S&P Capital IQ

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The Allstate Corporation NYSE:ALL

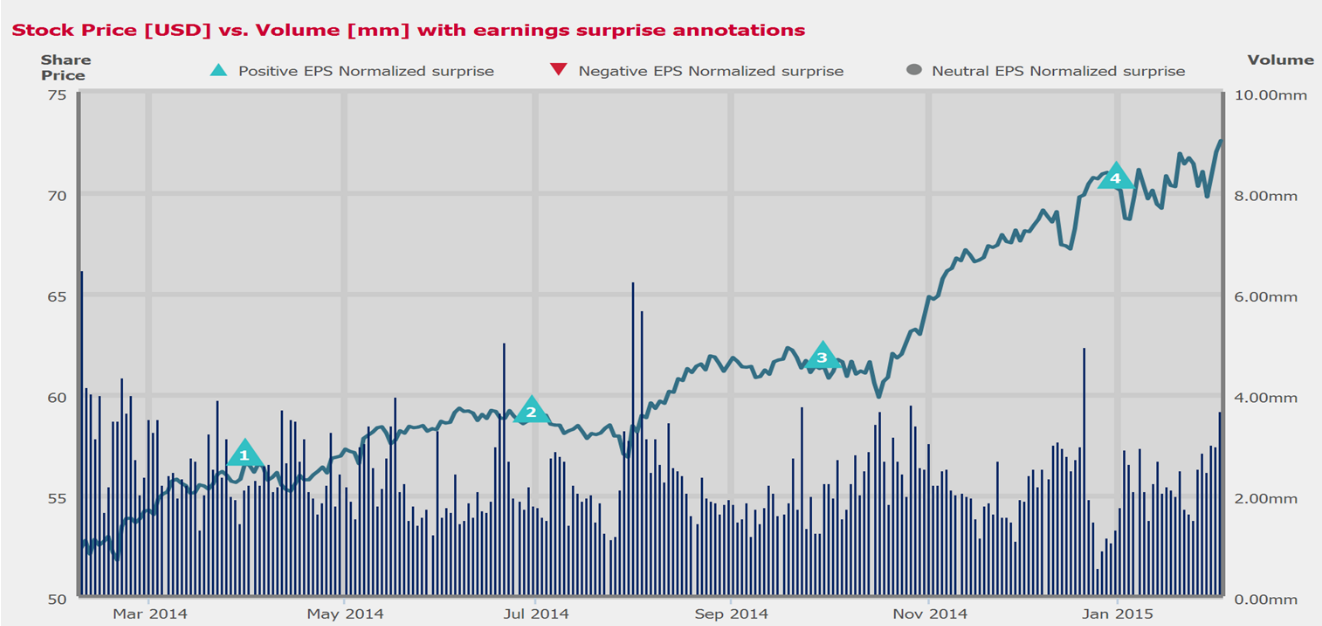
FQ1 2015 Earnings Call Transcripts

Wednesday, May 06, 2015 1:00 PM GMT

S&P Capital IQ Estimates

	-FQ1 2015-			-FQ2 2015-	-FY 2015-	-FY 2016-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	1.42	1.46	▲2.82	1.35	5.65	6.21
Revenue (mm)	7463.83	7426.00	▼(0.51 %)	7557.67	30255.00	31640.78

Currency: USD
Consensus as of May-06-2015 1:18 PM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ1 2014	1.18	1.30	▲1 10.17 %
FQ2 2014	0.68	1.01	▲2 48.53 %
FQ3 2014	1.32	1.39	▲3 5.30 %
FQ4 2014	1.68	1.72	▲4 2.38 %

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Presentation

Operator

Good day, ladies and gentlemen, and welcome to the Allstate First Quarter 2015 Earnings Conference Call. [Operator Instructions] As a reminder, today's program is being recorded.

I would now like to introduce your host for today's program, Pat Macellaro, Vice President Investor Relations. Please go ahead.

Patrick Macellaro

Thanks, Jonathan. Good morning, everyone, and thank you for joining us today for Allstate's First Quarter 2015 Earnings Conference Call. After prepared remarks by Tom Wilson, Steve Shebik and myself, we'll have a question-and-answer session.

Yesterday, we issued our news release and investor supplement, filed our 10-Q for the first quarter and posted the slides we'll use this morning. we also posted a document describing our 2015 country-wide, excluding Florida, reinsurance program. These are all available on our website at allstateinvestors.com.

Our discussion today may contain forward-looking statements regarding Allstate's operations. Allstate's results may differ materially from these statements, so please refer to our 10-K for 2014, the slides, and our most recent news release for information on potential risks.

Also, this discussion will contain some non-GAAP measures for which there are reconciliations in our news release and in our investor supplement. We are recording the call, and a replay will be available following its conclusion. And I'll be available to answer any follow-up questions you may have after the call. Now I'll turn it over to Tom.

Thomas J. Wilson
Chairman & CEO

Good morning, thank you for investing your time with us. I'll begin with an overview of our results on Slide 2. Then Pat and Steve will go through the results in detail.

Also here to engage with you are Matt Winter, Allstate's President, also the leader of our Allstate branded operations; Don Civgin, the President of Emerging Businesses; Kathy Mabe, who leads Business to Business in Encompass; Judy Greffin, our Chief Investment Officer; and Sam Pilch, our Corporate Controller.

So let me begin, with the strength of our strategy is really evident in this quarter's results. We have a broad-based business model that serves a wide range of customers with a broad range of products.

What that does is it enables us to generate profitable growth, despite a changing economic and competitive environment. Our results reflect progress on all 5 operating priorities for 2015, which are to grow, while maintaining the underlying combined ratio, practically manage the $80 billion investment portfolio and invest for sustainable value creation. Our position in multiple customer segments, insurance products, geographies and investments enables us to continue meeting our short and long-term commitment to shareholders, our customers, our agency owners and employees as well as local communities.

If you turn to Slide 3, you can see the financial outcomes of our performance in the first quarter of 2015. We continue to build growth momentum by adding 875,000 policies over the last 12 months, and now reaching $34.4 million. When combined with price increases, this resulted in net written premium growth of 4.8%, the benefit of a segmented approach to the market was evident as growth continued to accelerate in the Allstate brand, which gave us room to slow growth in the Esurance and Encompass businesses, given our economic targets for those 2 businesses. The recorded combined ratio was 93.7, which was better than last year. This decline reflected lower catastrophes, which also shows the benefit of having a diversified product portfolio, as an uptick in the Allstate brand auto combined ratio to 96.8 in the first quarter, was offset by an Allstate brand homeowners combined ratio of 78.7.

Esurance and Encompass; they're still making progress on improving value creation and the results still need to improve.

When you take out the volatility associated with catastrophes and reserve changes, you can see that the underlying combined ratio deteriorated slightly, but within the full year range of 87 to 89. This level of profitability does include expenses, which build long-term value, such as growing Esurance and investing in long-term growth platforms, and I'll talk about that in just a minute.

Investment results were good when adjusted for the reduction of asset due to the sale of Lincoln Benefit Life in the second quarter of last year. Our proactive approach to investing to achieve attractive risk-adjusted returns, not just operating income continue to benefit our overall results and we had strong results from limited partnerships, which offset the impact of reducing interest rate risk in the fixed income portfolio.

We also had really good results from a more focused but smaller Allstate Financial. Total net income was $648 million in the quarter, $1.53 a share as you can see in the box at the top of that slide. Operating income was $1.46 per share, which was 12.3% higher than the same quarter last year, which reflected both higher income and fewer shares outstanding.

The first quarter Property-Liability results for each customer segment are shown on Slide 4. I'm just going to comment on the circled numbers in each segment, starting with the Allstate brands in the lower left, which serves, of course, customers that prefer local advice in a branded offering. Policy In Force growth accelerated across all products as Matt's team pursues a comprehensive and fully integrated growth plan. The underlying combined ratio for this business, which represents 90% of our total premiums written was 87.4 in the quarter.

Esurance in the lower right focuses on customers who prefer a self-serve approach, but want a branded offering. Policy growth slowed to 8.9%. The underlying combined ratio of $116.5 million included advertising expenses, which are being made to grow share and the costs associated with expanding the product offering and the geographic reach. As a result, we look at the underlying loss ratio, which was 78.2 in the first quarter, which still needs to be lowered.

Moving to the customer segment that prefers local advice but is brand neutral, which is in the upper left, that's the segment that we serve with our Encompass business. This business got marginally smaller in first quarter as we seek to improve profitability.

So as a management team, we're committed to both delivering these current results as well as investing in sustainable value creation as shown on Slide 5.

While these items on this page all had a negative impact on current quarterly earnings, they are an important driver to shareholder value. So therefore, we're completely committed to them. We made good progress in modernizing our operating model. We also continued laying the foundation to reducing low value added activities handled by Allstate Agencies, while increasing their ability to provide trusted advice to customers.

Since acquiring Esurance in 2011, we've grown market share by repositioning the brand, expanding its geographic footprint and its product offerings, and supporting this with advertising investments that are higher than justified by current premium levels.

We continue to invest in share growth as long as lifetime returns on new customers exceed our cost to capital. We are also seizing the opportunity that comes with connecting customers to telephony by expanding our telematics offering. We now have over 0.75 million customers using Drivewise and DriveSense. We are also innovating our roadside service operating model, which has over 3 million members in the -- under the Allstate brand and many millions more under our weight [ph] label offerings. So in summary, our goal is to both deliver today and build for tomorrow.

And now let me turn it over to Pat to go through the Property-Liability results in more detail.

Patrick Macellaro

Thanks, Tom. I'll begin by reviewing our Property-Liability results on Slide 6.

Starting with the chart on the top of this page, Property-Liability had earned premium of $7.4 billion in the first quarter of 2015, 5.1% higher than the first quarter of 2014. Recorded combined ratio of 93.7 was a 1.0 lower than the prior year quarter driven by catastrophe losses of $294 million, which were 33.9% lower than the prior year quarter. The underlying combined ratio of 89 was 6/10 of a point higher than the first quarter of 2014.

Net investment income for the Property-Liability segment increased 14.7% from the first quarter of 2014, due primarily to strong limited partnership returns in the quarter. As a result, Property-Liability operating income in the first quarter was $555 million, 18.6% higher than the first quarter of 2014.

The Chart on the lower left shows Net Written Premiums and Policy In Force growth rates for Allstate Protection. The red line representing Policy In Force growth shows the continued positive policy growth trend that is being driven by the Allstate brand. Policies In Force grew by 875,000 or 2.6% from the first quarter of 2014.

The Allstate brand accounted for 86% of policy growth in the first quarter of 2015, based on the strength of Auto, Homeowners and Other personal lines.

Total premium grew 4.8% in the first quarter of 2015 compared to the same period last year, reflecting the combination of policy and average premium increases.

Exhibits to the right of this chart displays the Property-Liability recorded and underlying combined ratio trends. You can see the recorded first quarter combined ratio was lower than the historical first quarter average and below the first quarter of 2014, due to lower catastrophe losses.

Total underlying combined ratio of 89 was more in line with the historical trend and was impacted by higher auto losses in the first quarter of 2015 versus the prior year quarter.

Page 7 highlights Allstate brand Auto growth and margin trends. Growth trends are highlighted in the top or in the chart on the top. Policies increased by 623,000 in the first quarter of 2015 or 3.2% higher than the first quarter of 2014, driven by continued broad-based increase in new business and stable retention trends. Auto items In Force grew in 42 states in the first quarter of 2015.

Net written premium grew 5.7% as average premiums increased by 2.3% over the prior year quarter.

The chart on the lower left shows the past 3 years' quarterly recorded and underlying margin performance for Allstate brand auto. The recorded combined ratio was 96.8 in the first quarter of 2015, 3.4 points worse than the first quarter of 2014, and the underlying combined ratio was 95.6 in the first quarter, 1.8 points higher than the prior year quarter. Further details are shown in the chart on the bottom right.

Annualized the average earned premium per policy, shown by the blue line, continue to increase over the prior year in the first quarter. Average underlying losses and expenses per policy, shown by the red line, increased 4.1% in the first quarter compared with the first quarter of 2014 and was impacted by 3 separate drivers.

First, Allstate brand prior year auto reserve re-estimates were unfavorable. About half of the impact is due to litigation settlement accruals on older cases, while the rest is driven by variations in reserving. Second, bodily injury frequency increased 6.8% compared with the first quarter of last year. The increase is explained partially by comparisons to a very favorable quarter of BI frequency in the first quarter of 2014. But it also reflects higher frequency experience across our book of business.

Third, property damage frequency increased 2.1% in the first quarter compared with the prior year quarter. This increase is due in part to adverse winter weather in the eastern part of the country. But again, we're also seeing higher PD frequency this year than we did for most of last year. You may recall that we did experience elevated property damage frequency in last year's first quarter due to widespread winter weather, when we look at bulk coverages over a multiyear period the trends across as BI and PD are very consistent.

As you'd expect, we've continued to dig into the drivers of increased frequency since the trends began to emerge in the fourth quarter of last year. Leverage our data and analytic capabilities to continuously analyze our business from the macro level down to the micro segments that our local teams used to underwrite in price.

Some examples of items we've been investigated include the impact of new to renewal loss ratio relativities, often referred to as the new business penalty form writing higher volumes in new business, state mix and geographic mix within states, higher growth books of business versus stable or moderately growing books, monoline versus multiline, liability only versus full coverage, and quality characteristics such as insurance score, driver age and household composition.

Based on our analysis, we continue to be comfortable with the quality of both our new and renewal business.

This analysis also reinforces our conclusion that recent frequency fluctuations are due primarily to macroeconomic trends in weather. And that while we believe industry-wide auto frequency will continue its long-term downward slope overtime, there will be periods of variability within that trend that are driven by external factors.

Our regional teams have been quick to identify these developing trends on a local market basis and have taken and will continue to take appropriate underwriting and pricing actions to achieve our targeted returns.

Given current trends, we expect the level of underwriting changes and rate increases to accelerate. Improved rate increases in April of 2015 exceed that of the entire first quarter of 2015. The result of our regional teams adjusting the timing and the amount of rates that were already planned in the year.

We do not believe these actions to maintain margins will materially impair current policy growth trends.

Moving to page 8. Let's discuss Allstate brand homeowners. Growing homeowners in parts of the country that are adequately priced and have acceptable exposure to catastrophes. Policy growth is being driven by both increased new business and improved retention.

The chart on the bottom left shows the continued strength of homeowner profitability and the earnings benefit we experienced in the first quarter of 2015 from having a diversified product portfolio.

Recorded combined ratio was 78.7 for the first quarter of 2015 and the underlying combined ratio of 64.5 improved by 1.3 points from the first quarter of 2014

Moving to the lower left, annualized average premiums shown in blue continues to improve the slowing rate versus the recent history, reflecting improved returns. Average underlying losses and expenses per policy were essentially flat to the prior year quarter. Non-catastrophe frequency in the first quarter of 2015 was 7.9 points below the prior year quarter, and the 6.6% increase experienced in paid severity was due to the claim count mix. Individual homeowners severity parallels are performing within expected ranges.

Page 9 provides an overview of growth and profit results for Esurance and Encompass. Starting on the upper left of the slide, Esurance's rated policy and total network and premium growth continues to slow due to ongoing pricing and underwriting actions underway to ensure long-term profitable growth as well as the increasing size of the business.

Total Esurance premiums grew by 8.9% in the first quarter, policies in force grew 8.6% compared with the first quarter of 2014. Esurance profitability shown in the upper right chart was impacted by higher claim frequency and higher severity on collision and property damage. Esurance's expense ratio decreased 10.7 points in the first quarter of 2015 compared with the prior year quarter, given last year's first quarter spend to reposition the brand.

Spending on expansion initiatives, contributed approximately 2.8 points to the Esurance's expense ratio in the first quarter compared with 2 points in the first quarter of 2014.

Encompass policy in force growth, illustrated by the gray line in the chart on the bottom left, fell to negative 2/10 due to lower new business and lower retentions, the result of ongoing profit improvement actions. Decline in policies also impacted net written premiums which is 1.4% lower in the first quarter of 2015 compared with the first quarter of 2014.

Encompass' first quarter recorded combined ratio of 95.6 improved by 7 points, primarily driven by lower catastrophe losses.

And now I'll turn it over to Steve to cover Allstate Financial investments and capital management.

Steven E. Shebik
CFO & Executive VP

Thanks, Pat. Slide 10 provides an overview of Allstate Financial. As we've discussed previously, we strategically repositioned Allstate Financial over the last several years to focus its business on Allstate brand customers. The most recent action was to sell Lincoln Benefit Life and further integrate the life business into the Allstate brand value proposition.

Allstate Financial results for the first quarter are highlighted in the bottom of the slide. Premiums and contract charges increased 2.9% when compared to first quarter of 2014 results, excluding LBL. Growth was driven primarily by increased additional life insurance renewal premiums, Allstate benefit accident and health insurance business.

Allstate Benefits now has 3.2 million policies in force, making it a major player in the voluntary workplace benefits business.

Operating income for the first quarter was $134 million, 13.5% lower than the first quarter of 2014 after adjusting for the disposition of Lincoln Benefit Life. This reduction in operating income was driven primarily by lower investment income related to prepayment fees and litigation settlements, and higher life mortality and expenses than the prior year first quarter.

Moving to investments in the chart at the top of the Slide 11. Our portfolio total return was 1.7% for the first quarter. The components of the total return continue to show that the income yield remains consistent while the valuation impact varies from quarter-to-quarter.

Most recently, being driven by reductions in interest rates since year end 2014.

Our portfolio valuations have not been materially impacted by lower energy prices as the majority of our assets with exposure to the energy sector are investment-grade corporate bonds, which are currently in an unrealized gain position. The lower half of the slide provides the investment income in yield for the Property-Liability and Allstate Financial portfolios.

The Property-Liability interest-bearing yield in the lower left graph reflects the impact of prior duration shortening and ongoing investments in a low interest-rate environment. The interest-bearing portfolios yield is close to current market yields and is expected to respond more quickly to changes in interest rates as a result of its shorter maturity profile.

Moving to the Allstate Financial portfolio in the lower right. The interest-bearing portfolio yield is higher and more stable than the Property-Liability segment due to its longer duration and its cash flows being used largely to fund annuity reductions.

The drop in investment income primarily reflects the LBL disposition and the aforementioned reduction in annuities. Total first quarter limited partnership income was 39% higher than the same period last year, helped by a strong quarter for our real estate investments. Economic conditions and high liquidity levels have contributed to favorable market performance, which is reflected in strong limited partnership results in both portfolios.

As you can see from the charts, limited partnerships and other equity investments bring a higher degree of variability to our income, while more volatile, we expect these investments to increase returns in both portfolios over the long-term.

Slide 12 provides an overview of our strong capital position and excellent shareholder returns at the end of the first quarter. During the quarter, we returned $1 billion in cash to common shareholders through a combination of common dividends and share repurchases. We completed our 2014, 2.5 billion common share repurchase authorization in February by initiating new $3 billion authorization. A $500 million accelerate repurchase program was executed in March, which should be completed by mid-June.

As of March 31, we had $2.4 billion remaining on our current repurchase authorization, which is expected to be completed by July 2016. We provide additional information on our share repurchase activities this quarter in the chart on the right. In the table under the chart, you can see the impact of accelerated share repurchase initiations and settlements for each of the past 9 quarters. We have also posted an explanatory document on ASRs our Investor Relations website this morning.

Yesterday afternoon, we communicate the details of our 2015 catastrophe reinsurance program, excluding Florida. We rolled our expiring nationwide contract in a similar to lower-cost agreements and added approximately $300 million of coverage for growth in our business. As in prior years, I challenged our team to push the envelope a bit. You will see this year's program race through the historic 3-year duration of traditional reinsurance with 2 7-year 2 limit multi-pillar reinsurance covers to provide further stability in our business for our customers.
We expect to place our Florida program in the second quarter. And we'll communicate details at that time.
Now let's open up the call for your questions.

Question and Answer

Operator

[Operator Instructions] Our first question comes from the line of Josh Stirling from Sanford Bernstein.

Josh Stirling
Sanford C. Bernstein & Co., LLC., Research Division

So I wanted to start off with a question about growth. You guys have nicely increased your production coming from the core agency channel over the past few years. And there's a bunch of different things that have been going on, you talked about new younger agents coming into sort of freshen the footprint, also invest in developing agency management strategies and in cross-selling. And now you're talking a bit about the sort of evolving the -- how you run agencies, to focus more on higher value-added advisory relationships. And I was kind of trying to figure out -- map, I was trying to go through an exercise in my mind of mapping the improving production that you're actually seeing with some of the things you've been trying to do. And I was curious if you could help us sort of walk through, is this your initiatives playing out? Or is this more a function of your willingness now to write more homeowners and basically, having gone through a period of reunderwriting and now kind of having easy comps?

Thomas J. Wilson
Chairman & CEO

Good morning, Josh. Thank you for the question. Matt will take you through some of the specifics. It's a good question because it really gets to the substance of that, which we are doing which is our strategy is comprehensive, but it's designed to support profitable growth in any environment. And oftentimes, we might get into an environment where costs are going up and we have to raise prices, everybody thinks that it's all about price. And it is currently price is very -- obviously, very important, but Matt has a much more comprehensive program than that.

Matthew E. Winter
President and President of Allstate Insurance Company

Good morning, Josh, and thanks for the question. As you correctly pointed out, we have seen some nice growth overall in the business, both on the auto and the homeowners side.

We've also seen growth in the consumer household goods, and we're beginning to see some growth in the life and retirement space as well.

We don't believe that it's any one particular item that's led to that. As Tom mentioned, we really -- the entire team views this as one complex system, and we try to pull multiple levers on that system and have multiple influences on it that feed off of each other, as most self-generating systems do.

So what we're doing now is a function of trying to improve -- we use the phrase bandwidth and efficiency -- so we're trying to lay more pipe and improve the efficiency and productivity of that pipe. So we're adding a lot of agencies and we're adding agencies in a strategic manner. Not just allowing them to grow and develop wherever they want, but to thoughtfully pick geographic areas that have been underpenetrated in the past, and attempt to recruit in a more targeted way.

So that would include some areas that, historically, we've shied away from; some of the more non-urban areas, some of the heartland, the middle of the United States, some of the rural areas. And we're approaching that in a fairly thoughtful way using a bunch of different tools, including our regular agency system. But we're also using our Allstate auto dealer program, which enables us to put Allstate Agencies inside of auto dealerships. We're also using selective independent agency expansion in some of those rural areas to maximize our points of presence around the United States.

And then, we're doing a tremendous amount of work to improve the productivity, efficiency and effectiveness of those agents once they are there.

And that includes some of the Trusted Advisor work you referred to, where we're trying to take away some of the low value-added work that distracts them, doesn't add value to the customer and just eats up agency time. We're trying to use data analytics, emerging technologies as well as centralized support services to pull those out of the agencies, free them up for more value-added advice, consultation and service on coverage options; and enable them to really do what we think that we have as our competitive advantage, which is to have a local advisor in the community, who actually knows about those customers, can counsel them appropriately, and form a relationship-based business, not just a transactionally based business.

The last thing I'll point out on our growth is that while Tom said, and correctly, it's not all about price, it is to some extent driven by our competitiveness and the way we approach the market. And that's not just agent behavior, that's not just our points of presence, but that includes the rest of the system, that includes our marketing effectiveness, our lead generation capabilities, our ability to offer all the products those customers need; not turning any customers away and letting them go to other companies for one of those products. So that's where the homeowners -- opening up homeowners and expanding our product portfolio, and including life and retirement comes in. It allows us to serve the customers holistically, say yes to more customers, and not turn many away. It's where our new rating plans, which provide a -- through broadening the target -- allow us to offer a more competitive price to a broader group of customers coming in.

So I would say that the growth that we've achieved is a product of all of those factors, not any one in particular, not any one in isolation. It's one of the reasons that we feel confident that this sustainable growth and will continue, because it's not based upon one lever, it's based upon the system really functioning very effectively as a system.

Josh Stirling
Sanford C. Bernstein & Co., LLC., Research Division

Okay. That's great, Matt. Maybe just a quick question on margin expansion in Encompass and Esurance. I'm wondering if you guys could talk and give us a little bit more sort of the color, the back stories sort of what's creating the opportunities here? And then, help us understand to sort of, to what long-term sort of goals you're trying to drive these 2 businesses to? I mean, when you look at public comps, people make more money and attract business if you're larger and more mature and people make more money at a high net worth business than you do. And I'm wondering if you could long-term drive for these 2 franchises to have profitability to be in line with the core Allstate channel?

Thomas J. Wilson
Chairman & CEO

Let me make an overview comment, then Don and Kathy can say. I would say what gives the opportunity as you appropriately classified it, is that it's not good enough. So we have some work to do there.

The -- but they're different stories, right. So Esurance, we would like to continue to pick up share in that segment. So we continue to invest ahead of where other competitors would invest in terms of advertising as a percentage of revenues. We could obviously make that business profitable by shutting down advertising and growth and we're choosing not to do that because we want to grow in that segment.

The Encompass segment is a different story. It's much more competitive because you're inside the agency. So you have to be more careful as to how you grow there and so it's different set of stories. We're not explicitly seeking to invest in growing share [indiscernible] we're investing to get profitable growth.

So Don and Kathy, maybe you can give a quick answer to those 2.

Don Civgin
President of Emerging Businesses - Allstate Insurance Company

Yes, Josh. As far as the insurance goes, I think we've been very consistent since we put the company together, that our goal is to run the business in a way that's economically attractive over the lifetime value of the business we're writing. That then tends to take out this accounting anomaly of the advertising, which because of the direct model gets expensed immediately in the quarter it's spent, even though it's designed to build value over the lifetime.

So when you look at that equation of running the business on economic value, I think you have to breakout loss ratio and I'll say advertising expense separately. On the loss ratio, we still have room to grow. That's what I said last quarter too, we saw similar trends to the Allstate brand in the first quarter. And so we are also accelerating rate increases and taking underwriting actions and there is a need to improve the loss ratio in the Esurance brand over the course of this year.

On the advertising side, it's a little bit more complicated. As Pat pointed out in his opening comments, there tends to be volatility from quarter-to-quarter. Part of it is cyclicality, but part of it is what we're trying to accomplish. so last year in the first quarter, we spent a lot of advertising dollars because we were repositioning the brand. This year, we spent less. That you see in the expense ratio going down a little over 10 points. We still ran the awareness ads in the Super Bowl, in fact, we ran 2 of them but we didn't heavy up afterwards, like we did last year because of repositioning.

So when we talk about running at -- running Esurance on an economic value basis that includes advertising. So on a year-over-year basis, we continue to look at what the right amount is to make sure that the business we're writing is profitable. But you'll continue to see some variation from quarter-to-quarter.

Katherine A. Mabe
Executive Vice President of Brand Distribution

Josh, this is Kathy Mabe. Thanks for the question on Encompass. You can see from the investor supplement that we're starting really lean into rates, you can see it on Page 13. But keep in mind, a lot of our rate actions come -- will come midyear and in fourth quarter for Encompass. Part of what you're seeing, I think the best way to tell the stories on Page 18 of the investor supplement. And you can see that we made progress on the underlying combined ratio by about a point, but there is a lot more work to do.

From a policies in force perspective, we're about flat with where we were a year ago. And what's driving the net written premium change, is the change in mix, as we really put strong action in a couple of highly unprofitable states, which have high average premiums, and redirect growth to more profitable states, which have lower average premiums. These actions combined will allow us to position Encompass for long-term success. So we're not looking at just short term measures, but how do we reposition -- as Matt talked about -- reposition the channel for long-term profitable growth.

Operator

Our next question comes from the line of Bob Glasspiegel from Janney Capital.

Robert Ray Glasspiegel
Janney Montgomery Scott LLC, Research Division

I remain pretty confident that you guys know what you're doing on pricing, and will keep the margins within your targeted level on auto. I'm less confident that you could continue to grow PIF at the current rate. In fact, you said, I think in your script that you don't think the PIF growth will be materially negatively impacted. Where are we in the environment on pricing at Geico's commentary in Q1. I think it's helpful they're are going to be taking rate actions. Do you feel like you're with the field at the rate actions you're taking? Or maybe pushing ahead little bit and may lose some PIF momentum?

Thomas J. Wilson
Chairman & CEO

Bob, I think in terms of your level of confidence and the level of our confidence, the first thing you have to get through is this our problem or is this everybody's problem? If it's our problem, then obviously, the actions we take will be different and the impact on shareholder value and long-term value creation is different then it's everybody's problem. If it's everybody's problem, then the actions we take and the impact on both growth profitability, customer satisfaction, ability to expand agencies is completely different.

So we feel like this is, at this point, everybody's problem. Matt can help you understand why we believe that's the case. And if you look at the relative amount of increases necessary to account for increased cost of auto insurance, and that's all that we're talking about in this particular case is auto insurance, not the broad portfolio we have.

If you're just talking about auto insurance, it's relatively small dollars when it comes to amount per customer per year.

Matthew E. Winter
President and President of Allstate Insurance Company

Yes. Bob, it's Matt. Let me expand a little bit on what Tom just said. As we talked about last quarter actually, the frequency pressure is a combination of miles driven and weather. And I believe I said, last quarter, we thought that miles driven was about 3x as influential as the weather, that pattern seems [indiscernible] pulled up again, this quarter. But we want to validate that and verify it and as Pat referred to in his opening remarks, we did a very intense deep dive into our business to ensure that the increases in the frequency we're seeing are proportional and consistent across multiple segments of the business, no matter how you cut it. To make sure, in effect, that these aren't our problems, but are, in fact, external.

And so we looked at new and renewal business, we looked higher growth states versus lower growth states. We looked across quality characteristics. We looked across driver age, household composition, insurance scores, full coverage versus liability, across different rating plans to see whether or not perhaps, the rating plans had influenced it. And all of that review has showed that this trend is externally driven, primarily by miles driven.

And then we wanted to validate that. And so we've looked at external data on miles driven. And miles driven February year-to-date was 3.9% above prior year. The 12-month moving average on miles driven is 2.8% above the 5-year average. So we see it from external data. And then we're fortunate because we keep our Drivewise device in the car for an extended period of time. We're able to look at that data on an ongoing basis. And so we have our own specific proprietary data that shows miles driven up a consistent amount to what we see in external data sources. So we validated it with our internal data, we validated it with external data. And then, we looked at other sources to ensure that, that in fact, is true.

And I switched my reading material. If you look at CollisionWeek Magazine, that periodical, it reported January production for the auto body repair industry was 6.8% higher than January of 2014.

That's a huge increase for increased activity in body shop. So we looked at that and then we looked on the weather side. And for those of you in the Northeast, you experienced most of this. You experienced winter storm, Juno. You saw the coldest February ever recorded in Connecticut and Upstate New York. You saw the second coldest February on record in New York. You saw 200 car pileups in Michigan in January, one of the largest on record.

And so we saw precipitation increases and freeze increases in the first quarter that were pretty much unprecedented. So you look at all of that and you come to the conclusion that in fact, this is an external trend. So given that it's an external trend, we believe that our competitors will react to it the same way we will react to it.

I don't think they will react to it with a level of sophistication and granularity, we might, or in the exact same ways, but they will have to react to the trends. As I mentioned in my earlier response, competitiveness is not just rate. But if you do look at rate, we saw the auto insurance CPI up 5.9% for March. 5.9% up from February CPI of 5.6% and the 2014 full year auto insurance CPI of 4.2%. So the average premiums paid by customers has been steadily increasing. Then we look at [ph] and we look at competitor rate increases and we believe we're going to be part of the path taken by rates. So as a result, it's going to come down to execution and not just execution on how we take rate and how carefully we do it, but how we execute on the rest of the system, all those other factors; trusted advise from agents, service, product design, excellent claim service, effectiveness of our advertising, the productivity and efficiency in the agencies, their ability to close the business quickly and we feel confident. I feel very confident that the team will manage through this. I like this kind of competition. I think we are very well-suited to deal with it effectively and rise to the top of it. So it does not concern us.

Thomas J. Wilson
Chairman & CEO

Bob, let me add something on top of that. First, it's not one product and it's not one market. So -- because we have a couple of competitors where you can see their results and they are one-product companies, we end up tending to focus on just auto.

We have a broad-based growth plan as Matt talked about earlier. And so I just want to double-underline what he said earlier, which is broad-based. Secondly, it's not just one market, like, because we report the numbers on a countrywide basis, we tend to have that conversation there, but that's not the way the business has been run.

So there are many markets. So if you look at the top 11 states, 6 of them are growing at higher than 3%, but that also means that 5 are growing at less than 3%, in fact, 4 of them are kind of hovering around 0, I think, Matt. So you're -- we don't have to react. We don't react across the country, we react to every local market. And so the results you see, reflect what we've been doing for the last couple of years. And they will reflect the way we go forward in the future.

Operator

Our next lesson comes from the line of Kai Pan from Morgan Stanley.

Kai Pan
Morgan Stanley, Research Division

And to just follow up on Bob's question. Just in terms of the action plan you're taking on pricing side to mitigate some of the impact of rising loss cost trend, I'm wondering when you -- like how much price increase you need to have? And in that price increase, like, do you forecast any further rising in terms of the mileage driven? And also, like in terms of time, how soon can you get pricing into the system and stay [indiscernible] on the others? And then, like I just wonder, going -- are we going to see continued high level, like combined ratio than you desired over the next few quarter as you are taking these pricing actions?

Matthew E. Winter
President and President of Allstate Insurance Company

Thanks, Kai, for the question. It's Matt, again. So I think as we pointed out in the Q, I'm sorry, in the Investors sup on Page 13, footnote 9, April rates actually exceeded that of the entire first quarter. So it does take us a while to begin to implement the rate increases. It's a process. We have to recognize the trend, we have to do the filing. We have to do a careful thoughtful approach to it, to make sure we minimize the potential impact on growth and retention. And then, we institute as quickly as possible. So this quarter showed a fairly low-level of filed and approved rates. It doesn't mean it showed us a low-level of activity, because you can't see the activity. And you -- that's one of the reasons we point out the April rate. I would say that we are accelerating some of the rate that had been planned for the rest of the year. But overall, the levels are not something that I think will shock the system. Where rate is not our only lever on managing loss cost. We look at things like our underwriting guidelines. We have correct class programs to make sure we're getting paid the appropriate price for the risk that we're taking on. And so -- and we have expenses.

And we will continue to manage all those levers to ensure our combined ratio stays within an appropriate range, so that we earn an appropriate return on the business. I can't predict where miles driven are going to go or where weather is going to go, or what the unemployment rates are going to look like over the next several months or year. I can say that we have a very good handle on the trend. We have a system that's designed just for this in mind, because it's a decentralized rate taking system that looks at each individual geography and manages rate taking by that local geography. And so we're on it, and we will continue to preserve margins.

Thomas J. Wilson
Chairman & CEO

Let me make sure you really focused on it. There was a statement Matt made in there, which I want to make sure you're really focused on, which is from a shareholder value standpoint, our auto business generates really good returns, both over time and even this quarter. Okay, so 96.8 was higher than we would have liked in the quarter. But if you look over the last 12 months, its 95.6. That's a recorded number, that's not an underline, that's not anything. That is a really good return on auto insurance.

And so we wanted to make sure we continue to earn that return for our customers -- give that product to our customers at the right price so we earn a good return for our shareholders. And we don't feel like we're in a position where we have to react expeditiously because there is something that is our problem.

Kai Pan
Morgan Stanley, Research Division

Great, that's very comprehensive. My follow-up is on your reinsurance strategy. Looks like you maintained your, like, retention of $500 million. I just wonder, like, 2 directions on your reinsurance, given the reinsurance environments. But now the pricing is affordable and you have longer-term horizon that 7-year contract now. So on one hand, is that -- what's your strategy to further lower your volatility, basically even reducing your current retention level? And the other direction is really, what about the coastal market? If you can afford to buy long-term affordable reinsurance will you be more interesting expanding into this markets?

Steven E. Shebik
CFO & Executive VP

So I'll address that in -- this is Steve. I'll just address it in a couple of ways. As you noticed, we effectively placed the same program we did last year, $500 million retention, the nationwide coverage: We kind of rolled over the expiring contracts. We brought $300 million more of coverage as our business is growing.

And as you noted, 2 of the contracts above the nationwide program, we placed for 7 years in additional reinsurance market. So that was a major breakthrough we think in terms of our coverage. You heard me talk in the past about we need 7- to 10-year coverage to provide a stability in the business for our customers. So that we thought was a big breakthrough this year by our team.

In terms of buying below, making that $500 million less. We look at that and given our capital base, we don't think we need to do that. We're in the business to make good returns, we are making good returns in that business now.

And we don't think that economically it makes sense to really bring that down much further. In terms of the coastal business, Matt's talked, off and on, about the optimization of our exposure on the coast. We continue to work on that in terms of agency placements. In addition, to just getting reinsurance, we want to have the people in place, we want to have a spread of risk, not only the coast, but the central part of the country; which provides the most optimal reinsurance buy and the optimal economics for the business.

Operator

Our next question comes from the line of Alison Jacobowitz from Bank of America Merrill Lynch.

Alison Marnie Jacobowitz
BofA Merrill Lynch, Research Division

Just a follow-up on the reinsurance program. A part of it goes out 7 years, does that have positive implications for capital or is that layer just too small?

Steven E. Shebik
CFO & Executive VP

The implication -- this is Steve, again. The implication is, it's -- we have buy at a high enough level to appropriately meet the capital tests that the rating agencies have. The 7 years is really for us because it provides stability in our capital base and for our customers.

Thomas J. Wilson
Chairman & CEO

And this would be Tom. We're way underrated in anyway, so...sorry, I couldn't help myself.

Operator

Our next question comes from the line of Ryan Tunis from Credit Suisse.

Ryan James Tunis
Crédit Suisse AG, Research Division

Another quick follow-up for Steve, just on the reinsurance program. Could you guys give us a dollar amount or even just, directionally, what you expect to save on your reinsurance program over the next 12 months?

Steven E. Shebik
CFO & Executive VP

So if you look at the -- what we placed in the rollover of our nationwide program, it's 1/3 of our program, and market pricing today is 10%, 12% better than it was a year ago. We reinvested a good part of that in buying this other $300 million of coverage at the top. So you shouldn't see a whole lot of savings. If you remember, most of it actually just goes through our rates, a little bit delayed basis.

But more than 80% of our reinsurance cost are baked into the rates. So if the reinsurance cost go up, the rates go up as they go down and as they have the last handful of years, our rates actually go down.

Ryan James Tunis
Crédit Suisse AG, Research Division

Got it. That's helpful. And then, I guess just shifting gears to Allstate brand, just a little more color on the 8/10 of a point of unfavorable reserve development in the auto. It sounded like about half is ascribe to litigation settlement accruals. I know that segment, it has been that redundant for a while. I think, because of the severity related reserve releases. Just curious what drove the rest of the noise there?

Steven E. Shebik
CFO & Executive VP

So let me do it -- look at it in a couple of ways. First, our reserves are appropriately stated in the balance sheet.

And we -- they are subject to multiple internal and external use on a regular basis. I just want to make sure we get that out of the way. Second, we do stay that way, because we use a variety of reserving methods and they react quickly to the underlying changes in the data we see.

So on the first point, to reiterate that just slightly, the reserves are established by a team under Sam Pilch our controller and under myself. That is separate from our business units. So we have independence in terms of within the company and they are independently evaluated by both our auditors and an annual basis by our appointed actuaries. So that's the process to ensure the integrity of the reserves.

In terms of the changes, which is the second point, when we use a variety of methods to enable the accuracy of our reserves -- and when we -- when changes are made in the underlying data, we react quickly, so take a look at particularly, at this quarter, as you just noted, about the half of the unfavorable prior reserve adjustments related to litigation accruals, which really were from many years ago. Secondly, it has to do with an increase in case reserves for our major medical claims. And those case reserves were increased earlier than our past patterns, because of changes we've made in our claim processes to both improve our customer experience and better manage the claims.

So while we believe that acceleration of what we think would ultimately have been upward development in the claims, we increased our reserves for both last year; so last 2 or 3 years we had and also this year's severity given the long duration of the settlement of medical claims.

So this increase was determined using a variety of methods. We continue to look at those and as the period of time goes along, we believe that the methods will come together as we do the final payouts and the cases are settled. Does that...

Ryan James Tunis
Crédit Suisse AG, Research Division

Yes, that's helpful. And I guess, I had one more. It sounds like you guys are of the view that some of the frequency blip might be an industry issue in general. And I'm just trying to understand, why might we have seen this more at Allstate now and perhaps not in a lot of peers? I'm not sure if it's geographic or anything along those lines. And also just drilling down within the customer base, where are you seeing above average increases at miles driven versus below-average?

Steven E. Shebik
CFO & Executive VP

I think as it relates to competitive, it's hard to answer that question, right. So you saw the Geico's Q, you can look at Progressive's numbers, you can -- but there is -- it's always a question, in part, of like when you start like you're looking at percentage ups versus absolute levels. So there is some obviously, some state mix in there, there is weather-related mix, there is how you grew your business. So it's -- we can't answer the question as it relates to the other people. We can answer the question which Matt talked extensively about, which is, we don't see anything in the way we have done our business -- and we have the ability to slice and dice our data, as if we were our own competitor, right -- so we can slice and dice it in a whole bunch of ways, and we do think it's comprehensive. Matt, do you want to take the second piece?

Matthew E. Winter
President and President of Allstate Insurance Company

The second piece was -- I'm sorry, where we're seeing miles driven? Miles driven is essentially, I think, Tom in the last call referred to it as an indicator of economic activity. And I think that's really a way to view it. And so it's been very consistent when you look at miles driven in those regions of the country that have seen an increase in overall economic activity, lowered unemployment rate or higher investment or higher home construction. There is a whole bunch of different ways of looking at it. But economic activity has spurred miles driven, which has spurred frequency.

Operator

Our next question comes from the line of Michael Nannizzi from Goldman Sachs.

Michael Steven Nannizzi
Goldman Sachs Group Inc., Research Division

So just a couple of questions here. How important is channels? So if we look at captive versus the independent agency channel, and your ability to push for pricing to offset the impact of these loss trends that you're seeing. It seems like, in retentions looked pretty good in the quarter, new applications were higher. So I'm just trying to get an idea, I mean, is it really just a timing difference in your ability to kind of right size or do you expect to start seeing some pressure from a ceiling on pricing?

Thomas J. Wilson
Chairman & CEO

Mike, I would start with, it's really about best value for the customer based on what they want. So if you look at the Allstate agency segment, they want local advice, they want a broad set of products and services. And they obviously, want a good price as well. And so it is price-sensitive. But if you sell them there 2 cars and a house, and a boat and all kinds start raising their price by $15 or $20 a year, isn't going to change that relationship or that value equation in a substantive way. So we tend to look at it in terms of what's the customer value proposition, how you give them best value. That's what the quality of the service and the product is as it meets their needs. And then, what is the cost of it?

Obviously, the channel then subjects that value proposition to different levels of competition. So when you're in the Allstate channel, that -- do not really subject to competition from a whole bunch of other people because you've got that local relationship.

If you're in the independent agency channel, there is more competition around that value proposition. So it tends to be a little bit more price sensitive up there. And to those people that are in that segment tend to value brands a little differently. They would, sort of, if I know the company that's good enough as opposed to I really have a long-standing relationship and I've been part of Allstate for a long time. That person tends -- that second person tends to be less price-sensitive. So there tends to be more price competition in the upper left of our four quadrants, that's the independent agency channel. There also tends to be a little more competition on the right-hand side of the page, which is the self-serve segment, because the relationship is not as strong.

And they're doing a lot of the work themselves, so they can go out and get it. There still is in the branded segment where Esurance is highly focused, a fair some -- a focus on am I getting the right kind of product and service and is it easy for me? So it's not just how do I go get another $5 off on this price? So -- but I would say the lower left tends to be the least price-sensitive segment out of all of them.

Michael Steven Nannizzi
Goldman Sachs Group Inc., Research Division

Got it. I guess for Matt. I mean, so taking that into consideration, I mean, you've taken clearly, took some rate action in 4Q that you talked about and you took more in 1Q, then you took more in April. Where are we in the process in terms of kind of getting us back to kind of where we were before we saw this change in trend? And have those actions now sort of addressed the issue, at this point? And you mentioned pulling rate forward, should we expect that you will continue to balance an opportunity for rate in the captive channel to sort of get yourself back to where you want to be. And does the environment -- is the environment at this point conducive to that?

Matthew E. Winter
President and President of Allstate Insurance Company

We are earning good returns. We're doing a great job for our customers. Our customer Net Promoter score is up. We're growing the business, we're getting good returns in the auto insurance business. And so I don't want the conversation to be too -- I mean, we are reacting to what is normal in any market place in any business, which is as you have your cost go up, you work to make sure that you're maintaining the returns where you want them to be.

The first quarter was a slight blip up. But we're doing what we normally do. Which is what we are trying to explain is, we look to see is it our problem or everybody's problem? If it's everybody's problem we'll just keep compete and keep growing. So I don't think this is about getting back to some place versus being at a place we don't want to be.

We had a good profit this quarter. We made really good returns on our homeowner business in part because of low caps. But we didn't make as much money in auto insurance this quarter, in part because of weather, in part because we have to adjust prices reflecting economic activities. The strength of what we got going is we have lots of levers we can pull, whether that's by product, by channel, by customer segment, the way we think about it to help us achieve what we're supposed to do for our shareholders which is to get a good return. Last 12 months, we've had a 13% return on equity, and we just gave back $1 billion in cash. So we think that's a pretty good offer.

Michael Steven Nannizzi
Goldman Sachs Group Inc., Research Division

And then, just lastly, I guess, just as a follow-up. Is there a tailwind from more economic activity for your business as well, we sort of focus on the frequency impact, but is there an offsetting tailwind to premium or policies that we should think about as well?

Matthew E. Winter
President and President of Allstate Insurance Company

Well, sure. I mean there is couple of tailwinds as the country continues to grow and given where we are, we will continue to grow with it. The other part to that is in the investment portfolio, we are basically long U.S. growth; the way we positioned our portfolio, that being shifting into more performance-based investments and keeping our duration short in the investment portfolio. So as growth goes up, then you would expect to be able to earn higher returns in you fixed income portfolio at some point of time and that would be a huge tailwind for us. We'll take one more question and then we'll finish it up.

Operator

Our final question comes from the line of Jay Gelb from Barclays.

Jay H. Gelb
Barclays PLC, Research Division

I was trying to get your perspective on the underlying combined ratio. The guidance for this year was 87% to 89%. First quarter was 89%. I'm just trying to gauge your level of comfort to stay within the outlook for the full year.

Thomas J. Wilson
Chairman & CEO

Jay, if we wanted to change we would've said we wanted to change. I would point out its a full year number, we are committed to that full year number. We see no reason to change that number at this point. Obviously, you would prefer to start a year at the low end of your range rather than outside your range, which we did not. Being at the high end of the range, just means we have to continue to work to get our commitment done.

I would also point out that 90% of our business had an underlying combined ratio of 87.4 that's the Allstate brand piece. So we feel like we're in good shape for running the business the way we want to do it.

Let me close it off because I know you have other things and we are appreciative of the time you give us. We had good results this quarter, good balanced results. You can see the strength of the broad-base of our business model, which is not just one product, not just one customer segment, not just one investment offering, and investment strategy. We have a lot of levers we can continue to pull to earn good returns for our shareholders. We continue to generate not only good returns on equity, but also good cash returns for our shareholders. And we expect to continue to do that as we go forward. Thank you very much, have a great quarter.

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