S&P Capital IQ

CONTENTS

The Allstate Corporation NYSE:ALL

FQ4 2012 Earnings Call Transcripts

Thursday, February 07, 2013 2:00 PM GMT

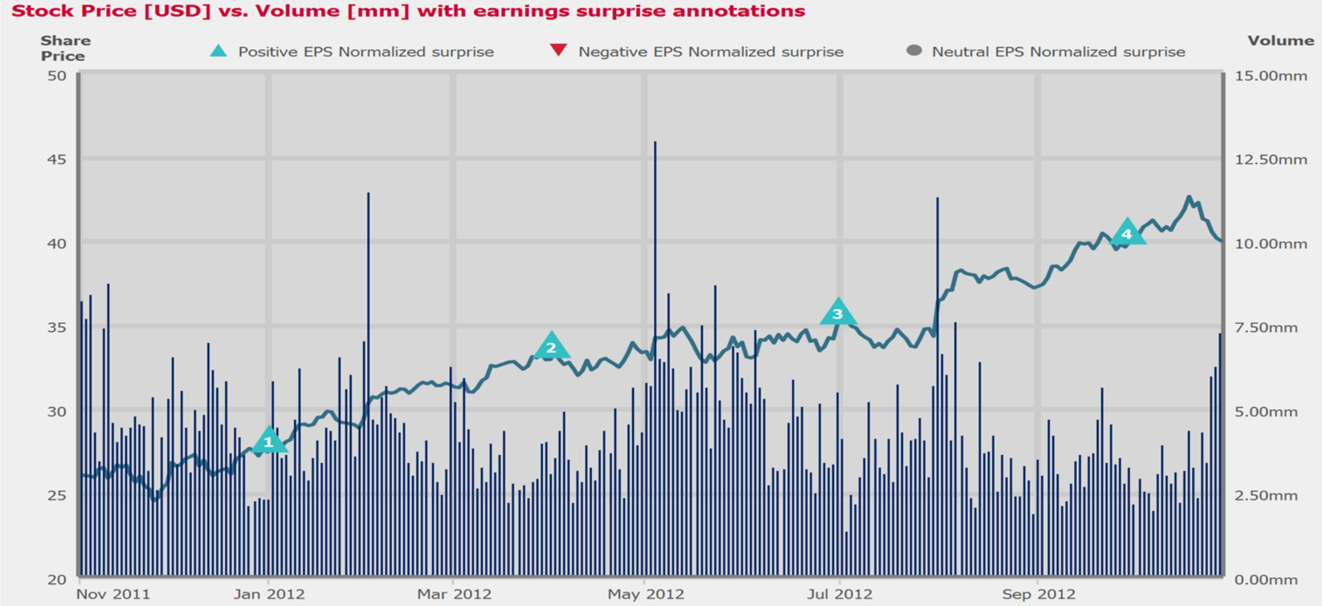
S&P Capital IQ Estimates

	-FQ4 2012-			-FQ1 2013-	-FY 2012-	
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	ACTUAL
EPS Normalized	(0.06)	0.59	NM	1.22	3.71	4.36
Revenue (mm)	6703.90	6744.00	▲0.60	6753.00	26724.98	26737.00

Currency: USD

Consensus as of Feb-07-2013 1:28 PM GMT

Stock Price [USD] vs. Volume [mm] with earnings surprise annotations



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ4 2011	0.96	1.48	▲1 54.17 %
FQ1 2012	1.10	1.42	▲2 29.09 %
FQ2 2012	0.57	0.87	▲3 52.63 %
FQ3 2012	1.12	1.46	▲4 30.36 %

Call Participants

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Presentation

Operator

Good day, ladies and gentlemen, and welcome to The Allstate Corporation Fourth 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, Investor Relations. Sir, you may begin.

Robert Block

Thanks, Matt. Good morning, everyone. Thank you for taking the time today to be part of our Fourth Quarter 2012 Earnings Conference Call. We'll begin with some brief commentary on our results from Tom Wilson, Steve Shebik and me, followed by a question-and-answer period. On the call with us today are Don Bailey, Head of Emerging Businesses and Encompass; Don Civgin, Head of Allstate Financial and Insurance; Judy Greffin, our Chief Investment Officer; Sam Pilch, our Controller; and Matt Winter, Head of Auto, Home and Agencies.

Last night, we issued our press release and investor supplement, as well as posted a slide presentation to be used in conjunction with our prepared remarks. These are available on our website. We plan to file our 10-K for 2012 by the end of February.

Beginning with the first slide, 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 third quarter of 2012 and our most recent press release for information on potential risks.

Also, this discussion will contain some non-GAAP measures, which there are reconciliations in our press release and on our website. Recording of this call and a replay will be available following its conclusion. I'll be available to answer any follow-up questions you may have once this call is completed.

Now, let's begin with Tom.

Thomas J. Wilson
Chairman & CEO

Well, good morning, and thanks again for your interest in Allstate. Today, I'll cover our results in relationship to our strategy in 2012 priorities, then I'll cover our priorities for 2013. Bob will cover our business unit results and Steve will cover investment performance and capital management.

But before we go through 2012, let me just update everybody on Sandy and the progress we've made in helping our customers restore their lives. So as you know, Sandy was a huge storm, affected an enormous heavily populated area and of course, many of you, personally. We're one of the first insurance companies on the scene to help our customers. With our mobile units, we often got to customers' homes before they even called us. Now we received about 170,000 claims to date and we've closed 98% of the claims reported. We paid about 95% of our expected net losses. Now we did update our initial loss estimate, which was, as you'll remember, $1,075,000,000 to $1,117,000,000. That's $42 million increase. And our losses, of course, would have been significantly higher had we not taken the actions we did due to catastrophic exposures over the prior 6 years.

And of course, while the numbers are large, the real significance is the fabulous work that the Allstaters had done for our customers, whether that's our claim professionals, our local agency owners or the thousands of other key members across the country that sort of rose to the occasion, helping those people rebuild their lives. We're very proud of what we've gotten accomplished, and we know our customers are happy as well.

Our customer-focused strategy is to provide unique products and services to distinct customer segments, which is based on their preferences for price, service and delivery channel. That's shown on Slide 2. You can -- there's the 4 segments we have there.

The Allstate brand serves customers who prefer local advice and assistance and branded products. That's in the lower left side of that slide. In 2012, we introduced our expanded -- or expanded new products and services like Claim Sat Guarantee, Drive Wise, Good Hands Roadside and House & Home to differentiate Allstate from the competition.

The Allstate brand profitably grew the top line in 2012, primarily on the strength of increased average premium for auto and homeowners. It generated a total underlying combined ratio in the mid-80s. Now policies in force did decline for the full year. But in the fourth quarter, we began to reduce the negative impact of auto profitability improvement actions in New York and Florida and our long-term program to raise returns in the homeowners business.

Allstate brand premium growth did accelerate at the end of the year in auto, homeowners, Emerging Businesses and Canada.

Esurance, which serves the self-directed customer segment in the lower right, continued to exceed expectations from the top line perspective, producing net written premiums over $1 billion for the year and unit growth of 31% year-over-year. The combined ratio remains elevated given the rapid growth, but we continue to monitor the long-term profit estimates and adjust pricing as needed, and we're comfortable with the economics of that business.

The advice-seeking brand new to our customer segment is in the upper left. That's served by Encompass, which of course distributes to independent agencies. Our strategy is to serve this market with a differentiated package policy. That gained traction throughout 2012, with top line growth of 5.3% compared to 2011 and 8.2% in the fourth quarter versus the fourth quarter of 2011.

The underlying combined ratio was 96 for the year. But given the property risk in that business, we need to further improve profitability in that segment.

Answer Financial is in the upper right. That serves self-directed brand neutral customers. That's broker and policies, some leads received from Esurance and third parties. This business generated nonproprietary premiums, which don't show up in our top line of over $400 million for the year. This represents an increase of 9% from 2001.

So these results show that our strategy of providing differentiated products and services to a unique customer segment is working.

We also had strong operating results in 2012 as shown on Slide 3. On a consolidated basis, we generated $2.3 billion in net income. That's an increase of $1.5 billion from 2011.

[Technical Difficulty]

Thomas J. Wilson
Chairman & CEO

Excuse me, is somebody not on mute? Okay. Well, with that weather forecast let me keep going. So operating converted $2.1 billion. Our book value per share rose over 17% to $42.39 per share. That's at the year-end 2012. We produced a net income return on equity of 11.9% and an operating income ROE of 12.4%.

The underlying property-liability combined ratio was 87.2, which compares favorably to our outlook range of 88 to 91 at this time last year. That was a result of both excellent execution and favorable weather.

As we discussed throughout 2012, we have 4 priorities for that year: One, maintain our profitability; two, raise returns in homeowners and annuity businesses; three, we want to grow insurance premiums; and four, proactively manage our investments and capital. And we accomplished all of those goals last year.

We maintained auto profitability with an Allstate brand standard auto combined ratio of 96.1, which is a slight increase from 2011. That's primarily due to the effects of Sandy. The underlying combined ratio for the Allstate brand standard auto was 94.0, which is compared to 95.3 in 2011.

Homeowners profitability was improved with an underlying combined ratio for the Allstate brand homeowners of 65.1. That's a 5.8% -- or 5.8 point improvement from 2011. The recorded combined ratio for the year was 88.0, which included Sandy and the other catastrophes we experienced throughout 2012, but it was helped by prior year catastrophe reserve releases. This result shows that our efforts over last 4 years are working. We also benefited from milder-than-expected weather outside of catastrophes, which we do not expect to be the case in 2013.

Annuity returns also improved on strong limited partnership income results. That said, low interest rates will continue to put negative pressure on returns from this line.

In total, property-liability net written premiums grew 4% from 2011, as we just discussed. Additionally, issued life insurance policies through the Allstate agencies increased 9.3% for the year, while Allstate Benefits grew new business written premium by 6.5% over the prior year.

Our investment portfolio generated a total return of 7.3%, reflecting proactive portfolio actions and the decline in interest rate. Portfolios have been supported by strong limited partnership, results mostly offsetting the downward pressure caused by lower reinvestment rate.

From a capital management perspective, we repurchased $910 million worth of our shares in 2012. That's completing the $1 billion buyback we started last year in 2011, and then we initiated another $1 billion buyback in December to be funded by issuing a light to modest subordinated debentures. When you add in dividends, we returned over $1.3 billion to shareholders.

Reflecting the confidence and the execution of our strategy and operating plans, we raised the quarterly dividend by 13.6% to $0.25 per share for the first quarter of this year, and we authorized an additional $1 billion share buyback to be completed by the end of the first quarter of 2014.

Looking forward for 2013, our priorities are very similar to last year's but with an increased emphasis on growth. If you go to Slide 4. They're to grow our insurance premiums, maintain our auto profitability, raised returns and homeowners and annuity businesses and proactively manage our investments. We're adding a fifth priority, which is to reduce our cost structure.

Now effective expense management has always be a part of our disciplined approach to business. We always work hard on keeping our expenses down. But given the difficult economic climate our customers are facing, we're adding this priority to heighten our focus on what customers are really willing to pay for.

Finally, in keeping with our practice to provide you with an outlook for our property-liability underwriting -- underlying combined ratio in 2013, we set a range of 88 to 90, which is 1 point narrower than last year's. This outlook reflects the more stable base of auto profitability and the actions taken to combine to erase homeowner rates, partially offsetting is an expectation for a higher non-catastrophe frequency with more normal weather.

And with that, I'll turn it over to Bob to cover the details of the business unit results.

Robert Block

Thanks, Tom. Let's review the results for property-liability in Allstate Financial. On Slide 5, which provides the details for property-liability net written premium and policies in force. For Allstate brand standard auto, at $15.7 billion. The net written premium was essentially flat for the year. We did post positive premium growth over prior year for the fourth quarter of 2012. Increased average premium and a slightly higher renewal ratio more than offset a small decline in new issued applications.

Units declined 0.9% from -- in 2012 from 2011 but sequentially were flat to the end of the third quarter 2012. We received approval for rate increases averaging 3.1% on a countrywide basis over the course of 2012, in keeping with our priority of maintaining auto profitability.

Allstate brand homeowners increased net written premium in the fourth quarter and the year by 3.4% and 2.8%, respectively. The quarter's result was driven by a 7.1% increase in average premium on a gross written basis and an increase in new issued applications, partially offset by a decline in retention. Approved rate changes averaged more over 6% in 2012 on a countrywide basis, as -- to improve the margins in homeowners.

Emerging businesses, Encompass, Canada and Esurance all contributed positive net written premium growth in 2012.

On Slide 6, we provide a breakdown of our combined ratio for the year and for the fourth quarter. And just a few points. For the year, we recorded a combined ratio of 95.5, an improvement of 7.9 points from 2011 as we maintained our margins in auto and significantly improved our margins in homeowners. The Allstate and Encompass brands saw material improvements in the recorded combined ratios in 2012, much of it coming from lower catastrophe losses.

The 2012 property-liability underlying combined ratio was 87.2, better than the range of 88, 91, which we provided at the beginning of 2012. In addition to maintaining discipline in pricing and claims management, we benefited from very favorable non-catastrophe weather during the year. Our 2013 underlying combined ratio outlook range is 88 to 90, and represents an improvement from the outlook we provided in 2012. It also factors in a return to more normal non-cat weather trends for the year.

Loss cost trends for the Allstate brand standard auto modestly improved in the fourth quarter of 2012.

On Slide 7, reported frequencies, bodily injury and property damage, which are shown in the upper left of the chart, declined 2.1% and 3.7% for the quarter -- from the fourth quarter 2011. For the year, frequencies for both coverages declined relative to 2011.

Paid severity, shown in the upper right, also moderated in the quarter with bodily injury increasing 5.2% and property damage increasing only 0.4%. For 2012, the paid severities for bodily injury and property damage increased 4.1% and 3.0%, respectively. When you add the results from the other coverages in auto with our rate actions over time, you get a fairly steady combined ratio result, as shown by the graph in the lower right-hand corner of Slide 7.

Maintaining auto profitability remains a critical priority for us and one in which we have a history of success, as depicted on Slide 8. In the top chart, we have posted an Allstate brand standard auto underlying combined ratio of 95 or better in every quarter but 2 for the 4 years shown in the chart. The chart at the bottom shows the improved results for average earned premium, which is the red line, and the very favorable loss trends in 2012, which is in -- the blue line, which we expect to moderate in 2013.

A similar set of charts are included for homeowners on Slides 9 and 10. Non-catastrophe loss costs remained below prior year levels in the fourth quarter, as reported frequency declined 10% while paid severity increased 6% compared to the fourth quarter of 2011, shown in the upper right on Slide 9.

With the loss cost trends declining and average earned premium increasing over 9% in the fourth quarter, the underlying combined ratio continued to improve to 62.4% in the fourth quarter of 2012. The 4.6 point improvement from the fourth quarter of 2011. For the year, the underlying combined ratio was 65.1%, 5.8 points better than 2011.

Referring to the chart in the bottom of Slide 10, average earned premium has steadily increased due to the impact of our rate actions taken over the last several years. The loss trend has been very favorable for the entire year, a trend we expect to moderate in 2013.

Moving to Allstate Financial on Slide 11. We've continued to focus on growing underwritten products sold through Allstate agencies and Allstate Benefits further reducing the concentration of the spread base products. This shift will improve returns.

Total premiums and contract charges on underwritten products increased 3.8% for the year and 4.9% for the fourth quarter. In 2012, issued life insurance policies sold through Allstate agencies increased 9.3% for the year and 11.9% in the fourth quarter relative to comparable periods in 2011.

New net written premiums produced by Allstate Benefits rose 6.5% for the year compared to 2011 and 13.3% for the fourth quarter, when a significant portion of the business is written as part of the annual enrollments season.

Allstate Financial generated net income of $541 million, a decline from 2011's net income of $590 million, driven by after-tax net realized capital losses in 2012 compared to realized capital gains in 2011, partially offset by a reserve release in 2012 associated with the nonroutine valuation adjustment for derivatives embedded in equity-indexed annuities and a 4.3% increase in operating income. The increase in operating income was due to an increase in the investment spread, driven primarily by the reclassification of equity method limited partnership income from realized capital gains to investment income beginning in 2012, partially offset by a decreased benefit spread and increased expenses.

For the quarter, net income was $166 million, a $31 million increase from the fourth quarter of 2011, with operating income of $144 million, a $14 million or 10.8% increase from the prior year quarter.

Operating income return on equity of 8% declined 30 basis points in 2012 from 2011, as higher operating income was more than offset by the growth of capital, due to the accumulation of undistributed profits.

Lastly, ongoing efforts to reduce exposure to spread-based business drove a decline in contract holder funds of just over $3 billion, bringing the balance in contract holder funds to $39.3 billion at the end -- at year-end 2012. We continue to review options to reduce the size and improve the returns of the spread-based businesses.

With that, let's hear from Steve.

Steven E. Shebik
CFO & Executive VP

Thanks, Bob. We delivered strong investment results in the fourth quarter and for the year, as we balance portfolio yield, risk and return objectives in the current low interest rate environment while proactively positioning the portfolio for an eventual rise in interest rates.

On Slide 12, you see our portfolio total return of 7.3% for the year, driven by significant fixed income and equity appreciation, coupled with state [ph] net investment income. The returns reflect positive contributions across the entire portfolio.

For the fourth quarter, net investment income was $1,033,000,000 and the annualized portfolio yield was 4.7%, reflecting an increase over both the prior quarter and the fourth quarter of 2011. The increase includes the impact of our change in classification of equity method limited partnership results to net investment income from realized capital gains that Bob noted a bit earlier.

Excluding limited partnership results, that investment income was above the prior quarter, reflecting higher equity dividends but lower than the fourth quarter of 2011, consistent with the smaller Allstate Financial portfolio and impact of lower reinvestment yields.

Also on this slide is the size and composition of our overall portfolio. We ended 2012 with a carrying value of $97 billion, reflecting the improved valuations, which more than offset the ongoing reduction of Allstate Financials spread-based business. So in 2012, we continue to favor this ability of corporate credit, including an increased allocation of high yield bonds.

Slide 13, highlights trends in the portfolio, unrealized gain, yield, maturity profile. The chart on the upper left shows the trend in pretax unrealized net capital gains. We ended 2012 with an unrealized gains of $5.55 billion, reflecting an increase of $2.67 billion over year-end 2011. The increase is primarily in the fixed income portfolio and resulted from tighter credit spreads and lower interest rates.

In the fourth quarter, we further reduced interest rate risk in our property-liability portfolio shifting out of longer maturity assets. These and similar future actions will better position the portfolio for an eventual rise in interest rates. The sale of longer-term security pulls forward future income to the realization of gains. We expect this activity to contribute to a decline in our property-liability portfolio yield and net investment income.

The chart on the upper right illustrates a shift in our fixed income maturity profile, resulting from our proactive management of interest rate risk over the past several years. Our actions are repositioned to fixed income portfolio, include shifting out of longer-term municipal and corporate bonds and shorter-term, lower-yielding treasuries in immediate term bonds.

We expect our continued reinvestment in the current low rate environment, portfolio actions to reduce interest rate risk and the ongoing reduction of Allstate financials liabilities to further pressure investment income and portfolio yields going forward.

We finished the quarter in a strong capital position, as you can see on Slide 14. Shareholders' equity of $20.6 billion increased $2.3 billion at year end 2011. Statutory surplus rose at $17.2 billion. And deployable assets at the holding company level were $2.1 billion at year end.

Our book value per share came in at $42.39, 17.2% higher than the year-end 2011 on the strength of our operating performance, improved portfolio valuation and active capital management.

We returned $1.3 billion to shareholders during 2012 through dividends and share repurchases. Yesterday, the Board increased our quarterly dividend to $0.25, a $0.03 per quarter or 13.6% increase.

We completed the November 2011 our share repurchase program during the fourth quarter, began repurchases under renewed $1 billion program authorized by the Board in December to be financed through hybrid security issuances. The Board also authorized an additional $1 billion repurchase program yesterday, bringing our total buyback program to $2 billion to be executed through March 2014.
Now, let's go to the question-and-answer session.

Question and Answer

Operator

[Operator Instructions] Our first question is from Jay Gelb of Barclays.

Jay H. Gelb
Barclays PLC, Research Division

First, I want to point out that I believe it's the first time that Allstate brands premiums were in positive territory on growth for the first time in 11 quarters. So I want to get your perspective on whether you feel that trend could continue in light of pit [ph] growth still being negative.

Thomas J. Wilson
Chairman & CEO

This is Tom. I'll give you a perspective and Matt might want to jump in as well. First, you're right. Premiums have gone up that is, as we pointed out, largely a result of higher average premiums in the homeowners business. The actions we've taken over that period of time and actually beginning before 11 quarters ago is really to reduce our catastrophe exposure by getting smaller homeowners. As you know we're down like 1.2 million homeowner policies in the last 4 years. That has obviously had an impact on our auto business as the actions we took in New York and Florida, which were proactive and fast that we went on that one hard, which hit both of our -- also hit auto growth. Matt has a number of plans going on to try to turn that around, and maybe he wants to make a few comments about the strategy to movement both -- I think it was really after his items and of course, our policy than opposed to premiums.

Matthew E. Winter
President and President of Allstate Insurance Company

Jay, it's Matt. Look, the way we look at this is the last several years have been stabilization year as we -- couple of stabilization years as we wanted to ensure that we were charging an appropriate rate and getting the appropriate returns in the business. We are continuing to focus on top line and if -- and we'll continue to do that as long as we're able to do that in an economic manner. We look at a couple of indicators. We look at -- on the homeowners side, we look at new business and we look at retention. And as you see in Page 28 of the sup, new business was up 5.8 above prior year in the fourth quarter, and the trend was extremely positively started, first quarter at minus 11.4, second quarter was minus 5.7, third quarter flattened out and the fourth quarter we were at positive 5.8. You add to that, the retention side of it. And as we've slowed down the nonrenewal actions and as we've focused more intensively on the customer experience, we've seen the gap to prior year retention improving each quarter and it improved in the fourth quarter to just minus 0.6. So on the homeowners side, you take that boost to new business, retention getting better, nonrenewal actions declining, greater focus on customer experience, the impact of House & Home, which we rolled out to 17 states in 2012 and we have another 12 additional states planned for this year and in those dates, production is up extremely strong. And so we have a good story on the homeowners side. Not only does that help homeowners revenue and if, but it helps auto as well due to the bundling. And you look at the same 2 factors on the auto side and although new business continues to run below prior year, the gap got smaller in the second half of 2012 if you look at the first half versus prior year, versus second half, versus prior year, it's dramatically different. First quarter, I think we were down almost 11%; second quarter, down 3%; and then third and fourth, it was down 1.3%. So clearly moderating on the new business side and retention improved. So as you can see on Page 28 of the sup, the retention trend has been pretty stable at 89 the past 3 quarters. We got a boost from Florida and in the fourth quarter, where their retention improved and we've stabilized things in Florida and New York, as Tom said. And so we think we're pretty well positioned to change the momentum and change these trend lines. We've been moderating a lot in the last quarter and we're cautiously optimistic.

Jay H. Gelb
Barclays PLC, Research Division

All right. I also wanted to touch base on the comment about expense management. The P&C expense ratio was 26.5% in 2012. It's up from around 25% in the 2010 time frame. Is that a good way to think about it in terms of where Allstate wants to get the expense ratio back to?

Thomas J. Wilson
Chairman & CEO

Jay, a better way to look at it is by segment. So look at the expense ratio for Esurance, you'll see that's substantially higher than net average. And that's because of course, it's all front-end loaded with advertising expenses. Then you can look at the Allstate Agency piece, and then you can look at the Encompass piece. And our goal is to have a highly competitive expense position in each of those segments, which is relative to the way in which you go to market and the services you provide to your customers. So for example, in the Allstate Agency channel, our agencies provide ongoing service and counseling for our customers, which is why they get a renewal commission. You don't have that in the Esurance business model because those customers don't want that. So you have to really look at it by segment.

Operator

Our next question is from Mike Zaremski of Credit Suisse.

Michael Zaremski
Crédit Suisse AG, Research Division

The first question regards to the 88 to 90 underlying combined ratio guidance. So that's, I believe this year, it was lower than 88. You guys are hoping to maintain auto or the goal is to maintain auto and try to continue the improvement in homeowners. So that would -- so I guess basically, is the delta there kind of the -- you guys don't expect the lower non-cat weather to occur? And if so, could you size up what benefit you guys have from that in the full year?

Thomas J. Wilson
Chairman & CEO

Yes. It's good -- good question, Mike. Let me address. So 88 to 90, last year, we had a 3-point spread, this year it's a 2-point spread, and that's largely based on our confidence that the actions that Matt's team has taken in New York and Florida are working, and we like what we see there, so we can have a narrower range. Secondly then you say, "Okay, but your still -- range is still above where you are this year." I think you really have to -- it is the weather. It's a reflection of a return to more normal frequency in auto and homeowner business. December was an incredibly strong month for us. If you look at the underlying combined ratio in homeowners for the fourth quarter, it was like 62 in change. I don't think the business is operating at this point at that big a delta versus where it was last quarter -- the fourth quarter of last year. So just some of that is weather. Doing a variance analysis on weather, it's possible. But it's -- there is some art to it. And so our range is a range we expect to be in. That's why we established it. I think it gives you some confidence as to where we've gone. And we typically are in there, and so we made an estimate as what the weather would be and said we'll be in the 88 to 90.

Michael Zaremski
Crédit Suisse AG, Research Division

Okay. And in regards to the investment portfolio, it sounds like Steve talked about preparing us for higher interest rates but then so shifting, reducing interest rate for sensitivity. So what kind of new money yields are you guys expecting in the near term versus the existing portfolio yields?

Thomas J. Wilson
Chairman & CEO

Let me give you an overview from corporate risk standpoint, and then Judy will talk about what she's going to implement that. So overall when we look at the corporate risk profile, when we look at interest rates, cats, underwriting risk, inflation, a whole variety of things and from our risk management perspective, we're assuming that rates will rise. We don't think they're going to run away tomorrow, but we think they will go up over time. So as we usually do, we try to get out ahead of these things and be proactive about it. We're not -- we only have a sort of moderate level of concern about inflation, so -- which is another thing, of course, I can -- for insurance companies. So what we're doing is reducing our interest rate risk. We started that in the fourth quarter. We'll continue it throughout this year. And that means, basically, taking capital gains on the portfolio and pulling operating income forward. So you can take capital gain today or you can get the higher interest rates. We believe the economic smart thing to do is to hold those gains forward, and so we run the company economically not just for operating EPS. Judy can talk about what she's done to the portfolio and what she's reinvesting in.

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

So when you look at the portfolio, currently the -- just looking at the fixed income yield on the property and casualty portfolio, it's around 3 8, and that's a good estimate of what you should think about in terms of where the portfolio is in some of the activities that we're doing. The reinvest that we're looking at is, as Tom said, shorter duration. A good proxy would be 3- to 5-year maturities, investment-grade corporates, probably yields around 1.5% to 2% is a good way to think about it.

Operator

Our next question is from Josh Shanker from Deutsche Bank.

Joshua David Shanker
Deutsche Bank AG, Research Division

Congratulations on the Esurance growth. It's not so surprising the first quarter, but almost every quarter it's been strong. And when I look at GEICO and Progressive, there's a heavy seasonality to when they add policies. Can you talk a little bit about the marketing there and whether you expect to a certain point will normalize to a seasonality or not?

Thomas J. Wilson
Chairman & CEO

Okay. I'll get Don to answer that, but let me first. In Esurance, we're really happy with Esurance. It fits with our customer-focused strategy. We didn't think -- while we had an offering in that lower right-hand quadrant with the Allstate brand, we're not really taking share and we need a sharper, better focused customer offering to service self-served customer. And we felt we could leverage a bunch of our capabilities at Allstate, which we've done other times, whether that be with Encompass or the Benefits business. And so net-net, we like what we've done. We like -- 30% growth is good. And Don can talk about the seasonality and perhaps talk about the other things you're doing to drive growth in the business, kind of surf around for the acquisitions.

Don Civgin
President of Emerging Businesses - Allstate Insurance Company

First of all, on the seasonality question. The seasonality Esurance has historically followed their marketing spend. And so there has been a higher first quarter customer acquisition in the past. But I think that will probably moderate in the future as they've increased their advertising spend a fair amount, and I think we're going to spread that out through the year going forward. As far as the marketing spread, the efficiency throughout the year, remember, this wasn't just -- when we completed the acquisition at the fourth quarter of last year, we began a new ad campaign heralding the fact that Esurance and Allstate were now connected. That campaign began at the beginning of 2012. And the impressions have been building as the year has gone on. So it was less effective the first day it ran than it was the last day it has run through the year, and I think the momentum that's built has been very strong. So the campaigns are working quite well. It's hard not to be happy with written premium growth going up 30% for the quarter on an apples-to-apples basis, if you adjust for the acquisition date last year. The policies are going up, 31% for the year, so that's strong as well. And I think, from my perspective, we acquired Esurance so that we could really compete effectively against GEICO and Progressive in that customer segment. And our goal was to grow that business economically. The GAAP combined ratio kind of gets in the way of looking at things economically for you, but we're convinced that the growth we're getting is economic when you spread the advertising expense over the life of that customer. And we want to see how far we can take it. But clearly, it's doing what we wanted, which is taking market share in an economic way.

Joshua David Shanker
Deutsche Bank AG, Research Division

And so the ad spend, will -- you expect will be consistent throughout the year?

Don Civgin
President of Emerging Businesses - Allstate Insurance Company

No, I don't know that it will be completely consistent quarter-to-quarter. I just don't think we'll have as much seasonality as they've had historically in the past.

Joshua David Shanker
Deutsche Bank AG, Research Division

Okay. And the other question, capital management, obviously, you have a $2 billion share repurchase on the table now. Presuming, amenable non-cat weather and reasonably low amount of catastrophes, could there be more buyback in 2013 if the weather complies?

Thomas J. Wilson
Chairman & CEO

This is Tom. The -- we've always shown an ability and a willingness to deploy capital back to shareholders using dividends or share repurchases. $2 billion is a pretty big program when your market cap is $21 billion. We're pretty comfortable at that. I think working through that is probably what you should expect in 2013.

Operator

Our next question is from Vinay Misquith of Evercore Partners.

Vinay Gerard Misquith
Evercore ISI, Research Division

So the first question is on the net investment income, if I could just have a clarification. So I believe the all money rates that you have right now is 3.8%, new money rates 1.5% to 2.0%. That's on the P&C portfolio. Just curious how much for fixed income assets are maturing this year and next year. And so yes, that would be helpful.

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

Okay. So the old money rate is really just the portfolio rate that you've referenced, so that's around 3.7% to 3.8%. And the way that we're estimating maturities prepays and calls for 2013 in the property and casualty portfolio is between $1.5 billion and $2 billion, with the piece of that being maturities which will actually happen, and then we just have to estimate the calls from prepays, so that's why that we have the range.

Thomas J. Wilson
Chairman & CEO

And on top -- if you're trying to get an estimate for investment income, on top of that will be the roles we do intentionally on our part to reduce interest rate risk. Okay, so we're going to be selling securities and we have been throughout the last fourth quarter and we'll be selling in this year, taking capital gains, which will then be reinvested. That's on top of what you just talked about.

Vinay Gerard Misquith
Evercore ISI, Research Division

Sure. So I just want to get the numbers right. So the $1.5 billion to $2 billion is fourth quarter?

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

No, that's for the total year for the property and casualty portfolio, but that excludes what Tom just talked about. And that activity, when we look at that activity, we think it's going to be in the range of 4 to -- we think that, that activity is going to be on top of the call to maturity.

Vinay Gerard Misquith
Evercore ISI, Research Division

Okay. And how much of a negative impact do you think that, that's going to have on the investment income?

Thomas J. Wilson
Chairman & CEO

We're not -- here's what I'd say, we're not -- trying not to do earnings guidance by line. And so what you can do -- the way that you get an estimate is look at our capital gains each quarter before, then you can adjust as you look forward based on how much we've sold that quarter and what you think we'll reinvest. Because the timing of it, how much we do will depend on what we think about the future trends in interest rates where we're at the pace of it. So that a -- we're living through that one. We're letting you know our intention is to sell bonds, realize gains and accelerate it in some operating and commit to capital gains. But we don't really have a forecast for what we'll do this year.

Vinay Gerard Misquith
Evercore ISI, Research Division

Okay. The second question is on Esurance. The growth was great. But the business is running at a 108, I believe, core combined ratio. Do you think that you can get it to 100 or maybe a 96 by this year or is it going to be next year?

Thomas J. Wilson
Chairman & CEO

I'll give you the directions I've given to Don, and Don can talk about the actual number. But we look at the loss ratio. And we say, where is the loss ratio relative to what it needs to be economic. We also look at that loss ratio by age of business and we look at that loss ratio by state. And so there are sort of several different cuts on it, with the goal of making sure that there's enough profit coming off, the difference between premiums and the loss ratio, to pay for all these upfront expenses. And so to the extent that it is, and Don can talk about cost of acquisitions, stuff like that. We'll continue to fund that business for growth. Esurance hit our underwriting combining $192 million this year in terms of negative to it, and I'm good with that because it was all economic. We can't continue to invest in growth in that business, which means the combined ratio will be over 100. But if you're making money on it, it's just -- on advice segment by sale, by age, by state, then we don't worry as much about what the total combined ratio is at the top because of the way the advertising expenses are accounted for. Don, you...

Don Civgin
President of Emerging Businesses - Allstate Insurance Company

Yes. I just maybe add a couple of things. We can -- this is going to sound bad, we can actually make the combined ratio kind of what we'd like it to be by adjusting the advertising. So I think what you're talking about is the GAAP combined ratio and the better thing to focus on is what Tom talked about, which is the economic combined ratio. Their accounting model is different than Allstate's. Most of their expense is front loaded on advertising, back it's expenses for the quarter, you do -- you take the advertising expense. But then the second term and the third term and the fourth term, the profitability goes up substantially because you don't have the commission we have on the Allstate side. So what we look at is over the life of the policy we're writing, is that business economic? At the moment that business is quite economic for us, and so, as Tom said, we're happy to feed the growth of that by investing in the advertising upfront.

It's going to depend on making sure that the retention remains strong. And I would tell you the retention has gone up this year. And so nobody likes to run 108. I don't like it either. But I think you have to go below that number and try to understand why it's running 108. If it's running 108 for good reasons, we'll continue doing that.

Operator

Our next question is from Paul Newsome of Sandler O'Neill.

Jon Paul Newsome
Sandler O'Neill + Partners, L.P.

I was wondering if you could talk a little bit more about Encompass and what structurally is the reasons why the profitability differs from your in force Allstate brand business?

Thomas J. Wilson
Chairman & CEO

It's Tom. I'll make a quick comment and maybe, Don, you can talk about the strategy and to grow the business profitably. So Encompass for us serves the customers who want local advice but want choice between carriers. So we sell through independent agents. The cost structure associated with selling through independent agents is higher than the cost structure of selling through captive agents, and it's pretty obvious as to why that would be the case. And so we run a higher expense ratio there. That's because that's what customers want. We made a couple of changes to improve that business. The biggest of which was in the management team, and Don can talk about what we're doing to leverage that management team skills and how we expect to grow the business. I would tell you, I'm not completely satisfied with the profitability as to where it needs to be because the combined ratio is still a little high and there's a lot of property in that package policy. And so you need a pretty low combined ratio on that property business. But Don can talk about -- we've made good progress and we're seeing some signs of life in that business. I'm happy about it.

Donald J. Bailey
Former President of Emerging Businesses

Paul, this is Don, we've -- Don Bailey. We've made good progress over the last couple of years in that business, as Tom said, a new management team, but we've reestablished our focus on the package product. So for us, the strategy is it's about customers and it's about agents. So on the customer side, we're very committed to the package product, which is the 12-month policy, 1 premium, 1 bill, 1 property deductible, and we think that differentiates in the marketplace for our customers, which are in that mass affluent segment. From an agent standpoint, we recommitted over the last couple of years to them as well, in terms of ease of doing business, being consistent in our underwriting appetite, operating our technology platforms, and that has led to a significant increase in the number of engaged agents we have. We distribute to about 2,800 agents in the United States. There's about 37,000 total in the independent agent space, about 1,700 of those we would consider active. So we've gotten more runway with our current agents and we've got probably less than 1% market share in the segments that we chase. So we think some of the recent trends for us certainly can continue if we continue to run the business the way we have been.

Operator

Our next question is from Bob Glasspiegel of Langen McAlenney.

Robert Ray Glasspiegel
Langen McAlenney

I think [indiscernible] has thrown out a $1,500 per customer at GEICO benefit to Berkshire. I don't know whether you've thought through what a customer is worth to you in lifetime benefits. But if you use his $1,500 as -- one of your customers is worth on your 240,000 policies that you added, you probably added $350 million of value to the firm, which will be 1/3 of your purchase price. Do you think about a value of a customer in lifetime benefits to the company?

Thomas J. Wilson
Chairman & CEO

Bob, I don't know where Warren Buffet gets $1,500. So I can't really speak to sort of the math. I'll just assume that he's got -- whatever his numbers are. I tend to think about customers not in economic term, is that how much can we make off them, but as to how do we fully meet their needs and capabilities and how do we differentiate ourselves so we keep winning them. Just because you got them once doesn't mean you're going to keep them. And when you start putting numbers on them and say that this person puts a $1,500 sign seems odd to me. So that's just the way we think about it. But we think about it as -- like we're trying to always do a good job. We got to drive retention up. So you see retention going up in the Esurance business because of the work we're doing, the way we serve our customers, the type of customers. Matt talked about retention in his businesses. And so I'd like to keep them all forever, and that's our goal. And I don't know if that makes him worth $1,500 more, but I know it's good for our shareholders.

Robert Ray Glasspiegel
Langen McAlenney

Okay. Somehow you have the size, your ad spend versus the customers that you get. So you have to put a number on it at some point, but I hear it's just softer -- it may be a softer process in your current mindset. If I could pivot to the life company, I'm a -- I'd be interested on where this company stands relative to Matt's and yours goal that you articulated to get $1 billion of dividends out of it over the next 4 years, I think, which was a couple of years ago. It looks like the stat surplus is down. But you said that the ROE had some pressures because of more capital. I guess the final question is where does the life company stand in your sort of overall strategy? It looks like there are some people out there willing to pay pretty good prices for life companies today, which I'm sure you're mindful of. What's the overall game plan with the unit?

Thomas J. Wilson
Chairman & CEO

A lot -- as usual, you've thought it through in a very thorough way. So I'll try to give you -- I mean, I'll start to end it and see if I could give the details as well. First, our strategy at Allstate Financial has been to focus on underwritten products. If you go back 10 years, it was to make it bigger and broader, and we're pushing hard at both the annuity business and the life business, expanding through both our captive channels and independent agencies. Given -- in about the middle -- about 2005 or so, we said, "This annuity business doesn't look like it's given us the kind of returns we like." We've got fixed annuities. The returns were low. Variable annuities, we thought the returns were too speculative, and we start to shift. So we sold the VA business, of course, in 2006. We started shutting the -- slowing down the size of our annuity sales. Have we been pressured enough, I would have stopped them all. It may be sold at that time. That would have been a good idea. Because the deals we see now people are selling annuity, I'm not sure they're great transactions. But so where we are today is, of course, focus on our underwritten product, be supportive of the Allstate Agency customer rate, that lower left, they want to buy everything from 1 person, if they can. Also we have a great position in the workplace of Benefits business. And as we mentioned, that business is growing quite well. We really like that business. It gives good returns. So both a -- in underwritten price, returns are above our cost of capital, and so we're focusing on growing those businesses. At the same time, to get the cost of the return on equity up, we've also been trying to reduce the size of the fixed annuity business, since that's a long way we have left. We've been pretty aggressive. I think we're down about $3 billion this year done. We'd like it to go down faster. We're looking at every -- which way we can to make it go down faster because it's just low ROE business. What we've learned along the way is we can separate the decision from serving our customers from putting our capital to work. So we sell VA, we sell our customers today, and they're just made by somebody else. We sell a bunch of fixed annuities today, made by somebody else. So looking forward, what our goal is, is to try to get returns up on the life business. That includes getting capital out of there. That it was about -- we got about -- when you include the bank last year, I think we got back about $367 million. This year, we expect to get more back. I'm setting objectives for Don. And so we're -- we expect over the next couple of years it to be a net generator of capital for us to continue to work to try to reduce the size of the fixed annuity business, and then to continue to focus on helping support the Allstate agencies and the Benefits business. Is that helpful?

Robert Ray Glasspiegel
Langen McAlenney

Very helpful. So selling it or spending it off, nowhere near your radar screen?

Thomas J. Wilson
Chairman & CEO

If we could do something with the fixed annuity business, I'd be happy to do it. But there's -- the deals people are making don't look that attractive to me. If we had an attractive way to reinsure some of that and that's not really a spinoff, the way you're -- you're thinking of it in a capital market standpoint. I'm thinking of it how do we get our returns up in that business, and that's our goal, get returns up for Allstate Financial. We'll do it in as effective and efficient of a way as we can.

Operator

Our next question is from Ian Gutterman of Adage Capital.

Ian Gutterman
Adage Capital Management, L.P.

I was wondering if you could give a sense of what you think ad spend will be for the Allstate brand '13 versus '12?

Thomas J. Wilson
Chairman & CEO

I'm sorry. Say that again, Ian?

Ian Gutterman
Adage Capital Management, L.P.

Advertising spend. Do you expect advertising spend to be flat, down, up versus 2012?

Thomas J. Wilson
Chairman & CEO

I'd rather not comment on that because other people listen to the call and figure out what we're doing in the ad spend. I would just underline that Matt is focused on growth. And to the extent we think it's economic, we're willing to invest in it, as long as we can come in with our combined ratio target overall. And it's a pretty -- as you know, it's a pretty aggressive advertising market today but it's also shifting. You're seeing people move out of big ads that are done on major TV to more electronic communications and stuff like that. So we have -- Sanjay Gupta joined us. He's the Chief Marketing Officer last year. We also have a great advertising team with Lisa Cochrane and some others. So feel like we got the right weapons, and we fire them when we think they're going to drive growth.

Ian Gutterman
Adage Capital Management, L.P.

Got it, great. And then to the growth question on -- Matt obviously talked a little bit earlier about New York and Florida being important states. But there's -- I'm talking specifically about auto here. There's also challenges in both states. I'm curious just what -- how those are impacting you there favorably

[Audio Gap]

Has that been an impediment to try and to grow? Or do you think you've kind of gotten ahead of the market in figuring out how to address that? And then just New York, with all the losses from auto and Sandy, I assumed there could be price increases coming. How does that affect your ability to grow?

Matthew E. Winter
President and President of Allstate Insurance Company

Well, let's take them individually because although they are typically grouped together, they tend to have some things in common but some things occur differently. Florida is a difficult environment. Due in part by the type issues that you referenced. But it's just a tricky environment, one where you have to be very disciplined, very cautious. And as you grow, you need to do so in a really disciplined manner. I talked at one of the other calls about, the first-mover disadvantage that we sometimes get by seeing things before other see them, in Florida and New York, that's really an advantage. So we watch trends emerge and we stay on top of them very aggressively. So you can see in Florida on Page 23 of the sup that we've continued to improve the margins in Florida as the year-over-year loss ratio ended 2012 several points below 2011 levels. That gives us some flexibility to start looking at growth. We've seen, as I said, stabilization in retention there. But we have to be cautious in the growth area, and we'll do so deliberately and cautiously. So that as we grow and if we're able to grow, we're doing so profitably and not exposing ourselves inappropriately on the risk side. In New York, as you said, Sandy creates some -- we'll take [indiscernible] some of the results. We have to see what happens. Clearly, with some of the requirements that we not terminate policies that influenced the retention rate there, so we have to see how that shakes out. But we're optimistic there, too. You've seen standard auto if there continues to decline but at a slower rate than seen in the third quarter. And if you take out Sandy -- and I think we try to break this out for you on Page 23 of the sup in New York. The loss ratio excluding Sandy improved compared to the fourth quarter of 2011. So we're seeing, if you x out Sandy, we're seeing some nice improvement there, so we think we're fairly well positioned in New York as well.

Ian Gutterman
Adage Capital Management, L.P.

You think you can get enough rate -- just given the moratoriums, you can get enough rate for the cat load type -- probably higher cat load to still grow?

Matthew E. Winter
President and President of Allstate Insurance Company

I can't predict what rates we'll get, what we will take. We strive always to ensure that we have a proper economic return on the business, and we'll manage our relationships there and our rates to ensure that happens.

Operator

Our next question is from Michael Nannizzi of Goldman Sachs.

Michael Steven Nannizzi
Goldman Sachs Group Inc., Research Division

Bob, maybe could you elaborate a little bit on, you mentioned -- we talked about non-cat weather. I think we talked more on the homeowners side, can you talk a little bit about kind of the large loss activity -- or the lack of large loss activity, I should say, in the fourth quarter? How much that benefited standard auto? Just to try and reconcile how everything move out those forward. And then just one follow-up.

Robert Block

The lack of large loss activity favorably impacting auto in the fourth quarter?

Michael Steven Nannizzi
Goldman Sachs Group Inc., Research Division

Yes. Well, you said weather was benign, I guess.

Robert Block

Well, it was. If you look at the frequency trends that we had a nice decrease in the fourth quarter relative to 2011, so the frequency trends continued. That is -- when we look forward is something that we are not necessarily calling on when we look at 2013. I think that everybody in the industry I think experienced a better weather pattern in 2012 than they had in the past 2 years. So I think that's really what we're seeing on that.

Thomas J. Wilson
Chairman & CEO

And the large loss, I think, it sometimes causes us to hesitate, now let's not make the reserving expert. But to the extent, the frequency goes down because of the weather, those tend to be smaller average claims sizes. So as a result of that, your severity tends to go up a little bit when your frequency goes down. So actually the large losses didn't really go down. Somebody's going to get into an accident and really hurt themselves or somebody else. They're usually going to do a weather -- so whether or not as the weather -- variability in the weather tends to take out small [ph]. So I think if you look at pay per premium, where Bob laid out on the site, you get a sense for -- we feel like the fourth quarter is pretty good. We don't think you can always count on frequency being down, and so that's why we depict the numbers we picked.

Michael Steven Nannizzi
Goldman Sachs Group Inc., Research Division

Got you. And then just one, one piece of the disclosure I was trying to figure out was, so we've got the cats and homeowners and auto and then cats overall, is there -- do you guys disclose or do we have available the cat numbers in the auto segment? And what did that look like in 4Q and maybe for the year? I'm just trying to understand the kind of the underlying there.

Robert Block

The way the supplement was structured this quarter. They reformatted a few things. And one of the things that is not -- is no longer in there specifically is cat losses, other personal lines. Yes, I'm working with the accounting to get that number.

Michael Steven Nannizzi
Goldman Sachs Group Inc., Research Division

Oh, you are. Okay, great. So will follow up with you, will follow up with you after then. And then just one last quick one, if I could. Investment income, I mean it looks like -- so you're down year-over-year about 7% just on the fixed maturity piece. And I guess there are some being moved to alternatives in equities. But just trying to understand, whether or not that piece of decline should accelerate just given the -- it sounds like some harvesting and some continued repositioning. And how just -- how generally should we think about what you're going to be doing there?

Thomas J. Wilson
Chairman & CEO

Mike, this is Tom. I think your numbers are correct. We don't want to do a forecast of investment income because of course, everything depends on what happens to rates and the investment rates and how much we decide to reduce interest rate. But I think the general direction you describe is the one we're trying to give you -- I think investment income is likely to, excluding what we get off limited partnerships in the alternative investment, is likely to go down next year because rates are low and we are harvesting gains and reducing our interest rate risk. So the direction is right. Everyone has to make their own estimate as to how much it will go down. Maybe we can -- one last question. I think because we're about at the top of the hour.

Operator

Our final question today is from Ray Iardella of Macquarie.

Raymond Iardella
Macquarie Research

Just maybe a question more so to longer-term thinking. Tom, when you think about the 13% ROE goal by 2014, maybe talk about whether or not you need to improve the P&C combined ratio from the 88 to 90, just given maybe some of the pressures of investment income? And if not, maybe talk about the levers maybe outside the life business that you guys have to get your ROE's up to that goal?

Thomas J. Wilson
Chairman & CEO

That's a good question and a complicated one, but I'll try to do it quickly. First, driving profitable growth is our goal and we're highly focused on return on equity. 13% was the goal we set in 2010, early 2010. It is still our goal. Some of the actions we took and had planned on to get there have worked well, and we're on the way there. Other things are not as far along as we would like to get to that goal. We picked 13% because, I don't know if you were at that meeting or not, but because that was the return we had gotten over a long period of time out of the business. So there are 4 key assumptions: One, we can maintain auto profitability; two, we can improve returns and homeowners; three, that we could get the Allstate Financial ROE up to 9% to 10%; and four, that investment income would be essentially flat. We're comfortable with the first 2. Auto profitability is still doing well. We like -- as we said, we like what we've got going in homeowners. And at the time, getting the improvement from where we were to getting to 13%, about 70% of it was in the homeowners business. So we have been like laser-focused on getting that done, and Matt's team has been pushing forward on the work that's really, we've been working on for 4 or 5 years in trying to get there. So that one, we feel very good about, as we feel good about the sustainability of our auto margins. In terms we've made less progress on AF because of the interest rates have come down. And that of course, impacts the third one as well. So we're focused on doing what is economic as well as getting 13%. So for example, lower rates, doing what we're doing to reduce interest rate risks makes that fourth lever even harder to accomplish. So -- but that said, we're going to do what's economic for the shareholders. And if we think it's the right risk turn trade-off, we'll do it. And we are still shooting for 13%. But I'm not going to be a slave to an operating EPS number and put our shareholders at risk for interest rates moving up and unrealized going from $5.5 billion to being wiped out. If we can capture some of that for our shareholders today, we will. So it's a complicated model. We're still working on it. Our goal is to get shareholders a 13% return. There's lots of levers we can pull, you mentioned many of them, and we're working away at it.

Okay, let me just close. So 2012 was a year where you all had the ability to see through cat losses to the underlying strength of our business model. We have a clear and focused strategy which is to differentiate ourselves versus the competition and focus on the needs of each customer segment. We're executing well. We will proactively address any of those challenges that come our way, including the ones we just talked about, with the goal of creating value for our shareholders by doing a great job for our customers. So thank you very much, 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.