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Presentation

Operator

Good day, and thank you for standing by. Welcome to Allstate's First Quarter Earnings Investor Call. [Operator Instructions] As a reminder, please be aware that this call is being recorded.

And now I'd like to introduce your host for today's program, Brent Vandermause, Head of Investor Relations. Please go ahead, sir.

Brent Vandermause
Head of Investor Relations

Thank you, Jonathan. Good morning, and welcome to Allstate's First Quarter 2021 Earnings Conference Call. Yesterday, following the close of market, we issued our news release and investor supplement, filed our 10-Q and posted today's presentation, along with our reinsurance update on to our website at allstateinvestors.com. Our management team is here to provide perspective on these results and our strategy. After prepared remarks, we will have a question-and-answer session.

As noted on the first slide of the presentation, our discussion will contain non-GAAP measures for which there are reconciliations in the news release and investor supplement and forward-looking statements about Allstate's operations. Allstate's results may differ materially from these statements, so please refer to our 10-K for 2023 and other public documents for information on potential risks.

Before I turn the call over to Tom, I would also like to provide an update on our monthly financial disclosures since early 2022, and implemented rate actions from the prior month have been included in our monthly release and disclosed on our Investor Relations website to provide additional transparency on our proactive response to the rapid rise in loss costs. Going forward, our implemented rate disclosures for auto and homeowners insurance will be disclosed on a quarterly basis instead of monthly within our investor supplement.

And now I'll turn the call over to Tom.

Thomas Joseph Wilson
Chairman of the Board, President & CEO

Good morning. Thank you for investing your time and have interest in explaining why Allstate's such an attractive [indiscernible]. And then Mario and Jesse are going to walk through the operating performance. And then as Brent mentioned, as there we'll have time for Q&A.

Let's begin on Slide 2. Allstate strategy has 2 components, which is shown on the left there, increased personal property-liability market share and expand protection provided to customers. On the right-hand side, you can see the highlights for the quarter. So we generated net income of $1.2 billion in the first quarter. The profit improvement was broad-based. It reflects successful execution of the auto insurance profit improvement plan, attractive homeowners' insurance margins, and they also benefited from lower catastrophe losses in this quarter.

Net investment income was up almost 33%, reflecting the 2022 and 2023 repositioning into longer duration, higher fixed income yields and then yields also went up some. And We had good performance-based valuations this quarter as well. Protection Services also had a good quarter, and that was led by Protection Plans and Roadside Services; if you go; down to the bottom, what do we do from here, we have a broad approach to further increase shareholder value.

First improving auto profitability in underperforming states will increase returns. Secondly, we're focused on increasing policies in force under the Allstate brand while continuing to expand National General. Mario is going to talk about that in a few minutes. Allstate's integrated approach to investing has and will continue to create value for shareholders. Expanding protection services will benefit both our customers and shareholders. And then the sale of the Health and Benefits business to a buyer that can further leverage our success will create more shareholder value. Although I'd point out, it will have a short-term negative impact on return on equity.

Let's review the broad-based profit improvement on Slide 3. So revenues were $15.3 billion in the first quarter, reflecting a 10.9% increase in Property-Liability earned premium and that, of course, was primarily due to kick rate increases in both auto and homeowners insurance. Over the last 12 months, property-liability written premiums have increased by almost $5 billion on an annual basis. Net investment income in the quarter was $764 million, or $32.9 for the prior year, and that reflects those higher fixed income yields and the duration extension I just mentioned. The strong profitability in the quarter generated adjusted net income of $1.4 billion or $5.13 per diluted share.

Now let me turn it over to Mario to go through property liability results.

Mario Rizzo
President of Property & Liability and Director

Thanks, Tom. Let's start on Slide 4. Property-Liability earned premium increased 10.9% in the first quarter, driven by higher average premiums. Underwriting income was $89 million, the combined ratio of 93%, which improved by 15.6 points compared to prior year was driven by higher premiums earned, improved underlying loss cost trends, lower catastrophe losses and operating efficiencies. The chart on the right depicts the components of the 93 combined ratio. Lower catastrophe losses of $731 million were 8.8 points favorable to the prior year quarter, reflecting milder winter weather.

The underlying combined ratio of 86.9% improved by 6.4 points compared to the prior year quarter. The improvement was driven by higher average premium and moderating loss cost increases. Expense reduction programs also benefited results more than offsetting higher advertising spend. Prior year reserve reestimates, excluding catastrophes, had only a small impact on results. Favorable development in personal auto and homeowners insurance largely offset increases in personal umbrella liabilities and commercial auto reserves for the transportation network contracts we began exiting in late 2022.

Now let's take a closer look at auto insurance profitability on Slide 5. The first quarter recorded auto insurance combined ratio of 96 improved by 8.4 points compared to the prior year quarter, showing that our profit improvement plan is working. The left chart shows quarterly underlying combined ratios. You will remember, we showed this chart last year, which adjusts 2022 and 2023 quarterly reported figures to reflect the updated average severity estimates as of the end of each respective year. As you can see, the underlying combined ratio improved sequentially in each of the last 5 quarters to 95.1% in the first quarter of 2024.

The chart on the right shows that in the first half of 2023, premium increases in dark blue were being offset by higher underlying losses and expenses. Profits began to improve in the third quarter of 2023 as premiums outpaced loss and expense increases and this continued in this year's first quarter. The slight first quarter drop in underlying loss and expense reflects lower claim frequency that benefited from milder weather and improved operating efficiencies, partially offset by higher severity.

Relative to the prior year quarter, average underlying loss and expense in the first quarter of 2024 was 6.7% higher as you can see at the top of the table. This reflects higher current year incurred severity estimates, primarily driven by bodily injury coverage, which was partially offset by lower accident frequency and the favorable impact on current year severity of favorable prior year reserve development in the Allstate brand.

Given the impact that good weather had on frequency in the quarter, favorable frequency may not persist as the year progresses. While auto margins have improved due to our price improvement actions we remain focused on ensuring that rate levels continue to keep pace with underlying cost trends driving improved profitability in those states not yet achieving target margins.

Slide 6 shows how auto profit improvement supports pursuing policy growth. As shown on the left, Allstate brand implemented rate increases exceeding 16% in both 2022 and 2023. In the first quarter of 2024, we implemented rate increases of 2.4% to keep up with the cost trends and improve margins in states not achieving target margins. The chart on the right depicts the Allstate brand auto proportion of premium in states with an underlying combined ratio of below 96%, shown by the dark blue bars. As more states have achieved target returns, we have started to increase marketing investment, both nationally and in those states. Slide 7 shows that while Allstate brand policies in force decreased compared to prior year, albeit at a slower rate than last quarter, over half that decline was offset by growth at National General.

On the left, you can see that total protection auto policies in force decreased by 2% and compared to prior year due to a decline of 5.2% in the Allstate brand, reflecting the continued impact of auto insurance profit improvement actions. Underneath this decline is the positive impact of higher Allstate agent productivity and direct channel sales. Customer retention in the Allstate brand also continued to improve, and that improvement has a significant impact on growth trends. Allstate brand auto retention of 86% improved by 0.3 points compared to prior year, as the negative impact of large rate increases in 2022 and 2023 begins to moderate.

As we discussed last quarter, we received approval for rate increases in the profit challenge states of California, New York and New Jersey, which were affected this quarter. Renewal trends in those states were stable in the first quarter, but the full impact on customer retention had not yet impacted growth. Allstate brand new business also increased 7% versus the prior year, reflecting more advertising and increased Allstate agent productivity and direct sales.

National General was another positive to growth. Policies in force increased by 12.6% over the prior year due to an increase in nonstandard auto insurance and the continued rollout of a new middle market standard and preferred auto insurance product, also known as Custom360.

Slide 8 summarizes homeowners insurance profitability, which generated strong returns in the quarter. Homeowners insurance provides a differentiated customer experience and represents an additional growth opportunity across channels. The chart shows the homeowners combined ratio over time, achieving a 10-year average of approximately 92. The first quarter combined ratio of 82.1 translated to $564 million of underwriting income and improved 36.9 points compared to prior year, primarily driven by lower catastrophe losses. The underlying combined ratio of 65.5 also improved by 2.1 points due to higher average premium and lower noncatastrophe claim frequency.

Allstate Protection homeowners generated double-digit written premium growth compared to prior year, reflecting higher average gross written premium per policy and policies in force growth of 1.4%. Allstate agents continue to bundle auto and homeowners insurance at historically high levels. And National General's Custom360 product offers additional growth opportunities in the independent agent channel. Allstate has created an industry-leading business model, and we remain confident in our ability to generate attractive risk-adjusted returns.

Moving to Slide 9, let's discuss the property liability growth opportunities. Starting on the first row. Improving customer retention remains key to improving our growth trajectory. Auto retention levels have stabilized and sequentially improved over the last two quarters and homeowners retention improved 0.8 points to the prior year quarter. Our agents and employees continue to guide customers through the renewal process by offering coverage options and ways to save through innovative programs and discounts like Drivewise and Milewise telematics offerings.

Growth can also be increased by easing new business restrictions. As rate adequacy has been achieved in more states, restrictive underwriting policies have been unwound in states representing more than 75% of Allstate brand auto premium. Increased Allstate brand advertising is also expected to increase growth. The components of transformative growth are being implemented to create sustainable growth. An improved competitive position will result from further expense reductions.

Expanded customer access comes from increased Allstate agent productivity, enhanced direct distribution and the expansion of Custom360 to more independent agents. A new Allstate brand, affordable, simple and connected auto insurance product is available in 9 states on the direct sales side. Online quote completion time has been reduced by 40% to less than 3 minutes within the new technology ecosystem. This platform will be expanded to the Allstate agent channel this year into more states and homeowners over the next several years. With these growth levers, Allstate is positioned to generate sustainable, profitable growth.

Now I'll turn it over to Jesse to talk about other operating results.

Jesse Edward Merten
Executive VP & CFO

Thank you, Mario. I'm moving to Slide 10, let's discuss the increase in investment income. Before we dig into specifics, let me reiterate that our active portfolio management includes comprehensive monitoring of economic conditions, market opportunities, interest rates and credit spreads by rating, sector and individual names. We seek to optimize return per unit of risk across the enterprise. This approach to portfolio management continued to benefit results in the quarter. Net investment income shown in the chart on the left totaled $764 million in the quarter, which is $189 million above the first quarter of last year.

Market-based income of $626 million shown in blue was $119 million above the prior year quarter as the fixed income portfolio continues to benefit from repositioning into longer duration and higher yielding assets that have sustainably increased income. Performance-based income of $201 million shown in black was $75 million above the prior year quarter due to higher valuation increases and was above the trend that we have seen in recent quarters but lower than 2022.

The performance-based portfolio is constructed to enhance long-term returns and volatility on these assets from quarter-to-quarter as expected. Total portfolio return of 0.5% for the quarter and 4.8% for the last 12 months which is shown in the table below the left chart indicates that a balanced approach to risk and return creates shareholder value. The chart on the right shows changes made to the bond portfolio duration in comparison to interest rates over time. Higher income this quarter reflects increases in duration as inter rates rose in 2022 and 2023. The table below the chart shows fixed income portfolio earned yield was 4.1% at quarter end, but 0.7 point increase compared to 3.4% for the prior year quarter.

Slide 11 breaks down the growth and profit performance of the Protection Service businesses. Revenues in these businesses increased 12.2% to $753 million in the first quarter compared to the prior year quarter. This result is mainly driven by growth in Allstate Protection Plans, which increased 20.5% compared to the prior year quarter, reflecting expanded product breadth and international growth. In the table on the right, you will see adjusted net income of $54 million in the first quarter increased $20 million compared to the prior year quarter. The increase was primarily attributable to 2 businesses. Profitable growth in Allstate Protection plans resulted in adjusted net income of $40 million, representing an increase of $12 million compared to the prior year quarter, higher revenue and improved claims trends benefited the bottom line. Allstate Roadside had adjusted net income of $11 million, driven by increased pricing, improved provider capacity and lower costs.

Shifting to Slide 12, the Health and Benefits business continued to perform well. For the first quarter of 2024, revenues of $635 million increased by $52 million compared to the prior year quarter, driven by premium growth in individual and group health in addition to higher fees and other revenue in those businesses. Adjusted net income of $56 million in the first quarter was consistent with the prior year quarter as individual health fee income growth was offset by lower employer voluntary benefit income.

On Slide 13, we'll wrap up our prepared remarks where we started by reiterating Allstate's strategy and opportunities to increase shareholder value; improving auto insurance profitability, pivoting to growing auto and homeowners' policies in force, proactive risk and return management of the investment portfolio, expanding Protection Services and completing the sale of Health and Benefits, which we expect to occur in 2024.
With that context, let's open up the line for your questions.

Question and Answer

Operator

[Operator Instructions] Our first question comes from the line of Jimmy Bhullar from JPMorgan.

Jamminder Singh Bhullar
JPMorgan Chase & Co, Research Division

So my first question was just on your views on PIF growth. And I realize it's going to be challenging in the near term, just given price increases. But with the expense cuts and coming through and once you're done with repricing, do you think that it's reasonable to assume that you'll have positive growth beginning sometime later this year or early next year in the auto business?

Thomas Joseph Wilson
Chairman of the Board, President & CEO

Jimmy, we do believe that it's time to pivot to growth that we has had restrict growth so we could get profitability up in the auto insurance business. We're not done with it yet, but we feel that the trajectory is good and we get a path forward on that. Mario went through the long list of various ways we can do it. First, of course, you just keep more of your existing customers. And then we have a bunch of other ways that we think we can grow new business.

When that will actually turn by quarter will be dependent on what happens in the marketplace. But it is, we believe, the really great opportunity to increase shareholder value because when you look at our valuation relative to a higher growth company like Progressive, it's -- there's a substantial discount. And we believe that this pivot to growth will drive more shareholder value. Mario, anything you want to add to that?

Mario Rizzo
President of Property & Liability and Director

No, I think that covers it in. The only thing I'd say is in the Allstate brand, obviously, we continue to see the impacts of the profit improvement plan that we've implemented over the last couple of years. But we're starting to see, as Tom mentioned, some positive signs on retention as well as an uptick in production. And first, we need to see sequential growth before we'll get to annual year-over-year growth. And I think it's important to point out in National General. We continue to see really strong growth in that business, along with really strong profitability that we're encouraged by. And we think there's -- most of that growth in National General is coming in the nonstandard auto insurance business, we think there's an additive opportunity that we're going to continue to go after, as I mentioned, with Custom360. So opportunity across all brands and all channels going forward.

Jamminder Singh Bhullar
JPMorgan Chase & Co, Research Division

And can you talk about progress on the benefit sale? Obviously, from the outside, we haven't seen any movement. But -- and then just how you think about the deployment of the proceeds that come out of that sale?

Jesse Edward Merten
Executive VP & CFO

Jimmy, this is Jesse. So as it relates to the process, I would say things are progressing as expected on the pursuit of the divestiture. You'll remember we announced the intention to pursue the sale about 6 months ago, almost to the day. And as you might expect, there was robust interest from a large group of quality potential buyers on both strategic and financial. So diligence on a large complex business takes some time in so to selecting the right potential buyers to stay involved in the process. At this point, we're pleased with how the process is progressing, and we're confident that we'll be in a position to select a buyer that sees the same potential in the business that we do and is aligned with our strategic rationale for the sale.

So we continue to pursue the divestiture as we said. And obviously, we'll let you all know as soon as we have a definitive agreement in place and offer more details at that time.

Thomas Joseph Wilson
Chairman of the Board, President & CEO

Jim, let me make a comment about the capital since it came up -- you mentioned that it came up at a number of the analyst write-ups last night. So first, we're very well capitalized. We've made that point consistently over the last couple of years. Obviously, the divestiture of health and benefits would free up additional capital. We're doing it because we believe it's the right way to harvest value, as Jesse pointed out. We think this is a great business that's shown up in the people who have been interested in buying it, but we also think that somebody else could do more with it than we can do with.it.

When you look at capital utilization, I would say that it's embedded in kind of a like from our strategy to enterprise risk and return to reinsurance to how we price homeowners insurance in a local market. And a couple of things I would say all those decisions are made with math, highly sophisticated math. So sometimes I think that confuses some people when we have more sophisticated math than things like premium surplus ratios.

But when we do that, we're looking at what the impact is economically and what the impact is on shareholder value. And we look at a really wide range of alternatives. First -- the first best opportunities of organic growth, given the high returns in our auto home protection plan businesses, we get really good returns there. And as I mentioned, we think that will drive increased valuation in the stock without earnings. After that, you said, well, share repurchase, a number of people asked about share repurchases. It's another thing that we look at.

We've -- as you know, we bought back a lot of stock since we went public we've bought back almost $42 billion worth of stock, which is 83% of shares outstanding. If you look over the last 10 years, it's about half the shares and about $20 billion, you look over 5 years, that's 1/4 of the shares and about $10 billion. So we have no aversion to that. When you say, well, what kind of return do you get on that? Of course, it depends on what price you bought it at and what day you're marking it to market.

It is low point, it tends to look like cost of capital. Today, it looks like it's in the 10% to 14% range, depending on what period of time we look at. So that's a good return, one that we think benefits shareholders. On the other hand, it's not as good as at which we get from deploying it in those businesses. So deploying getting growth is why we believe that we have a whole bunch of other things we look at. We could increase the equity allocation and investment portfolio.

As we've told you, we're -- we have a bimodal approach there. About 60% is illiquid. We hang on to over ups and downs and 40%, it's liquid, we're down at the lowest level we've ever been in liquid equity securities. And we did it because we didn't like the risk in return. We're not trying to be a hedge fund, but we thought we had better places to put the money. We could decide we want to dial up there. Sometimes we put opportunity money in new capabilities, Arity.

If you look at Arity, we've now got 1.5 trillion miles of driving data. We're getting over $1 billion a week. We're expanding that from just pricing people who are our customers to pricing people before they become customers, which makes you be more efficient in marketing and advertising. Sometimes we acquire companies. So if you look at our protection plans business, it's like 10x its size and we bought it for $1.4 billion. We look at National General, we paid $4.1 billion, I think just -- and that's like double its size.

So we did -- haven't done as well harvesting the value out of our identity protection business yet, but we're confident we got the right pick there that people are at greater risk, recently figure out how to grow it faster and make more money. So we have a whole bunch of opportunities that we look at. So I don't think you should just automatically default to something that falls into an easy analysis if you got the extra money to do share repurchases. No, we'll think about it hard. We'll do the right thing for shareholders, and then we'll make sure we're communicating with people.

Operator

And our next question comes from the line of Andrew Kligerman from TD Cowen.

Andrew Scott Kligerman
TD Cowen, Research Division

Yes, it seems like your PIF growth is right around the corner of pivoting down only 1.4% year-over-year. So I'm wondering on the Allstate brand your expense ratio on advertising was 2.2%. Historically, if I look back at 2017 to '19, it was roughly 2.5%. So is there First question, is there much to go in terms of your ad campaigns? Or do you feel like you're kind of at a level where you need to be?

Thomas Joseph Wilson
Chairman of the Board, President & CEO

I'll let Mario talk about how he's reorganizing the business and really going to market in an integrated fashion to drive growth. As it relates to advertising, we don't like to give those numbers out just because we've got other people out there doing their advertising as well. What I will point out is one of the key components of transformative growth was improving our sophistication of customer acquisition. So no matter what percentage it is we want it to be more effective. But Mario, maybe you should talk about how you're changing your go-to-market.

Mario Rizzo
President of Property & Liability and Director

Yes. Thanks for the question, Andrew. I guess where I start. First, the good news, as we pointed out, in the presentation as more and more states are achieving rate adequacy. And right now, in about 75% of the states we operate in, we've began to unwind underwriting restrictions. And to your point, begin investing in marketing to look to grow.

The other thing we've done in anticipation of that opportunity, not only being there, but continuing to expand, is we're organizing ourselves in what we call go-to-market teams that are local market focused that are really intended to drive kind of bottoms-up opportunity, identification and capture again, at the local market level so that we can get the highest possible return on things like the marketing investments we're making, the continued expansion, up distribution as well as the growth opportunity that exists across channels in those states.

So we're early days in that, but we are putting behind our organization structure to be more focused on local market growth. And you remember, we manage this business state by state, market by market. So having local market insight, intelligence and the ability to move rapidly to capture opportunities is really going to be critical. And we think that alongside the expanded investment we're making in growth, will create significant growth opportunity for us going forward.

Thomas Joseph Wilson
Chairman of the Board, President & CEO

And we know that it works because we've used it for a long time. So -- and we dismantled some of it about 2 or 3 years ago when we were cutting expenses that didn't want to grow. And now that we're back into growth mode, we're just expanding what we know works.

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

That's very helpful. And then the second question with regard to National General, just trying to get my arms around, how much growth potential there? How much of the book right now is nonstandard versus the Custom360s. The Custom360 relatively very small. And are those the right agents to generate big time growth on the more traditional or more standard products?

Thomas Joseph Wilson
Chairman of the Board, President & CEO

Well, we wouldn't give out that percentage in each, but you're correct. And then it's -- when we bought National General, it was mostly a nonstandard company. And we bought it for the strategic opportunity to leverage our capabilities in, which is called preferred auto and home insurance, and that's turning out to be true. Mario, maybe you want to talk about the success you're having with Custom360.

Mario Rizzo
President of Property & Liability and Director

Yes. So Andrew, I guess the place I'd start is, first of all, we're really happy with the acquisition of National General. As Tom mentioned, we've effectively doubled the size of our independent agent business since we bought it in early 2021. And there's really 3 pieces to the business. There's the nonstandard auto piece, which is the by far the biggest component. And then there's what we call the legacy household business, which is think about our Encompass business that we integrated into it along with the legacy National General Standard Auto, Preferred and home business. And then there's Custom360.

And Custom360 is the new product offering. We're in about 17 states currently with the intent to expand pretty much into every state by the end of this year or into 2025. And we think that really represents an additive growth opportunity. The product offering itself is built on the Allstate product chassis. So think about the sophisticated rating plans that we have in standard and preferred auto in Allstate, the host and home product that we have in Allstate.

So those are the products that we're launching in the independent agent channel. And really, to your point, there's a different distribution, a different segment of the independent agent distribution system that we're looking to engage with to really grow that product portfolio. We're early stages. As I said, we're in 17 states. We're really encouraged by the early growth that we're seeing in the states that we've rolled out and more importantly, the agency engagement we're seeing on the IA side. We're going to continue to look to expand on that and leverage that going forward, but we're really optimistic around Custom360 and the opportunity beyond nonstandard auto and the IA channel.

Operator

And our next question comes from the line of Gregory Peters from Raymond James.

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

So for the first question, I'd like to just have you comment on both frequency and severity, frequency trends through the first quarter and sort of how you're thinking about severity for 2024, both inside the Allstate brand and also at NatGen.

Mario Rizzo
President of Property & Liability and Director

Thanks, Greg. This is Mario. I'm going to make some comments off the slide -- off of Slide 5 that we showed you in the presentation, which really shows the -- starts with the average underlying loss and expense trend that we saw in the quarter. That number is about 6.7%. If you take out the expense component, it drops by over 1 point. So I'd say the loss trend we're seeing in the protection business in the mid-5s, and that's made up of both frequency and severity. As we indicated, frequency relative to last year, just given the milder weather was favorable. And then the other component of it is severity. So it's, I'd say, favorable frequency more than offset by higher severity. But severity is continuing to moderate in terms of the rate of increase that we're seeing.

Maybe a little bit of color underneath severity broadly because really, there's 2 different emerging stories both in physical damage and in injury. And physical damage, we continue to see the benefit of things like lower used car prices. Total loss severity continues to drop. But it continues to cost more to fixed cars, and that's made up of continually increasing parts prices and labor costs. So we've seen increasing severity and physical damage repairable -- for repairable vehicles, but not at the same rate we have been seeing before. That has moderated.

The real ongoing severity pressure is in beyond the injury side, which continues to run at higher than historical levels. That's driven by a lot of the things we've been talking about, medical treatments, medical consumption, inflation. It's also being driven by the fact that more of our customers continue to get sued and attorney representation levels continue to increase and that's putting pressure on severity. It's also resulting in higher cost for consumers ultimately. The cost to settle injury claims going up at the level that it is translating into higher insurance prices for consumers.

I'd point out a state like Florida, where last year, they passed meaningful tort reform, and we're starting to see some positive impacts of that tort reform, which I think will bode well for consumers going forward.

Georgia just -- the Georgia legislature just passed some tort reform, which, again, can be a positive for consumers going forward. And obviously, we're a strong proponent of that kind of reform broadening across more states going forward. But Greg, to your question, positive frequency in the quarter, hard to quantify with any degree of precision what the weather was worth, but it was favorable, offset with severity levels that are running lower than they have been running, but still at positive levels, which is why we're going to stay on top of pricing to make sure that our rates fully reflect loss trends and keep pace with loss trends in the states that we've reopened for growth and continue to pursue rates in states where we haven't achieved target profitability yet. And that would be true both in the Allstate brand and National General.

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

I guess in conjunction with that answer, you brought up rate. And I know you mentioned that you're not going to provide us updates on pricing going forward because you're rate adequate. I know -- if you go back to previous presentations, you've called out 3 states. And even after you reported fourth quarter, you still were I think New Jersey and New York were kind of still in the question mark period. Has there been some updates there in those 2 states that you want to give us that leads you to believe that they are rate adequate now too as well?

Thomas Joseph Wilson
Chairman of the Board, President & CEO

I'll let Mario go into the 3 states, but I just want to clarify. We decided not to give it to you every month because -- we don't -- we think you get to drill, you know what we're doing, and we don't need to do it. We didn't say we're very adequate so don't worry about it. We're always focused on it. We just didn't think we needed to like burden people sending out every month.

Mario Rizzo
President of Property & Liability and Director

Yes, Greg, it's Mario. I'll just give you a little more color on those 3 states. Remember, last quarter, we told you we had just got an approval in the fourth quarter for auto rate increases in all 3 of those states. In California -- and we implemented those rate increases this past quarter. In California, we feel comfortable of where the rate level is with the increase, and we've reopened California for new business. really no change in New York and New Jersey in terms of our underwriting risk appetite, even with the rate approvals that we got late last year.

We still don't feel like we're at the appropriate rate level to want to grow in those two states. The only update I'd give you on one of the states is, New Jersey recently approved a 13.9% auto rate increase, which was one of the filings we had pending. That will be effective in the second half of this year. We're still going to need more rate beyond that before we would look to reopen that market. And in New York, we're having ongoing conversations around a pending rate that's with the department, but really nothing new to report at this point. And in those two states, in particular, we have not lifted any of the underwriting restrictions that we have in place.

Operator

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

Jian Huang
Morgan Stanley, Research Division

Maybe just going back to the PIF growth and rates -- for Slide 6, if we look at the states that are above 96% combined ratio, I know that you talked about New York, New Jersey, California, but are there any other reasonably large states where you continue to need rates? And in those states, are you -- like comparing to your peers, is your loss ratio significantly above everyone else? Or in other words, if you were to raise rates in those states, do the customers have anywhere else to go?

Thomas Joseph Wilson
Chairman of the Board, President & CEO

Well, that's a complicated question. Let's see if I can address it. So in all states, when you have severities going up the way Mario described it. You're going to be increasing rates at levels above what is the general inflation rate. So we expect to continue to have to do that. If our customers quick and sued every time they get an access, then maybe it will back off some. But -- so we're always moving rate up. You're really get into where is your competitive position.

And I think it's difficult right now to determine where one's competitive position is in any individual state given how rapidly rates are moving and how they're moving through books of business, given how -- and so that said, we're confident that with transformative growth by reducing our expenses will end up in a lower cost, more competitive position than when we started this 4 years ago whatever place. It's just this blip in here where everyone is raising prices a lot, including us, as Mario pointed out, in auto alone, it was 16% in each of the last 2 years.

Homeowners is not -- it's slightly lower, but also has the same trends to it. So -- we feel confident that the product offering we have, the technology we have, the agents we have, the broad set of distribution that will enable us to grow. Price is clearly an important part of that. And we're focused on making sure we're competitive, but we're not going to not take rate so that we can grow. One of our big competitors, State Farm's picked up almost a couple of points of market share over the last couple of years because they chose to run fairly large underwriting losses that won't be us.

Jian Huang
Morgan Stanley, Research Division

Okay. That's very helpful. But just curious, are there any other relatively large states outside of New York, New Jersey, California, where you still need rate at this point in time?

Mario Rizzo
President of Property & Liability and Director

No. Like if you go back to Page 6 that you mentioned that the top bar on the right, the 26%, the vast majority of that is those 3 states: California, New York and New Jersey. And then the -- both the light blue and the dark blue, when you kind of add those together, and we talked about unwinding underwriting restrictions in about 3/4 of the states. Again, we base those decisions on rate adequacy versus kind of a backward-looking combined ratio.

And we feel good about where we're positioned the growth opportunity, and as we said a couple of times, we're going to stay on top of the loss trend in those states. But the states that are in that top section are the ones that we're going to continue to push incremental rate through because we're not at target margins yet.

Operator

And our next question comes from the line of Elyse Greenspan from Wells Fargo.

Elyse Beth Greenspan
Wells Fargo Securities, LLC, Research Division

My first question is on the auto. I guess it's more on the underlying loss ratio. I thought in the past, right, the first quarter would seasonally be a better quarter for just an auto book in general, but understanding rate increases that can earn in can kind of mask that as we go through the year. And then I'm also not sure if there was maybe some favorable non-cat weather in the Q1 numbers. So just can you give us a sense of the cadence would you expect on the underlying loss ratio within auto to improve as we go through the year given the rate to earn in? Or is there some seasonality or other factors that we need to consider?

Thomas Joseph Wilson
Chairman of the Board, President & CEO

Let me start, and Mario, you can jump in. First, you're correct in that first quarter is usually a better quarter in combined ratio in auto insurance than like the summer months when everybody is driving. To be able to do attribution of this current quarter versus other quarters and weather and how much -- what the sustainable [indiscernible] is really difficult to get it with any sort of precision. It's not that we don't try and we look at it when we come up with numbers, but they're not numbers that I would say would be for public consumption.

What I would say is we feel really good about the trend in auto insurance profitability. As you point out, we got a lot more rates still coming through. We've gotten good control over our expenses. We're working hard on claims to try to deal with a high inflationary environment. Make, sure we keep costs down and not just accept that they have to go up at high single digits. So we feel really good about the trend, at least I don't know that I feel like one quarter makes a trend in that, I would say, this first quarter x percent was due to just some [indiscernible]. Mario, anything you would add to that?

Mario Rizzo
President of Property & Liability and Director

Yes. I think, Elyse, the components you mentioned are the right ones. And while I can't -- I'm not going to give you the guidance on continually improving loss ratio going forward. What we do know are a handful of things. Number one, we took over 16 points of rate last year and another 2.4 points in the first quarter. That's going to continue to earn through the book, and you're going to continue to see average earned premium growth going forward. That's just based on the actions we've taken so far.

I talked a little bit about the loss trend earlier and where that was running -- we'll see how that plays out over the duration of the year. The only other piece I'd give you is the frequency component of that, there clearly is a weather benefit we got difficult to quantify. So the frequency benefit may or may not persist going forward. That would be the only thing in addition to just the Q1 seasonality that exists. But we feel good about where the earned premium trend is going and then we're obviously going to watch both components of the loss trend, and we're going to continue to push hard on expenses to drive cost out of the system, which will also help from a margin perspective.

Elyse Beth Greenspan
Wells Fargo Securities, LLC, Research Division

And then my second question, going back to earlier comments on the Health and Benefits transaction, is your plan still to expect to announce and close the transaction this year? And then I think based on your comments to a prior question, you implied right, that there was conversations with parties. It sounds like you're going down the route of one counterparty instead of perhaps maybe multiple. But can you just confirm, I guess, that that's the thought as well just to find one counterparty to buy the entirety of the business?

Jesse Edward Merten
Executive VP & CFO

It's a normal process, Elyse. We're not going to go through [indiscernible] it. We still think we'll sell it this year. A lot of people are interested in the business, and we're confident we made the right choice.

Operator

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

Yaron Joseph Kinar
Jefferies LLC, Research Division

Most of my questions have been asked, but I did want to dig a little deeper into NatGen, if I could, in the PIF growth there. So I understand you have the Custom360 that should drive further growth. At the same time, we also see maybe some competitive pressures rising in nonstandard auto, which may actually result in a little bit of a decrease in that segment's growth? Maybe you can help us think through the two combined.

Thomas Joseph Wilson
Chairman of the Board, President & CEO

I'll let Mario jump in, I know you're probably referring to Klauber's numbers. I'll let Mario jump in on state. But let me just mentioned something, I think kind of we talk about, but I'm not sure if it gets as much focus as I think it should, which is homeowners. The homeowners business is a really attractive business for us. We're really good at it. We have an integrated business model that you can see Mario showed the slide where we've earned a 92 combined ratio over a 10-year period. The industry dynamics today. A lot of that business is sold through independent agents, about half of it.

And industry dynamics are right for us to leverage that position. There's a great interest in independent agents and having what they call markets or we would call availability. And when you look at why that is, this is -- the first customer risks are increasing, right, whether that's inflation in home values, whether it's demographic trends, people moving in the way of where there's severe weather or just increased severe weather. So there's increased need for risks. And then at the same time, the industry has lost money.

So the industry lost money over the last 3 years, last 5 years, over the last 10 years, it made money but we made about 3/4 of that money. So the industry made about $10 billion over a 10-year period, and we made about 75% of that. So we're really good at it. And so we think that one of the ways to grow there is in the independent agent channel is by leveraging our homeowners. So we obviously can grow in homeowners in the Allstate agent channel. You see that our bundling stuff, whether you look at any of the industry reports, we're really good at bundling there.

And you see the PIF growth there even when auto growth is going down, which wasn't always the case. They used to trend more together, but we've got so much better at bundling. So that's -- I don't want to leave homeowners on the cutting-room floor, as it relates to growth, both in the National General channel and the Allstate channel. Mario, do you want to talk about that.

Mario Rizzo
President of Property & Liability and Director

Yes. Thanks for the question, Yaron. Look, where I start is the National General nonstandard auto business is a really well-run business for us. And when we acquired NatGen several years ago, it allowed us to get into a business that Allstate was not in at that time in a particularly meaningful way. And we've been able to grow that pretty aggressively and grow it profitably. Over the last several years. Some of the ways we've been able to expand is we've expanded geographically, so we're in a lot more states with nonstandard auto now than when we bought the business.

We've also expanded from a channel perspective, we allow Allstate agents to sell nonstandard auto through National General for business that's outside of Allstate's risk appetite. We sell it direct to consumer. So we've been able to expand the business, both geographically as well as across channels.

And the business has been subject to the same inflationary pressures that the standard and preferred auto business has been subject to. But we've stayed on top of rate need. We've taken a lot of rate over the last couple of years, I believe, over 15 points in the last 12 months. So we've stayed on top of the rate need. It's a business that you can effectively reprice most of the book almost every policy period, just given the deflection rates. And we've been able to, over the last couple of years, take advantage of the competitive dislocation in nonstandard auto as a number of carriers have backed off from that business.

We've taken advantage of that opportunity and taking advantage of by leveraging our capabilities in that space. And as much as the competition might be heating up there, we feel really good about our capabilities, and we're going to continue to look to grow that business as well as the standard preferred and homeowners that Tom talked about with Custom360.

Operator

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

David Kenneth Motemaden
Evercore ISI Institutional Equities, Research Division

I had a question just on the brand auto PIF. So the brand auto PIF was down about 1.5% compared to the fourth quarter. And I guess I'm wondering how. And now is for the entire book, the entire brand auto book. I guess I'm wondering how that PIF growth trended versus the fourth quarter in the 64% of the book that is at target margins that you showed on Slide 6, are you guys growing PIF in that part of the book?

Thomas Joseph Wilson
Chairman of the Board, President & CEO

We wouldn't break those numbers out for competitive reasons. When it's big enough, so David, you could do math on it. So you could say, okay, here's when the churn is going to come. We would say it. But obviously, there are some markets, we're growing in other markets, we're not growing in. Some of those are markets. Some of those are states. When we get to the point where you can do the math to show when -- I know you -- I totally get where you're going because you want to figure out when the turn is. But we don't like to show what states were growing in at higher rates than others because then they get our competitors interested in going to those states. And we'd rather grow without having them be aware of where we're growing.

David Kenneth Motemaden
Evercore ISI Institutional Equities, Research Division

No, understood. It was worth a shot anyway. Just another question, just on the agent productivity. You gave some interesting stats last quarter that agent productivity was up 6% excluding California, New York, New Jersey. I'm just wondering how the productivity looked this quarter. Did that improve significantly? Or just how to think about that as a potential growth driver?

Thomas Joseph Wilson
Chairman of the Board, President & CEO

Let me go up to transformative growth and get Mario to talk about the specifics of your question. So as part of transformative growth, we said we want to improve customer value. And that meant getting our agents to really focus on there were those things that customers really want them to do for them, which includes helping them buy insurance. It doesn't necessarily include having them there when they have to pay a bill for retention.

They will pay for that, but they won't pay as much as they will for when they get to new business. So we shifted our compensation program to move to lower our cost for customers and better align it with what customers want to pay for. As a result of that, we both lowered distribution expense and we've had some agents who had the word -- had built business models on higher retention [indiscernible]. So our overall agent capacity in the Allstate brand has gone down. That said, to your point, productivity has gone up, and so our overall volume has been even better when you adjust for those 3 states that are not to be named. So Mario, do you want to go there?

Mario Rizzo
President of Property & Liability and Director

Yes. Thanks for the question. So I think the short answer to your question is yes. We -- when you look at overall Allstate brand new business production is up about 6.5%. It was up both in the Allstate exclusive agent channel as well as direct. And then if you kind of carve out California, New York and New Jersey. Because you have to remember, the California rate wasn't effective until February. So we really didn't start opening things back up until the really the latter part of the quarter.

We're really pleased with how our agents are responding to the changes we've made that Tom talked about continue to invest in their businesses, continuing to drive higher levels of average productivity. And despite the fact that we have fewer agents and have restricted -- or have been restricting grown in 3 pretty significant states.

Overall productivity is increasing and absolute production is up. So we're really happy with the productivity levels of our agents. And as we look to accelerate growth going forward, they're going to be a core part of how we grow prospectively in addition to things we've been talking about with independent agents and the direct channel.

Brent Vandermause
Head of Investor Relations

We'll take one more question.

Operator

Certainly. And our final question for today comes from the line of Mike Zaremski from BMO.

Michael David Zaremski
BMO Capital Markets Equity Research

I guess just I know there's been a lot of talk about growth. And the strategy has been clear you guys have successfully kind of transformed your expense ratio lower, which should help grow direct-to-consumer channel specifically. And I know Allstate has a ton of marketing expertise. But I'm just kind of curious, the direct-to-consumer -- customer, my understanding is a bit different than the average current Allstate customer. So is there -- are there any different strategies or maybe you kind of -- or just go slow to learn as you kind of grow into DC? Or anything you'd like to -- you think we should be thinking about there?

Thomas Joseph Wilson
Chairman of the Board, President & CEO

Yes. The first -- the direct customer does have different needs. So they necessarily want to pay for someone to help them buy insurance, which is why we price our direct insurance under the Allstate brand, cheaper than Allstate-branded insurance bought through an agent. Because we're trying to do exactly what our customers want. They also have different ways they want to interact with us. And so we've -- with our new Transformer growth and new tech stack, it's really everything from what's prepopulated into the thing to the offers it presents to the questions you required to.

As Mario talked about, we're down 40% in the time. We've been able to add other products to that flow and so increase things like roadside services and sell more products, which lowers our acquisition costs. So it is different. We're good at it, we could be better at it. And so we're working at getting better at it. About 2 years ago, we really reformed the business, put some new leadership in place and then are updating everything from the technology I talked about to also who you market to.

So you mentioned they're direct, but some of the customers directly, that's where you go to. Like if you go to people who are shopping all time, then you will get higher risk drivers because they shop all the time as opposed to lower risk drivers don't shop as much. So it costs more to get the lower risk drivers on board. So we're working through how do we expand that. We believe that the direct channel has tremendous upside with us to serve those customers who want it that way not just on auto insurance, but things like home insurance and whether it's protection plans or what we're doing in. We get some stuff going on in the commercial space with direct.

So we think it's just another way the customer would interact. Often -- not a lot of homeowners is sold over direct. We'll see how successful we are. I believe we can. I mean, people buy houses direct. So like if your buyouts or probably buy a home insurance from us. And so there's a great upside. You will notice that when you look over the last couple of years, One of the first places we dialed down new business was in the direct channel. So it was down like 50% or 60%, I think in '23 or something.

Because we wanted to make sure we maintained our agent force levels of compensation because they have businesses right and this is the revenue that comes into their business. We said, okay, well, this is a temporary window it's easier for us to concentrate that reduction in new business in the direct channel than it is to spread it amongst a bunch of agents who are now also trying to get through a new comp plan. That turned out to be a good choice. It gave us the opportunity to build new capabilities. And now we're hitting the gas side expanding direct. So you should expect to see our direct volume is go up higher as a percentage of new business than it has better in the past. Thank you all for joining us and investing your time in Allstate. We'll talk to you next quarter.

Operator
This concludes the investor call. You can now disconnect. Good day.