S&P Capital IQ

CONTENTS

The Allstate Corporation NYSE:ALL

FQ1 2011 Earnings Call Transcripts

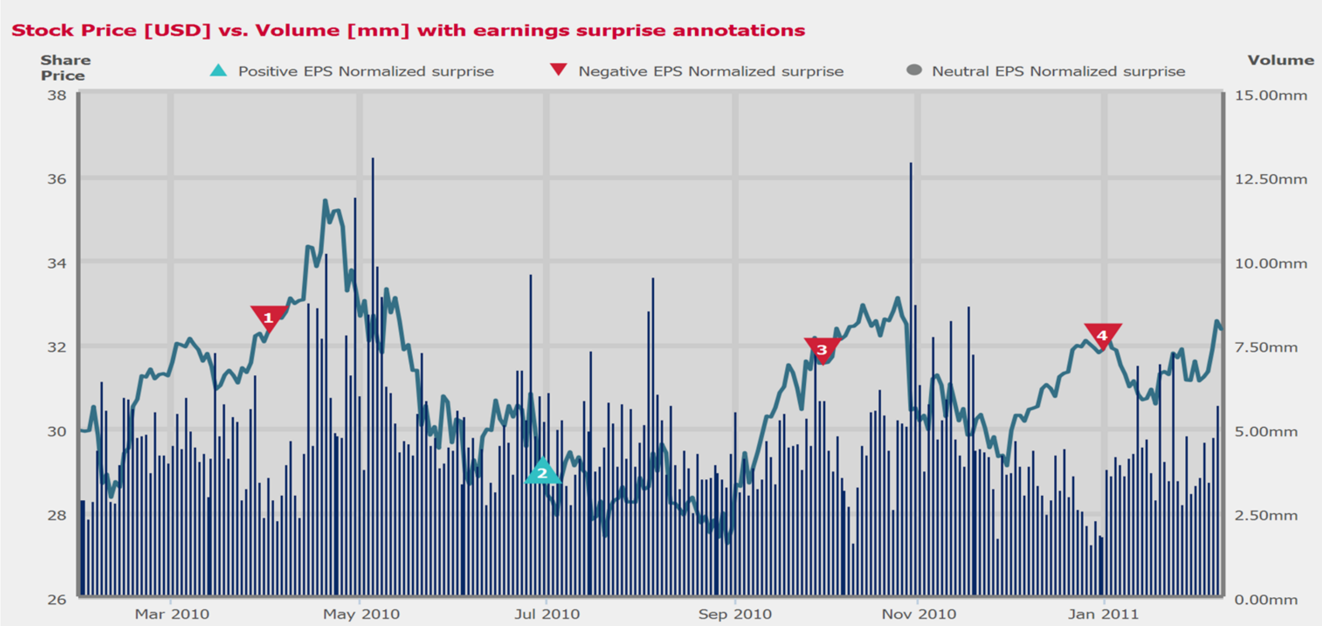
Thursday, April 28, 2011 1:00 PM GMT

S&P Capital IQ Estimates

	-FQ1 2011-			-FQ2 2011-	-FY 2011-	-FY 2012-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	0.68	0.93	▲36.76	0.86	3.40	3.78
Revenue (mm)	6440.75	6448.00	▲0.11	6519.99	26178.14	26333.40

Currency: USD

Consensus as of Apr-28-2011 1:52 PM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ1 2010	0.88	0.69	(21.59 %)
FQ2 2010	0.72	0.81	12.50 %
FQ3 2010	0.96	0.83	(13.54 %)
FQ4 2010	0.88	0.50	(43.18 %)

Call Participants

EXECUTIVES

Don Civgin
President of Emerging Businesses - Allstate Insurance Company

Joseph P. Lacher
Former President of Allstate Protection - Allstate Insurance Company

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

Matthew E. Winter
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Robert Block

Thomas J. Wilson
Chairman & CEO

ANALYSTS

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Presentation

Operator

Good day, ladies and gentlemen, and welcome to the Allstate Corporation First Quarter 2011 Earnings Conference Call. [Operator Instructions] As a reminder, this conference call is being recorded. I would now like to turn the conference over to your host, Mr. Robert Block, Vice President, Investor Relations. Sir, you may begin.

Robert Block

Thanks, Matt. Good morning, everyone. Thanks for joining us today for Allstate's First Quarter 2011 Earnings Call. Following prepared remarks by Tom Wilson, Don Civgin and me, there will be question and answer session. Judy Greffin, our Chief Investment Officer; Joe Lacher, President of Allstate Protection; Sam Pilch, our Controller; and Matt Winter, President and CEO of Allstate Financial, are also with us to answer your questions.

Yesterday, we issued our press release and investor supplement for the first quarter. We also posted a slide presentation that will be used this morning. All of these documents can be found on our website.

As noted on Slide 1, this discussion may contain forward-looking statements regarding Allstate's operations, and actual results may differ materially. So refer to our Form 10-K for 2010, our 10-Q for the first quarter 2011, and our press release for information on potential risks. This discussion may contain some non-GAAP measures, for which, there are reconciliations in our press release and on our website. As always, Christine Ieuter and I will be available following the call to answer any follow-up questions you may have.

Now let's begin with Tom Wilson.

Thomas J. Wilson
Chairman & CEO

Good morning, I'm glad you could all join us. After my comments, Bob will go through the business results and Don will then cover the investments and the balance sheet. This quarter was a good start to the year. The underlying performance of our business is good, and it was in line with our full year commitments which we talked about last time. We benefited, obviously, from lower catastrophe losses this year in comparison to what were near-record for the first quarter of 2010. We also had strong investment results.

We remain focused on 3 priorities this year: the first is to improve our operating results; secondly, to grow our business profitably; third, to differentiate ourselves from the competition by reinventing our businesses.

The first quarter results reflect our efforts to achieve each of these priorities. From a company perspective, operating income increased 32.5% to $497 million compared to last year's first quarter, which is due to lower catastrophe losses and continued strong profits from auto insurance. Net income rose to $519 million, that's $0.75 per share higher than last year's first quarter, which was due to realized gains versus realized losses last year. Book value per share was 13.2% above a year ago and 3.4% over the last 3 months.

At Allstate Protection, profitability improved, but net premium written declined slightly. The recorded combined ratio was 94.9 compared to 98.9 in Q1 of 2010. Catastrophe losses were $333 million, or 5.2% earned premium, which was in line with the historic average Cat losses for a first quarter. But that result was obviously substantially less than last year, it was about half of what we had in the first quarter of last year. The underlying combined ratio was 89.9, which is up 0.8, or 80 basis points, from the first quarter of last year.

Net written premium declined by 0.7%, as our successful marketing campaigns generated increased new business in auto, but that did not offset the impact of actions taken to improve profitability in a couple of markets. At Allstate Financial, profitability has stabilized, and we're executing on our strategies to improve returns and grow profitably. Our investments results were very good. We continue to actively manage our risk and return. As you know, we've been reducing our municipal debt, but the reductions this quarter were at a lower pace than they have been over the last several years. This quarter, we also reshaped the fixed income portfolio maturity profile to optimize returns and balance the risks associated with the shifts in the yield curve. That's particularly true because of the steepness of the yield curve. We are not extending the interest rate and equity derivatives related to our macro hedge programs given our strong capital position.

We also made progress on our efforts to generate long-term profitable growth by focusing on the customer, sharpening our value proposition and improving margin-forming businesses. We continue to test new products, refine our customer value propositions for Allstate agencies and the direct business and are seeing gradual improvements in returns from the underperforming homeowners and annuity businesses.

And with that, I'll turn it over to Bob to cover the business unit results in more detail.

Robert Block

Thanks, Tom. Allstate Protection entered 2011 with the following priorities: to maintain auto profitability, to improve homeowners profitability and to position our businesses for growth. The results for the first quarter reflect progress towards achievement of those priorities. Turning to Slide 3, with the overall profitability of the business improved, primarily due to lower catastrophe losses recorded in the quarter, the top line continued to show mixed results in terms of premium growth. In total, net premium written at $6.2 billion declined slightly by 0.7% from first quarter 2010. This was primarily due to a decline in units, partially offset by rate actions taken in the last several quarters.

For Allstate brand Standard Auto, net written premium [Audio Gap] to last year's first quarter as we continue to reach for the proper balance of growth and profit. Our successful advertising campaigns continue to drive an increase in new applications issued, almost 12% over the first quarter 2010. This includes the results for those markets where we are taking significant actions to restore profitability.

Our retention ratio remains stable at 88.9%, but it's still not at a level where we are generating unit growth in total. There are many markets where we are experiencing unit and premium growth, but in total, we have not reached the point where growth in those markets exceeds the impact of profitability actions taken in select major markets.

For Allstate brand Homeowners, net written premium at $1.2 billion, grew 3% over the first quarter of 2010 as rate actions taken over the last several quarters work into the numbers. This trend more than offsets the reduction in units. We continue to employ a variety of profit-improvement actions, including filing and gaining approval for rate increases, which in the first quarter amounted to an average annual increase of 9.9% in 12 states or 1.8% on a countrywide basis. Net premium written for the balance of our property liability business fell by 3.8%, driven mainly by declines in Allstate brand nonstandard Auto, and to a lesser extent, in our Encompass business written through independent agencies. Encompass continue to focus on its core product offering, and is showing signs of stabilizing its business from both a growth and profit perspective.

Shifting to the bottom half of the slide, we recorded a combined ratio of 94.9, a full 4 points better than the first quarter of 2010. As we have said a few times, the primary reason for the improvement was a lower level of catastrophe losses in this year's first quarter, compared to the first quarter of 2010. While this was a dramatic reduction in Cat losses from the last few years, it reflected a result that was slightly higher than our average first quarter level of catastrophes of 5.0% to earn, which we provide you in our investor supplement. The underlying combined ratio was 89.9, an increase from the first quarter of 2010 of 0.8 of a point. This result remains within the annual range of 88 to 91 for the underlying combined ratio we provided in our last earnings call.

On the next slide, we provide charts detailing the loss cost trends for Allstate brand Standard Auto. On the left side of the exhibit, we give you the frequency levels, trends for both bodily injury and property damage reported frequency. For the first quarter, both coverages showed an increase relative to prior year's first quarter but at a lower level of increase than we experienced in the back half of 2010. In the upper right-hand corner, the exhibit we show the results for paid severity increases over prior year for those same two coverages. The first quarter showed an uptick in trend, but at relatively low levels. In the lower right-hand corner, we give you the combined ratio for this line on a quarterly and 12-month moving basis. The overall margin for Standard Auto remains fairly stable as we strive to balance growth and profitability.

The next slide provides similar information for Allstate brand Homeowners. In short, the loss cost trends for this line were in line with our most recent experience, and are being reflected in our rate actions that we've taken and will continue to take. The overall margin for this line was obviously better this quarter than last year, as the result of a lower level of catastrophe losses. More importantly, on an x Cat basis, the margin improved only slightly, and our actions to improve this over time will continue.

Shifting the conversation to our results for Allstate Financial. On the next slide, we provide the top and bottom line results for this business. Consistent with the strategic intent to improve returns and to shift the focus away from spread business to underwritten products sold through our agencies and in the workplace, the results for the first quarter demonstrates the progress we've made. Total premiums in contract charges increased 4.6% in the quarter over prior year, with underwritten products contributing positively. We've stabilized the profitability of this business, generating net income in the quarter of $97 million and operating income of $116 million. As is our practice, we conduct an annual study of our policies during the first quarter of the year. As a result of this activity, we unlocked our assumptions with an unfavorable impact on first quarter 2011 operating income of $8 million, and $7 million on net income.

In last year's first quarter, the annual unlock produced a favorable impact on operating and net income of $26 million and $8 million, respectively. So adjusted for the unlock, operating income in the first quarter of 2011 was $124 million, compared to $113 million in the first quarter of 2010.

With that, I'll turn it over to Don.

Don Civgin
President of Emerging Businesses - Allstate Insurance Company

Thanks, Bob. The results for the first quarter reflect a continuation of our proactive management of risk and return. Slide 7 provides you with a look at our portfolio composition and how it has changed since the first quarter last year and year-end 2010. During the quarter, municipal fixed-income securities were reduced by about $700 million to $15.2 billion. At the end of Q1 2010, this asset class was over $20 billion, so we've reduced the municipal bond portfolio by $5 billion over the last year. At the end of Q1 2011, it comprised 15% of the portfolio, down from 20% a year ago, consistent with our risk reduction strategy. Our actions have further improved the diversification of the municipal portfolio by geography and sector, as well as the overall quality.

As a result of our improved and strong capital position at both AIC and the parent company, we modified our approach to managing rate exposure and exited substantially all of the macro hedge programs that were primarily designed to protect against interest rate spikes and significant equity declines. Given our outlook for interest rates, our goal in the cash portfolio was to reshape the fixed income maturity profile to optimize returns given the steep and potentially changing interest rate yield curve. The result can be seen on the right side of this exhibit, with reductions at both the short and long ends of the curve, and a corresponding increase in the middle portion of the curve at the 3 to 10-year maturity level.

On the next slide, we give you details on net investment income by business segment. For Property-Liability, net investment income declined slightly on a sequential basis as yields fell while average assets remained level, despite moving $200 million up for the holding company during the quarter. For Allstate Financial, net investment income also declined sequentially as the assets under management declined as a result of our strategy to move away from spread-based products. The fixed income yields have stabilized in this portfolio.

On the next slide, we provide information on the trends for realized capital gains and losses. Losses from impairment write-downs were $114 million, the lowest level since Q3 2007. Gains from sales were $283 million, as we've repositioned the portfolio during the quarter. The realized capital loss in derivatives included the impact of non-renewing the macro hedge program. And gains from limited partnerships were $63 million in the quarter. In total, we recorded realized capital gains of $96 million versus realized capital losses of $348 million in the first quarter of last year.

Finally on the next slide, we provide a snapshot of our capital position at three points in time. Shareholders equity grew to $19.3 billion, up $300 million since year-end 2010, and up $1.7 billion since March 2010. Our book value per share at $36.51, increased 3.4% since year end, and over 13% over the last 12 months.

We repurchased $300 million of our stock, leaving about $540 million remaining on our $1 billion authorization. And we moved $200 million up to the holding company level from AIC during the first quarter. The net result of these transactions was deployable assets at the holding company level of $3.7 billion.
With that, let's open it up for your questions.

Question and Answer

Operator

[Operator Instructions] Our first question comes from Matthew Heimermann from JP Morgan.

Matthew G. Heimermann
JP Morgan Chase & Co, Research Division

A couple of questions. First, just would you mind giving us, similar to 4Q, some color on just how the auto book is looking x New York and Florida, and just kind of where we are in terms of pushing for rate there? And the second question is, there's potential legislation, I guess, both in New York and Florida related to PIP for uninsured motorists. And just would be curious how, if that legislation were to pass, how it would have affect your actions, if at all.

Thomas J. Wilson
Chairman & CEO

Matt, this is Tom Wilson. Joe will talk about the auto book profitability around the country and how it looks with regards to rates. As it relates to the legislative action, it's really a little too soon to tell. We obviously think that our issues and profitability are some of our own doing, but some of what's going on in the marketplace. We'd like to see the marketplace be a little more stable with better and clearer rules and the fee schedules be changed. But it's too early to predict what those would be. But Matt, I'll give you Joe to talk about auto.

Joseph P. Lacher
Former President of Allstate Protection - Allstate Insurance Company

Thanks. Matt, the x New York and Florida combined ratios for auto are running -- on a run rate basis, excluding catastrophe, excluding prior-year reserve changes, consistent with what they were running a year ago, first quarter of last year. And they're in line with our expectations. We continue to actively manage all those states on a state-by-state basis. Some are a lot better than we'd like them, some are a little worse than we'd like them, and we continue to work those on a state-by-state basis to adjust them. I'll defer from giving you too much forward-looking rate or pricing perspective as we usually do, but we feel good about those combined overall.

Matthew G. Heimermann
JP Morgan Chase & Co, Research Division

Just to summarize, it's fair to say that if we think about the year-over-year change, that, that is -- that, that can be entirely thought about as being kind of driven by New York and Florida then?

Joseph P. Lacher
Former President of Allstate Protection - Allstate Insurance Company

If you take New York and Florida, it's two individual states. When you take everything as an "all other" bucket, that's a fair characterization. In that "all other" bucket, some of those states, they're doing better and worse.

Matthew G. Heimermann
JP Morgan Chase & Co, Research Division

Okay, that's fair. And then, Tom, so if I heard you correct then, you're just going to go full steam ahead with whatever rate you feel like is warranted. And if you get any legislative reform, that's just maybe gravy on top?

Thomas J. Wilson
Chairman & CEO

I wouldn't say gravy on top. I would say we'll adjust to whatever the law is when it's put in place, but we're continuing to operate with a broad-based, multifaceted program in Florida and New York, which covers everything from pricing to underwriting to claim handling practices, to improved profitability in those states. To the extent the laws change, and we need to change any part of that program, we'll do that. But we're not waiting for someone else to fix the profitability there.

Operator

Your next question is from Josh Shanker from Deutsche Bank.

Joshua David Shanker
Deutsche Bank AG, Research Division

I was interested in looking to the accident severity trends. I noticed that frequency is down just a tad, wondering how much of that's being driven by prices of gasoline and whatnot. And while severity's up, it's not up a lot, but it's up more than it's been in the past. Perhaps you can elaborate?

Thomas J. Wilson
Chairman & CEO

I'll make a couple of general comments, and then maybe once Joe wants to speak specifically about any of the components of frequency or severity. Josh, I would say that first, as it relates to frequency, there's a whole bunch of components to that, right? There's obviously gas prices. Miles driven has a negative effect. In fact, if people drive less, there are fewer accidents. Employment rates have an upward impact on it because more people drive to work. When they're working, they drive more miles. And then, of course, you have weather, which impacts frequency. It's a little hard to differentiate on a quarterly basis, even a yearly basis, how much of the variance and change is driven by any one of those components. For example, if they have rain and it's 30 degrees out at 2 in the afternoon, that's different than if it rains at midnight and it's 55 degrees. So it's a little hard to actually distinguish between those. But we feel good about where we are overall in the combination of severity and frequency so that we're pricing that auto business profitably and based on what we see. Joe, I don't know if you want to make any comments about...

Joseph P. Lacher
Former President of Allstate Protection - Allstate Insurance Company

Yes. I'd echo some of that. Often, Josh, the first thing's that move on frequency are the smaller-dollar claims. So sometimes when you see frequency go down, you do see severity go up a tiny bit, and then they offset. So thinking about it in total is the right way. We're clearly seeing gas consumption over the last several months decrease. We're seeing some minor decrease in miles driven. Those factor in to what's going on, but as Tom mentioned, there's a whole bunch of other things that ripple through it. As we look at frequency by coverage underneath auto, in most of those lines of coverage, we are seeing some favorable frequency trends to what we've seen in the past couple of years. A little bit of offset in most of those. In severity overall, we see it as a combination that's a little less unfavorable in total loss trend than what we've seen before, but certainly not pushing total loss trends significantly negative.

Joshua David Shanker
Deutsche Bank AG, Research Division

And to sum, would you say that it would be correct if I listened to what you are saying, that you're not clearly seeing a trend? There's a lot of objects [ph] that's combining, but there's no clear directional trend right now?

Joseph P. Lacher
Former President of Allstate Protection - Allstate Insurance Company

I think what we're saying is that the increase in total loss trend is increasing at a slower rate than we had seen it before, and we can't put our finger on it. Often folks will ask, "Are gas prices doing this? Are miles driven doing this?" And the answer is, there's 100 different things impacting it, and to put our finger on one of them being the sole driver is almost impossible. So what we're saying is we can't answer that part of your question. As a general statement, we are seeing somewhat lower rates of increase in aggregate loss trend than we were seeing before.

Robert Block

And we feel good about the profitability of the auto business [indiscernible].

Joshua David Shanker
Deutsche Bank AG, Research Division

And given that you feel good about the profitability and what we're seeing on accident severity, how does that affect your discussions with the regulators in the states for rate increases when you need them?

Joseph P. Lacher
Former President of Allstate Protection - Allstate Insurance Company

Again, it varies by state. In states like Florida and New York where the profitability isn't where we think it needs to be, or really, anybody in the industry would be looking at the data we think it would need to be, it doesn't have a huge challenging impact. In states where we've got very strong profitability, it would have the effect you'd expect it to have.

Thomas J. Wilson
Chairman & CEO

Josh, I'd take you back to the conversation we had last year where we made some rate investments to reduce prices in a number of states because we felt the combined ratio trends were good, and we wanted to increase our growth -- not that price is everything, but price is obviously important. And so if you look at this quarter, you'll see the average premium is actually down a little bit. That's reflecting those investments we've made in growth. Offsetting that is exactly point that Joe made, which is the average premium is not going down in Florida and New York.

Operator

Our next question is from Dan Farrell from Sterne Agee.

Daniel D. Farrell
Sterne Agee & Leach Inc., Research Division

We've had a number of companies indicate that they had higher non-Cat weather-related losses in the quarter, and I was wondering if you guys observed that as well in your results.

Thomas J. Wilson
Chairman & CEO

Dan, Tom Wilson. I'll make a couple of comments. Joe might have something to say as well. First, I would say if you look over a longer period of time, let's say 10 years, what we had -- 10 years ago, we saw an increase in the number of severe storms called hurricanes. Over the last 4 years, we've seen a dramatic increase in what we would call non-model Cats, which are any large severe storms, catastrophes that are not modeled by the catastrophe models called hurricanes, earthquakes. And so you have seen a big increases in severe weather. So if you look at our catastrophe losses, they've been over $2 billion at the last 3 full years. And prior to that they were much lower than that if you look at '06 and '07. So you have seen a dramatic increase in the amount of hailstorms, golf balls, football-sized hail, straight-line winds at 80 miles an hour, 120 tornadoes. It's just you see a lot more severe weather. We are acting and running our Homeowners business as if that is a permanent change as opposed to an anomaly, because what Joe is seeking to do is turn the Homeowners business into a competitive advantage that generates an adequate return. The challenge is trying to get ahead of the weather, because the weather continues to be bad. Joe, I don't know if you want to make any more other comments.

Joseph P. Lacher
Former President of Allstate Protection - Allstate Insurance Company

Yes. If you take the question of non-Cat weather, to some degree, that's going to be a function, Dan, of how people define Cats running through their numbers. Our definition is a pretty broad definition of Cats, so as a general rule, we're seeing most of the activity running through those numbers. We wouldn't make the comment the way others might, but I think it might be a definition of how we're describing Cats.

Daniel D. Farrell
Sterne Agee & Leach Inc., Research Division

Okay. And then, could you just comment generally on your ongoing efforts to improve productivity of the agent force? And I know in the past, you've talked about there being a little higher turnover of agents. And maybe just give us some general color on where we stand right now.

Joseph P. Lacher
Former President of Allstate Protection - Allstate Insurance Company

Yes. Again, the biggest thing to think about is we're not in any way trying to reduce the number of people we've got serving our customers, the license sales professionals and folks working inside of agencies. What we've found is that in some cases, some of our agencies have a sufficiently small scale, that they're not able to readily able deliver that customer value proposition that we're looking for. And we're trying to help them get to scale. The likely result of that may be that some of the smallest folks conclude they can't get there on their own, and the best way to do it is by combining with another agency. We anticipate that the number of personnel in the agency -- if you think licensed sales professionals, the total number of bodies working with our customers should remain close to where it is, but it will give them a better ability to actually deliver that value proposition the customers are looking for. We're making good progress on that. That work will continue. It will take us at least another year or year and a half to really move it where we want to go. And we feel good about the progress we're making overall.

Thomas J. Wilson
Chairman & CEO

Let me broaden your question just a little bit. It is in part about efficiency, but it's also about effectiveness. And everything Joe just described is also about making sure that those agencies have the skills, capabilities, people to be able to serve our customers well. Last year, the agency loyalty index, which is a measure we have which says how well are the customers doing, was up 3 full points, which is about a 5% improvement.

Operator

Our next question is from Alison Jacobowitz from Bank of America-Merrill Lynch.

Alison Marnie Jacobowitz
BofA Merrill Lynch, Research Division

I was wondering if you can give an update on your view on the nonstandard market, and an outlook as to whether or not you might be growing there more significantly at some point. And similarly, I was wondering if you can update us on California and where you stand there. And then my last question would be on the life earnings. X the DAC and [indiscernible], how sustainable do you think that is?

Thomas J. Wilson
Chairman & CEO

Okay, Alison, let me just get some clarity on question 2. What in California, specifically? Joe can definitely deal with nonstandard, Matt can talk about the life business, which we're feeling good about these days. What was your -- in California, what specifically were you talking about?

Alison Marnie Jacobowitz
BofA Merrill Lynch, Research Division

Sorry. Growth, and the resumption of it, now that you've resolved some of your issues there?

Joseph P. Lacher

Former President of Allstate Protection - Allstate Insurance Company

Okay, very helpful, Alison. Nonstandard in the auto marketplace functions very differently than Standard Auto. You got to approach the customers, the operation, the pricing, the claim activity, differently. We have, at times, if you go back far enough in our history, been bigger there, concluded that we weren't operating that business in a way we were comfortable, generating an appropriate level of profitability, so it's contracted somewhat. I do believe there is a place for it, and we can provide some coverage in that marketplace over the long term. I'm optimistic that we can get better growth than we had in the last couple of years, because we've been shrinking it. So anticipate we can turn that around, but don't anticipate it's going to be a huge percentage of our aggregate portfolio in the near term, if that helps you with that question. On California, it has been, and we anticipate it will continue to be a challenging marketplace. There were a couple of obstacles we had with the Department of Insurance and consumer advocate and adjusting our rating plan. We've cleared those and are moving forward. We anticipate successfully executing those in the marketplace and feel better about our prospects there. But we'll continue on a regular basis to move somewhat slowly in that marketplace. Because any time you get a little sideways, it takes a long time to correct it. So we'll cautiously move forward there.

Thomas J. Wilson
Chairman & CEO

Matthew, do you want to talk about life insurance?

Matthew E. Winter
President and President of Allstate Insurance Company

Sure. Alison, this is Matt Winter. So I think your question was how sustainable we think the life earnings are x DAC. As you know, we spent the vast majority of last year stabilizing the business and de-risking the business in order to take out some of the volatility that existed in the business, specifically in its earnings stream. A lot of the work we're doing this year is to continue that de-risking, and at the same time, position business for growth. So there will always be some volatility in the benefit spread through the mortality which fluctuates during the year, but the more policies we put on and the more we grow our mortality and the morbidity businesses, we will attempt to dampen some of that volatility. So we believe that we're positioned quite well for the future, and we think the earnings that you see are representative of the capabilities of the business. And we're cautiously optimistic about what the future brings.

Operator

Our next question is from Greg Locraft of Morgan Stanley.

Gregory Locraft
Morgan Stanley, Research Division

I wanted to -- I'm sort of trying to reconcile the direction of the Standard Auto top line. And so I certainly can see from the supplement what average premiums are doing, and you called that out in the release. And then I'm trying to reconcile that with pricing overall for the marketplace is going up, and it looks like on Page 15 of the supplement, pricing seems to be headed higher. And we know what PIF is doing. I guess -- I know it's been asked before and you guys comment on it, but I mean, I'm just trying to think when does the top line begin to grow for Standard Auto. Is this in '11, in '12? I mean, when do we see the reversal?

Thomas J. Wilson
Chairman & CEO

The only forecast we like to do is what we believe the underlying combined ratio is. So we don't do top or bottom line and as it relates to the other prospects for that business. If you -- once we fix New York and Florida, the business overall should be growing. You can decide how rapidly you think that grows based on what our new business trends are, which have been very strong. And then the most important part of our growth at this point is moving our retention levels up. So we kind of held retention flat. It's up a tick, but I would say statistically, it's not really significant. We need to move that number up to get real growth.

Even with retention of point, you get a point of growth automatically, so our big focus right now is driving retention up.

Gregory Locraft
Morgan Stanley, Research Division

Okay, great. And then the second question is just on the ROE for the overall corporation. How do you -- is this a 10-ROE business? Is this a 12? Is this a 15? We know what you've earned in the past, and I'm just curious once you execute on the trend, where you think you'll settle out, given what's going on in the balance sheet yields, et cetera?

Thomas J. Wilson
Chairman & CEO

We obviously think it's a lot higher than it is today. Let me break that into components: The return on both book capital, which is the way you look at it, and economic capital, which is another way we look at it, in the auto business, it's terrific. We like it. We manage it quite effectively, and it's been very consistent. The underperforming businesses have, of course, have been Homeowners, where you have about $6 billion of premium and a lot of capital. Again, it's because of the volatility, and Joe has talked about how he's working to drive returns up in that business. That will obviously bring our overall ROE up from where it is today. In the Life at Allstate Financial, a couple of businesses are quite profitable. Both our life business, which is sold through Allstate agencies, and our Allstate Benefits business. We like both of those businesses. And both have growth prospects, and the returns. We're still working our way through the Annuity business that Matt talked about, trying to stabilize that return. So those are the components of the earnings piece of it. From a capital standpoint, what obviously we seek to do is to make sure we have sufficient capital to protect us from any volatility that comes around in the company, and then to the extent we don't need that capital to support the current business, we either deploy it by expanding into something else or doing things like share repurchases, where we're way ahead on our $1 billion program today. So we try to manage with both the operating side and the capital side in a reasonable balancing. But the most important thing to driving returns up from here will be getting Homeowners and the Annuity business to get their returns up. And we don't necessarily have a target. I'm not going to say, "Here's the target, and I'll be here be by this date." I'd like it to be as high as it can be. There's nothing wrong with great returns. And we've had, as you know, ROEs that are well into the teens, the high teens. Sometimes, it even begins with a 2 on it. So we don't have, I don't have a target that I want to work to or below. Our job is to drive as much shareholder value, which includes returns. But then related to that, you also have to have growth. So share prices are driven by both the current returns, which is usually more than half of your current value, and then growth. So in the Auto business, as somebody else pointed out earlier, the average premium has been down a little bit, but that's because we're trying to drive growth up, because we think that maximizes shareholder value.

Gregory Locraft
Morgan Stanley, Research Division

Okay. And just again on the ROE. I have a very hard time seeing teens, but I actually think your stock would do fine if you just got to double digits. So I should take away that double digits is a very, very reasonable trajectory, sustainably? Obviously, you did it this quarter, but that's a sustainable, reasonable trajectory for the business the next few years?

Thomas J. Wilson
Chairman & CEO

I would agree with that, yes.

Operator

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

Paul Newsome
Sandler O’Neill + Partners, L.P.

Thanks for the call. Maybe you could update us as to when you're going to think about, or when the Board's going to discuss buybacks again. And has your thoughts changed given the cash flow's done pretty well year-to-date with the holding company?

Thomas J. Wilson
Chairman & CEO

Paul, we're of course, always thinking about capital, as you know. And that both serves to how much we have, where we source it from and how we return capital to shareholders. So we obviously feel good about how much capital we have. And in fact, we built capital this quarter despite buying back $300 million of stock. So we're in a better position this quarter than we were at the end of last year. So we feel very good about that. I would like to see us growing a little faster, so we could use more of that capital, and deploy it at good returns so we could grow shareholder value. To the extent we don't have those opportunities, the easiest way to do it is to move through the share repurchase program because that's a good, clean way to give it back to the shareholders. And it doesn't bill fixed charges for the company. We obviously are ahead on that, as I just mentioned. The dividend standpoint, we tend to look at it as a percentage of earnings. I'm feeling okay where we're at right now. We had a great quarter, but one quarter is a quarter. We tend to look at that on an annual basis. We obviously -- my board obviously approves it every quarter, so we have the right and obligation to do that every quarter. But we tend to think about that more on an annual basis than a share repurchase program which, if we keep generating more capital, we'll keep buying back stock. And if we don't have good uses for that capital when we get done with this program, we'll do another one just like we've done the other about $16 billion, $18 billion of share repurchases.

Paul Newsome
Sandler O’Neill + Partners, L.P.

No question, there's been a lot of repurchases in the past. Second question. I apologize if I missed this, but could you revisit the modest reserve development that we've had of late? And just is there any components there that we should be aware of? Is it medical inflation? Is it some other factor that we should be thinking about?

Thomas J. Wilson
Chairman & CEO

I'll talk about the philosophy on reserves from an overall perspective. Maybe Joe will make -- want to make comments. Of course, there's not much to talk about. Our philosophy has always been to be conservative: Put it up when we see it, and make sure that the balance sheet is solid and accurately reflects our reserve levels. When you look at the total company, we have really two components to that. There's the "personal lines" business, which tends to be very short-tail, and any changes there rattle through relatively quickly. And you saw a little bit of that this quarter in terms of catastrophes, and a little bit of bodily injury from '09 and '10. Then of course, we have about $1.6 billion up in what we call our "discontinued lines," which is asbestos environmental. The trends there have been very good for the last 4 or 5 years. If you look at sort of how much we pay out in those reserves, and the payout ratios and the various ways you would -- survival ratios, the various ways you would look at that business, we continue to feel that those are adequately reserved as well. Is there something specific, Paul, when you look at the numbers, on the amounts that are different from what you're seeing with other competitors, and you're trying to compare one to another, or?

Paul Newsome
Sandler O’Neill + Partners, L.P.

I'm mostly fishing to see if medical cost trends have started to peek up for insurers. I know it will often hit auto lenders as quickly as anybody else.

Joseph P. Lacher
Former President of Allstate Protection - Allstate Insurance Company

Paul, what we're seeing in reserve reestimates, there's not a lot of motion. And if you look at them over the size of the overall reserve balances, they're relatively small amounts. So we're not seeing anything that's sort of out of pattern on there from a trend perspective. And as we look under coverages, we'll from time to time, see things moving around a little bit. Nothing that we're seeing from a medical trend perspective that's way out of pattern.

Thomas J. Wilson
Chairman & CEO

It's an excellent point. I mean, we've put up a lot more money in PIF in the last 12 months than shows up here, but that just gets moved around between coverages underneath the coverages.

Operator

Our next question is from Brian Meredith from UBS.

Brian Robert Meredith
UBS Investment Bank, Research Division

Yes. A couple of ones here. First one, I wonder if you could talk a little bit about the market environment in Standard Auto insurance, just the competitive environment? And also if you could focus a little bit on the telematics out there. And where do you see that having, what impact is that potentially having in the marketplace? And what do you see it having going forward?

Thomas J. Wilson
Chairman & CEO

I'll give you a longer-term perspective. Joe can give you how he feels about the market today. On a longer-term perspective, go back 7 or 8 years, the competition in auto insurance first got dialed up with pricing sophistication. So what we would call strategic risk management, SRM, put our credit-based algorithms in, Progressive, Geico, other people did. Then the market shifted to include not only that, but increased advertising. And so you saw in 2003, we dialed up our advertising from $70 million to $250 million or something like that. And everybody else -- at the time Geico was doing a, like, a couple hundred million. Now Geico is, from my read, looks like $900 million to $1 billion. So you've seen that level of competition get heated up. And now what you're seeing is more competition in the area we started on about 4 or 5 years ago, which is product and features. So Your Choice Auto, you're seeing a number of people start to copy our new car replacement stuff. You're seeing people copy what we would call "decline," industry people call it "vanishing deductible." So you're seeing the increased level of sophistication of competition build on itself. And so under that context, Joe might want to talk about sort of what he's doing to make sure we continue to win.

Joseph P. Lacher
Former President of Allstate Protection - Allstate Insurance Company

Yes. And Brian, I think there's part of it where I think the question was targeted where Tom's going in part of it might be a more general comment about how aggressive people are being in the marketplace. From a marketplace perspective, we continue to see broadly, carriers having an interest in writing more auto business. There's clearly some marketplaces that are challenging. New York and Florida is a pervasive challenge for the industry, broadly. We're seeing folks look at a lot of different tools, just like Tom described from that broader perspective: Pricing sophistication, product differentiation, marketing, to try to write more business. We haven't seen crazy rate activity, where folks are dialing back rates to try to drive it. We're seeing the competition occur on other different other fronts. And we continue to compete there ourselves. We don't think it's a particularly advantageous advantage to try to just be perpetually the cheapest and keep dropping rates to have a price war. Better consumer value driven by looking at the products and the features and the service capabilities that are provided, and that seems to resonate with consumers. Nobody wants you to be the most expensive, but they do look for value.

Brian Robert Meredith
UBS Investment Bank, Research Division

And thoughts on telematics?

Joseph P. Lacher
Former President of Allstate Protection - Allstate Insurance Company

Telematics continues to be a neat opportunity. I guess personally, I think over the long term, we'll see it have an increasing impact. We continue to make investments and run our programs and tests and learn in that state. And I anticipate being able to roll out some things more broadly in the future. I don't think it's going to get a real broad consumer adoption across the overall marketplace in the next 12 months or so. I think it's got a little longer time horizon.

Thomas J. Wilson
Chairman & CEO

Brian, I'm going to try to put in contextual layout. Telematics has some of the advantage of pricing for an individual. Some people, as Joe pointed out, like to think they're only paying if they're in their car driving. So there is some consumer benefit. Telematics, also, is in that first bucket of increasing pricing sophistication. So we're obviously working on making sure we're sophisticated pricing. We also are testing some things on the just the consumer piece, which are slightly different. So for example, we've been testing a claims guarantee in 3 states, where Joe's team, the promise they make to customers: "If you're not happy with your claim service for any reason, we'll give your premiums back." That's a sense of how the competition is evolving.

Brian Robert Meredith
UBS Investment Bank, Research Division

Right, Okay. And then one quick question here, with commodity prices up as much, particularly oil prices in the last 6 months to a year. It hasn't hit in the second quarter. Any concerns or any -- watching what happens with respect to Homeowners, some severities to leak through and those [ph] kind of things?

Joseph P. Lacher
Former President of Allstate Protection - Allstate Insurance Company

Always. We're watching it, looking at it. We've got a sense of what happened the last time we saw oil prices pop up, and it's always in the back of our mind, and we're watching for it to come through.

Brian Robert Meredith
UBS Investment Bank, Research Division

Have you seen it yet, at all?

Joseph P. Lacher
Former President of Allstate Protection - Allstate Insurance Company

Not a ton with this piece. We definitely are seeing the residual effects of the last time we saw oil prices up, and it's running through the severities, and we're responding accordingly.

Thomas J. Wilson
Chairman & CEO

If you could look at building materials, they were up all last year even though fewer houses have been built.

Joseph P. Lacher
Former President of Allstate Protection - Allstate Insurance Company

Cost of shingles, all those kind of things. Asphalt shingles.

Operator

Our next question is from Meyer Shields from Stifel Nicolaus.

Meyer Shields
Stifel, Nicolaus & Company, Incorporated, Research Division

I was wondering if we could delve a little bit more deeply into New York and Florida to get a sense as where you are with regard to, let's say, non-renewal of policies where you don't think profitability is possible, rate changes, and maybe competitor rate changes?

Thomas J. Wilson
Chairman & CEO

Joe will give you a little bit of perspective, but given that we compete and that's a relatively defined market, we're not that anxious to let everybody know what we're doing. So with that caveat, we'll happy to talk about the components of the program, perhaps.

Joseph P. Lacher
Former President of Allstate Protection - Allstate Insurance Company

We're focusing on using every available lever to fix profitability there. We've made some very aggressive actions from a claims perspective. We've added significant numbers of adjusters, bodily injury personnel, SIU, special investigation unit personnel, to very actively work in that marketplace. We're using more medical exams, medical reviews, statements under oath, a whole series of levers on that side. And they're appearing to be providing some benefit and paying off, and they'll continue to do so. They're in line with our expectations. We expect to see more improvement emerge as we move through the year. We've taken some significant rate action. We filed a just under 21% rate change in our open company in Florida this quarter, and that's in effect. It's having largely the effects we expected to have on mix of business for writing new. It's having the expected impacts -- largely, the expected impacts on retentions. We're retaining the customers we wanted to. We're retaining the customers that were the most unprofitable at significantly lower rates and at significantly improved profitability. Very aggressively working on the lobbying on the regulatory front, both the legislative reform, and to get regulatory help in dealing with some of the fraud. And what's probably the bigger issue is abuse of medical treatments. So we're pushing on all those fronts. We are selectively looking at non-renewal activity in certain spots and in certain categories of business, and we'll move on those as appropriate.

Meyer Shields
Stifel, Nicolaus & Company, Incorporated, Research Division

Okay. That's helpful, I guess. I was hoping for more of a timeline, but I can understand why that's not available. With regard to the surge in new issued applications for Standard Auto. Is there any way of sort of quantifying the impact that, that new business growth is having on the overall combined ratio?

Joseph P. Lacher
Former President of Allstate Protection - Allstate Insurance Company

Help me with what exactly what you're looking for, Meyer.

Meyer Shields
Stifel, Nicolaus & Company, Incorporated, Research Division

Well, in the normal state of affairs that you're pricing for lifetime profitability, then the underwriting margins, they could be a little bit thinner on new business. We're clearly seeing, I think, an uptick in new business, with only a hint upward in the renewal ratio. And I'm wondering how much that's contributing to, let's say, to your rise in Standard Auto loss ratio?

Joseph P. Lacher
Former President of Allstate Protection - Allstate Insurance Company

It's not a significant contributor. If you just do a little bit of algebra on the new business policies relative to the enforced book, it's not enough to be moving that. The year-over-year change is much more significantly driven by New York and Florida and then the new business fees would be, at best, rounding error on that.

Thomas J. Wilson
Chairman & CEO

Meyer, we do run -- on preferred customers, we run a new to renewal loss ratio of relativity which is over 100. So you're right, but we'd like the number to have a bigger impact. How about that?

Operator

Our next question is from Michael Nannizzi from Goldman Sachs.

Michael Steven Nannizzi
Goldman Sachs Group Inc., Research Division

Just, I have one question on the portfolio. If we were to look at just the PNC business, what's the duration of that book? And how do you think about asset liability management and inflation there? And just one follow up.

Thomas J. Wilson
Chairman & CEO

Matt, are you talking -- on the last 2 pieces, do you want Judy to deal with -- sorry, Michael. Do you want to deal with just property-casualty, or do you want asset liability and matching on the whole portfolio?

Michael Steven Nannizzi
Goldman Sachs Group Inc., Research Division

I'm just thinking about PNC right now.

Thomas J. Wilson
Chairman & CEO

Okay. Yes, Michael, Judy will hit all 3 of those, and she's happy to have her questions.

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

Yes. Thank you for the questions. So the first part of the question was about the duration of the portfolio. And the duration of the portfolio in the PNC business is around 4.5 years. That's extended over the quarter, and part of the reason for the extension is because of our decision to not extend the macro hedge. So I'd say about half of it is because of that, and the other half is because of the portfolio repositioning, which both Tom and Don mentioned, where we changed the maturity profile of the portfolio to optimize what we think is the right thing to do in this rate environment and this curve environment. So it extended, and I guess from an ALM perspective, with regard to the Protection portfolio, we don't spend that much time thinking about the ALM profile. We manage the portfolio to optimize the economics for the protection business, but don't necessarily pinpoint the liabilities from a duration perspective. Different in the life business. In that business, we do that. But in the protection business, we don't.

Michael Steven Nannizzi
Goldman Sachs Group Inc., Research Division

All right, great. And then just a quick question on reinsurance cost in the recent RMS model change and Cats in the second quarter. Can you just give us some color on how to think about that?

Joseph P. Lacher
Former President of Allstate Protection - Allstate Insurance Company

I missed the last part, what in the second quarter...

Michael Steven Nannizzi
Goldman Sachs Group Inc., Research Division

Catastrophe. It's just as actually moderated in the South?

Joseph P. Lacher
Former President of Allstate Protection - Allstate Insurance Company

Quite. The RMS model change is clearly significant, and we've all heard a bunch of people talk about it from an industry perspective. We look at the RMS model where we more heavily rely on AIR, which made their changes a while back. We look at all the models out there and factor those generally into our decision-making processes. It's not having a huge impact on tactically, what we're doing. We do anticipate that is going to ripple into the reinsurance marketplace from a pricing perspective, and hasn't seen all of those impacts yet. So we'll continue to watch that. Most of our program in Florida, we placed in February. And it wasn't significantly impacted by this. We've got a little bit left to go, but we may see some change there, but we'll see how the market plays out on that one. Relative to Cats in the second quarter, we -- clearly been a lot of activity so far in the quarter. We've seen, over the last couple of years, increased volatility in the first and second quarters. From what we might have seen, if you look back 10 or 15 years when the heaviest volatility was in the third quarter relative to hurricanes. If you look back at last year, the second quarter was a very large Cat quarter for us. So we continued to watch it and look at it. We expect that we're going to see volatility like that going forward. We're clearly concerned and worried about our customers and our agents and the folks particularly -- watching yesterday in Alabama, that they get the appropriate help and support and service that they need to recover from such devastating losses. In terms of being able to predict what those losses will be for us through the quarter, we're not even through the first month yet, so it's tough to tell.

Thomas J. Wilson
Chairman & CEO

And Joe's goal with respect to volatility and catastrophes and what he's doing in Homeowners is to have the question be "how profitable was Homeowners?" Not, "was it profitable?"

Operator

The next question is from Bob Glasspiegel from Janney Montgomery.

Robert Ray Glasspiegel
Janney Montgomery Scott LLC, Research Division

Just following up on the Homeowners. Joe, you had said that it was a multiyear turnaround story, a year and a quarter ago, or maybe 30% away through the turn. The first quarter was a good test on Cat management, which you aced. And the second quarter will be probably even a better test. Where are you in the turnaround? And are you ahead of schedule? Does the first quarter give you confidence as a good data point?

Thomas J. Wilson
Chairman & CEO

Bob, before Joe jumps in there, let me ask one question and make one comment. Secondly, I would say I wouldn't hold the second quarter out as a test of our Cat management programs. The second quarter is going to be whatever mother nature delivers to us. It really isn't anything that our operational programs can't deal with. And, Joe, you might want to talk about your overall game plan.

Robert Ray Glasspiegel
Janney Montgomery Scott LLC, Research Division

I was looking more at how you -- what your Cat number is relative to the field. So the first quarter was a good Cat number relative to the field, so if it's big for the industry, and you're a little less, I think that would be encouraging.

Joseph P. Lacher
Former President of Allstate Protection - Allstate Insurance Company

I guess, Bob, I'd encourage you not to make that your benchmark. I'm not sure that's the right benchmark as a change. It may be an absolute measure of long-term performance, but that's not something I'm going to anticipate that's going to change quarter-over-quarter. What we're doing is we're trying to push the improvement on the aggregate returns of the business. One of the things you can see is we had another quarter where earned premiums and written premiums were growing faster than underlying loss cost. We've done that, I think, every quarter for the last 4 quarters, and we'll continue to drive that. We're going to push that profitability improvement broadly. We're continuing to deploy a whole series of other programs on increasing rates across the book. One example of them are we spent a lot of time with claim adjusters on a regular basis, out, looking at our insurers homes. We are instituting a program where we're also having them spend a little bit of extra time to reinspect the house and provide a report back from an underwriting perspective. That let's us make sure we're appropriately on the risk, and it let's us a provide us a great customer service back to our insurers, to let them know that we see some risk or issue that could subject them to a future loss, and help them prevent it. Because I think most people would rather prevent a loss ahead of time and know about that risk than have to deal with it after the fact. So a big opportunity for us there, and it's one of a bunch of little things we're doing that's going to help drive that profitability up.

Robert Ray Glasspiegel
Janney Montgomery Scott LLC, Research Division

So what inning do you think we're in? In the turn? Early or middle, or?

Joseph P. Lacher
Former President of Allstate Protection - Allstate Insurance Company

It's a long game. There's probably 2 tracks to watch on it. There's aggregate catastrophe, model catastrophe management and we're well into that one, and have done a very good job of reducing our peak P&L exposures. There's managing exposures to non-model catastrophes, and we're more in the middle of that track. And there's fixing aggregate returns, and we're probably in some of the earlier innings in terms of change that you'll see on that track.

Operator

Our final question today is from Harry Fong from Soleil Securities.

Harry Fong
Soleil Securities Corporation

Joe, this is a question for you in terms of the Homeowners. Cats in the first quarter were clearly closer to the 10-year average. However, if I strike the results from '08 through '10, the 10-year average, or the 7-year average, drops down dramatically. Can you sort of speak about your mix of Homeowner business as part of the changes that have taken place over the last few years in terms of removing hurricane exposure, earthquake exposure, increasing exposure elsewhere in the country. Can we get back to non-model Cat numbers that we had, let's say, from 2000 to 2007?

Thomas J. Wilson
Chairman & CEO

Let me make a comment on overall weather, and Joe can talk about our exposure. The assumption underlying some people's view is that this is an anomaly in severe weather, and that we'll go back to the good old days when non-model Cats were in the $500 million range, not the $2 billion range. We're not running our business that way. We're running our business as if this change that you've seen, as you've appropriately pointed out in the last 3 1/4 years is permanent. We don't know whether the genesis of that increase over the last 3 years is just a cyclical movement in weather, whether we're to normal or we were at normal before, or its global warming or anything else, but we're acting as if this will be permanent and we need to recover those costs. With that, Joe can talk about the things he's doing on geographic concentration, because obviously that's another way you can reduce costs.

Joseph P. Lacher
Former President of Allstate Protection - Allstate Insurance Company

Harry, the mix question you asked, I think, suggested that we'd reduced hurricane and earthquake exposures and increased exposures in other spots. I think, more accurately, is we decreased a little bit of all of them and a lot of hurricane and earthquake. As a percentage, that increases our percentage in those non-model hurricane and earthquake-type environments, but we didn't really significantly increase exposures in those spots. I think what you'll more likely see is an increase in activity from tornadoes, hailstorms, other weather. And as Tom mentioned, wherever we fit as individuals on our belief of whether or not that, that's permanent and ongoing or an unfortunate abnormality in the trend, we're responding to it in exactly the same way. There are significant loss dollars that provide significant volatility, and we're going to very actively pull the levers to fix those profitability and return levers.

Thomas J. Wilson
Chairman & CEO

Okay. Thank you all. In summary, we're off to a good start this year in 2011, a good first quarter. We're working on our strategies, which are to improve operating our results, grow our business profitably, and then continue to differentiate ourselves from the competition. So we look forward to talking to you in the second quarter.

Operator
Ladies and gentlemen, this concludes today's conference. Thank you for your participation. You may now disconnect. Good day.