allstate brand standard auto have. How much time do you think it will take to turn the corner to get to flat on PIF? And then my second question is on Esurance, with the 128 combined ratio and about a $50 million underwriting loss. I'm just trying to get a sense of when you feel we might see signs of improvement there and maybe even heading towards breakeven on the underwriting front.

Thomas J. Wilson
Chairman & CEO

Jay, we don't want to do forecast of growth, so we're working our way through it. Unfortunately, I'm not going to give an answer on when we expect that to turn, but we are obviously hard at work. Matt's team segment said we do provide some information on where we're growing outside of areas where we have big challenges, like New York and Florida. On Esurance, there's a bunch of our purchase accounting stuff in there, so the combined ratio is really 106 when you strip out all the other stuff. And we do provide -- we added a new sheet to the investor supplement which has the loss ratio in it, which should be able to give you the -- a bill, which is Page 26. And you can -- we show in there the loss ratio, and you can see the loss ratio is down at 73. And then you can look at the -- what we spend in marketing, and you could do some estimates. We do that so that you can see that we believe this is -- we're riding it at an economic rate, that we're not just growing and funding by giving the business away.

Jay H. Gelb

Barclays PLC, Research Division

How long does that amortization expense continue on the Esurance business?

Robert Block

Less than 5 years.

Jay H. Gelb
Barclays PLC, Research Division

Okay. And then on the PIF, I understand where you're coming from. Can you -- I don't know if you disclosed what the auto -- Allstate brand standard auto PIF change would have been, say, x New York and Florida or x the underwriting actions taken in homeowners.

Thomas J. Wilson
Chairman & CEO

You can see the first piece, you can't see the second piece. But you should assume that Matt has depth and understanding behind his comment that in those places where we take homeowner rates above 10%, we have growth challenges in those places where it's less than 10%, and we feel pretty good about our business.

Matthew E. Winter
President and President of Allstate Insurance Company

Yes, the only thing I'd add, Jay, is it gets lost here, but we did grow auto at year-over-year first quarter in 24 states. So a lot of what you see is an aggregation, driven by a couple of large states with a lot of rate action taking place there that is causing a decline.

Operator

The next question is from Alison Jacobowitz of Bank of America.

Alison Marnie Jacobowitz
BofA Merrill Lynch, Research Division

Most of my questions have been touched on, but I was wondering if you could talk some maybe about some of the smaller operations you have like Encompass and maybe the non-standard side. Is there any opportunities there to turn things more dramatically around?

Thomas J. Wilson
Chairman & CEO

I'll start with, what we would call, Alison -- I'll start with what we would label as our emerging businesses. Don might want to talk a little bit about some further growth in Esurance, other things we can do there. Matt can talk about non-standard, because there's a number of places we are pushing on growth. And coming back to our customers, we do believe that our customers want to buy in the Allstate channel a wide variety of products. So we're doing quite well in motorcycles right now. We need to do better in a wider variety of stuff. We're doing great in Good Hands Roadside, which is our "pay as you go" roadside thing that we launched on a national basis as part of Grow to Win last year. And so that business has, what we would call, consumer household business, and our motor club business are doing well. We think we can continue to accelerate growth in those areas. Encompass is -- when you look at over the last 4 years, Encompass is a significant portion of the decline we have in total premiums. We did not properly position that business in that channel, which are people who want local advice but are less concerned about who the company is, and they tend to be a little more price sensitive. So our -- we got the wrong business, we got it through the wrong agency owners. We've repositioned that business. You see a small growth in that business in the first quarter of this year. I'm not satisfied that we have that completely positioned yet to grow. They have more work to do, but we believe there's upside there because if we just get back what we lost, we'll pick up about $700 million or $800 million premium. So that's a good growth. Don, I don't know if you want to talk about potential to add products to Esurance and the positioning of the risk profile in terms of preferred. And then, Don, maybe you can go to non-standard and then if you want to say anything else.

Don Civgin
President of Emerging Businesses - Allstate Insurance Company

Yes, Alison, it's Don Civgin. We've only had Esurance for one full quarter now. But I would tell you, I think we are just as happy as the day we made the announcement, if not more at this point when we look at what the opportunity -- the breakout opportunity to your question is with Esurance. A lot of good things are taking place. The integration is going quite well. Some of that is going to be efforts to reduce costs so that we're taking advantage of scale and process improvements and claims. Contract renegotiations have been very fruitful as well. Tom's right, I think we're looking at launching a series of new additional products for Esurance, increasing the number of states that they will be operating in, because if you recall, when we acquired them, they were not in all 50 states. And we are adding the benefit of our kind of deep pricing knowledge, particularly as it relates to our customer segment just a little bit different than theirs. So none of that's rolled out yet. It's all going to be part of the customer value proposition over the next year or 2 as it grows. But I would tell you, even in the first quarter -- now we don't report year-over-year results because we didn't own them a year ago. But if you look at their gross written premium compared to when White Mountains reported them last year, they're up 6.5% in the first quarter. So that's the result of some advertising and a new campaign and so forth. But when you ask us their breakout opportunity, I think there's a substantial opportunity for Esurance as they build the value proposition around their customer.

Matthew E. Winter
President and President of Allstate Insurance Company

This is Matt, Alison. I'll touch on non-standard a little bit. We've shown a slight improvement in new business over the prior year. We stabilized the Allstate blue states, and we've had a little bit of a surging new business in the non-Allstate blue states. But nevertheless, those 30-day retention continues to decline, and our items in force continue to decline. We've slowed that down a little bit. I've asked our group to take a very long, hard look at ways of getting more substantially back in, what I'll call, the near non-standard or the near standard niche here, possibly not the full non-standard all the way down market, but those borderline cases. And so we will do a fair amount of work over the next 3 to 6 months to assess our opportunity there. It's an area that I think has great long-term potential if done right. And if done in a disciplined, careful manner, which includes some variations on the business model and how you bill and how some of the underwriting rules are executed, and so I see it as a growth opportunity that we should be very careful about how we tap into so that we do it right. Because as I said before, growth without the profitability could destroy shareholder value, and we're about building shareholder value.

Operator

Our next question is from Dan Johnson of Citadel.

Daniel B. Johnson
Citadel LLC

Maybe could you put around a little more insight into the alternative asset strategy that you've moved the accounting a little bit on? Just tell us a little bit about how big and what you're interested in doing there, and then maybe just an update on the agent consolidation strategy. Can you throw us some numbers in terms of where you're at on that?

Judith Pepple Greffin
Former Chief Investment Officer of Allstate Insurance Co. and EVP of Allstate Insurance Co.

So, Dan, it's Judy Greffin. And I can talk a little bit about what we're doing in alternative and private assets. So if you think about where we are today, we have a mix of private equity, private real estates, real assets and infrastructure, as well as hedge funds. And we've had a long-standing program in private equity. We continue and expect to have a long-standing program in private equity, don't expect that one to grow that much over the next 12 to 24 months. Private real estate and real assets and infrastructure, though, we are growing those. We look at those as an opportunity to own some good assets, as well as assets that generate some cash flow. So we look at that and say, "That's a nice alternative in this low rate environment, selling some assets directly." And then within hedge funds, we have reduced our exposure to hedge funds and expect that we'll look at that more opportunistically into the future. So that is the total of those assets. And the reason why we're increasing the real assets and real estate, really has to do with not just the low interest rate environment but also the strategy for Allstate Financial, which we talked about earlier. And we look at those assets as a nice fit to our long-dated liabilities and see that as a long-term asset choice for us.

Steven E. Shebik
CFO & Executive VP

Dan, this is Steve. What Judy has described is really the reason we moved the EMA income from realized capital gains up to the net [ph] investment income. It's really much more closely aligned with our operating income than it has been for the last several years.

Daniel B. Johnson
Citadel LLC

Do we have the historical data set on that, like if we went back into the AOCI or something, can we see the sort of earnings that have generated from those assets?

Thomas J. Wilson
Chairman & CEO

Yes, you can see that in the investor supplement and the 10-Qs going back by year and by quarter.

Daniel B. Johnson
Citadel LLC

Great. And Judy, in terms of sort of new money yields on more traditional fixed income investments, what are we seeing today versus the average yields?

Judith Pepple Greffin
Former Chief Investment Officer of Allstate Insurance Co. and EVP of Allstate Insurance Co.

So our new money proxies for the property and casualty portfolio, which we keep around a 5-year, it's around 2.75. New money proxy for Allstate Financial was a little bit longer. It's around 3.5.

Thomas J. Wilson
Chairman & CEO

And Dan, I'll make an overall comment on the agency consolidation, and Matt might want to talk about some things he has going on. First, the agency consolidation makes it sound like we don't want everybody. Everybody counts. You can be a big agency, you can be a middle agency, you can be a new agency. We are seeking to have all of them be more successful on behalf of our agency -- of our customers. And so we have programs around there. I think the net of that is, some people have chosen to leave, so we have a fewer. But it's not as -- it's not like we're trying to get rid of a certain class of agencies. If you're taking care of our customers who are happy, we have to help you, support you, because bigger agencies do have more capabilities. So we're helping build [indiscernible] going to help build the efforts for the capabilities for other agencies as well. Matt, maybe you want to talk about some of that.

Matthew E. Winter
President and President of Allstate Insurance Company

Sure. So at a high level, there's such a diversity in markets and geographies that we cover that having some artificial numbers about what is the appropriate size agency just makes no sense in a system like ours. So what we're all about doing, and what Tom was referring to, is creating an economically viable agency that's able to appropriately serve their customers and grow and develop so that these are vibrant businesses that are really serving Allstate customers the way they deserve to be served. And so we're allowing the economics of the system to drive things. And so in a lot of cases, we have smaller agencies that see a path to getting to the right size for them and their geography to be supportable. And we're helping them every step of the way, and we'd love them to grow. So we don't really have, in my opinion, an agency consolidation strategy. We have an agency help strategy to help all of our agencies become vibrant, economically self-sufficient and capable of serving customers. Next week, in Las Vegas, we have a conference. We have opened up that conference. It was typically a recognition conference for people who achieved a certain level of production. We've opened it up to additional non-qualifiers who are paying their own way to go there. And we have over 4,000 attendees from agency owners and exclusive financial specialists who have attended, of which 44% of them are paying their -- I'm sorry, 44% of them, this will be their first national conference of any type, which is very powerful. It's an opportunity for people who have not achieved levels of success that would have allowed them to attend a recognition conference before, be around people who have and learn best practices from their peers and colleagues, exchange ideas in how to approach and serve the marketplace. And so we're really excited about that. And we, in fact, have workshops and seminars available for every size agency there to help them all be successful. So I think we did a bad job previously on explaining our strategy, if you think of it as a consolidation strategy because I don't think...

Daniel B. Johnson
Citadel LLC

Yes, I apologize for belaboring the question. I thought the idea was to bring larger scale to the agencies to help drive a customer satisfaction, which had waned a bit but also basically economic efficiencies.

Thomas J. Wilson
Chairman & CEO

Yes, that is true, Dan. And certainly, the bigger they are, the better and easier to do that. But I think what got lost in that translation was we can do some of that centrally for our agencies, so that even if you only have 1,800 accounts, we can make you look and feel like a 3,000-account agency.

Operator

Our next question is from Adam Klauber of William Blair.

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

My question is around buybacks. You're obviously making more money. You have additional debt capacity, and the life exposures are shrinking. What's the possibility to accelerate the current buyback? And longer term, what's the potential to actually increase the level of buyback?

Thomas J. Wilson
Chairman & CEO

Well, I think if you look at our track record, you can see if we don't have a good use of the capital, we give back to shareholders. This -- we do see -- you're correct in saying this is an accelerated pace on this one, this billion dollar program, which should be done by February '13. And we're obviously ahead of pace on that. We saw the stock was so cheap, we just thought we ought to be buying it back faster so, we rushed and did it. We're making good money, we still have -- when we get done with this authorization, then we'll figure out where we're going next.

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

Okay. And one quick follow-up. You show that Texas auto loss ratio popped up. Is that tornadoes, or is there some other issue in Texas?

Matthew E. Winter
President and President of Allstate Insurance Company

It's cats and weather. It's tornadoes, it's hail, and it's actually rain in some areas.

Operator

Our next question is from Alan Straus of Schroders.

Alan Straus

Yes. Given the powerful cash flow, is the notion of issuing the preferred off the table again? Or is it still out there and you're thinking about it?

Thomas J. Wilson
Chairman & CEO

Alan, this is Tom. When we announced the billion dollar share repurchase, we said there were 3 places we would source the capital from. First was we had a deployable capital at the holding company level. Second, we said we obviously will have earnings. And we said if those are not enough, then we will issue the preferred. Obviously, given what's happened with earnings, we haven't seen the need to do that, so we're -- we don't feel like we need to issue it at this point in time.

Operator

Our next question is from Ian Gutterman of Adage Capital.

Ian Gutterman
Adage Capital Management, L.P.

Just 2, if I may. The other personal line segment, Tom, the combined x cats, x development, it was the best in, I think, 5 years. Can you just talk about what went on in that line? And then do you know just is that trendable, or were there some onetime benefits?

Thomas J. Wilson
Chairman & CEO

Overall personal line?

Ian Gutterman
Adage Capital Management, L.P.

The other personal line segments, so the non-auto, non-home.

Thomas J. Wilson
Chairman & CEO

Other personal line. I would say 1 quarter does not make -- they had a good quarter. I think we -- but there are some portions of that business that are not operating as well as we would like them to be, so for example, in there, you have manufactured housing and a few other things, so -- which were not yet well priced on. We have some businesses that we like a lot, so there's 7 or 8 things. They're headed in the right direction. Last year, we had an underwriting loss on those businesses in large part because of catastrophes. But even when you exclude catastrophes, we thought we could run a higher profit margin in those businesses, given where the competitors are. And so we have some work to do still. But we feel good. They had a good quarter, so we're happy about it.

Ian Gutterman
Adage Capital Management, L.P.

Any particular lines that drove the performance, motorcycles or commercial or anything like that? Or was it kind of broad-based?

Thomas J. Wilson
Chairman & CEO

No, it's pretty broad-based.

Ian Gutterman

Adage Capital Management, L.P.

Okay, great. And then just one other one. On the idea of turning around the PIF, and honestly, I'm not trying to pin you down on a number or timing. But just sort of what initiatives are going to drive it? Obviously, you talked a little bit about the agency issues and -- but beyond that, I mean, are New York and Florida now able to start growing? Are they fixed enough where you feel like you can start turning up the market support there? I think you mentioned in your prior meeting about expanding the bull's-eye a little bit, I guess, to try to target some more customers who maybe haven't been a good price PIF before. What are sort of the initiatives that we're going to see? When PIF gets better, what are going to be the reasons?

Thomas J. Wilson
Chairman & CEO

I would say, Matt and his team have a whole variety of initiatives going on relative to growth, most of which you've talked about. The one that is not -- we haven't spent as much time talking about either on the positive or negative side is retention. And part of Grow to Win, which I think I've mischaracterized publicly, Grow to Win was really a one task of component of our overall business strategy. And then we had more marketing programs for customers. We wanted to launch Good Hands Roadside on a national basis, we wanted to do a number of local programs to engage agencies in growth. And we had a program focused on retention, which we had our employees calling out on behalf of the agencies. We called 1 million customers. And so the retention part is something that we're hard at work on. It's a little difficult when you're doing things like New York and Florida and you're raising homeowner rates to get overall retention, but I would say that's the other part of our growth program, which you didn't mention, and then Matt talked about non-standard. I don't know if there's anything else you want to add.

Matthew E. Winter
President and President of Allstate Insurance Company

Yes, I guess you mentioned broadening the target, and in fact, we are rolling out some refinements to our auto pricing state-by-state that will have the impact of broadening the target in the first state that it rolled out in, the first pilot. It improved close rates by just over 2 percentage points. So that was very encouraging. We have a carefully thought-out rollout plan for this year of -- about capability. Don't forget, we also have Claim Satisfaction Guarantee that's being rolled out. We have a tremendous number of initiatives. We're trying not to overwhelm the field with initiatives, yet provide growth-oriented initiatives where they're most needed. And my firm belief is, as the need for taking rate and doing reinspections and rate reclassifications, et cetera, diminishes, it will free up agent time and the agent capacity to focus on the things they like doing the most, which is growing and serving their customers. So we feel like the trend line is good. It's hard to tell you exactly when we're "ready to grow" in New York and Florida, but we're on the right path.

Ian Gutterman
Adage Capital Management, L.P.

Matt, does it feel this is a particularly good time to be broadening that appetite, given 2 of your largest competitors seem to be pulling back a little bit due to their margin issues?

Matthew E. Winter
President and President of Allstate Insurance Company

Yes.

Operator

Our next question is from Vinay Misquith of Evercore.

Vinay Gerard Misquith
Evercore ISI, Research Division

On the homeowners, we've seen a decline in frequency and severity. How much of that was because of the underwriting actions you've taken? And can we expect to see that in the future?

Matthew E. Winter
President and President of Allstate Insurance Company

Yes, Vinay, I mentioned earlier that whether it's 60-40 or 50-50, some percentage is temporary due to weather in cats and some is very sustainable due to rates, inspections, correct class actions, non-renewals, the actions we're taking to ensure that we're increasing, what I'd call, the underwriting muscle in that line. And so I think it's very sustainable, and I think we're feeling very good about it.

Vinay Gerard Misquith
Evercore ISI, Research Division

That's great. Just a follow-up for New York and Florida personal auto. Those states seem to be fixed. When do you think that you guys can start having a flatter PIF growth in those 2 states?

Thomas J. Wilson
Chairman & CEO

Everyone keeps circling around this one. If you look at the business model and the way it renews and the way the customer flows work, it takes a while to overcome declines in retention and declines in the new business. So I don't think you should expect to see those turn around soon. We're obviously working on them. They're different in each market. Florida's got some new legislation passed, although it's also got some pricing components to that, so we're kind of watching that one closely. New York, we feel good about the operational position, wherein it's a little less fluid in terms of being able to adjust if you don't have it quite right. And we have a relatively sizable decline in both retention and new business here. Now we've rolled out some new pricing in New York. But -- so we're about growing in the right way, but I don't think you should expect to see us start talking about growth, including New York and Florida being up in the near term.

Operator

Our final question today is from Brian Meredith of UBS.

Brian Robert Meredith
UBS Investment Bank, Research Division

I'll just be a quick one here for you all. On the paid severities going on in the quarter, I know last year -- last quarter, you talked about used car parts and replacement [ph] causing that to kind of move up. Is that still the case? And do you think that's going to continue here for another couple quarters, or is it kind of an aberration here?

Matthew E. Winter
President and President of Allstate Insurance Company

This is Matt, Brian. Well, yes, we saw the third consecutive month that the Manheim Index showed an increase in used car prices. So, in fact, every month of that quarter, we saw an increase in used car prices, which certainly drove some of it. We also remember had a very good weather quarter, which decreased the number of small fender benders. So the accidents that occurred tended to be the larger ones not related to weather. And I'd say that's the predominant piece. BI is moving along with the relevant index, the medical CPI. And PIP is within our expectations. So the thing that we're pretty focused on is PD severity. Frequency looks relatively benign with gasoline prices and the continued benefits from New York and Florida.

Thomas J. Wilson
Chairman & CEO

Brian, this is Tom. If you want to look at used car prices over a longer period of time, there are some measures out there, and what you would see is from sort of 1999 to 2009, they kind of were down to slightly flat over that entire 10-year period, which, of course, happen to coincide with massive amounts of new car production sales in the United States. Of course, then in '09, when new car sales went way down, then you saw the opposite. So you could [indiscernible]. Our job is not to predict that but is to react to it, and that's exactly what Matt's team is doing.

Okay. Well, thank you, all, for joining us today. We're off to a good start in 2012, but we obviously have more work ahead of us this year. But we do have our 4 priorities we're focusing on, which is maintain auto profitability, raise returns in homeowners and annuity businesses, grow insurance premiums and then proactively manage our investments and capital. Successful execution of those will keep driving shareholder value up. Thank you, and we'll talk to you next quarter.

Operator
Ladies and gentlemen, thank you for participating in today's conference. This concludes the program. You may now disconnect. Good day.