S&P Global
Market Intelligence

The Allstate Corporation NYSE:ALL

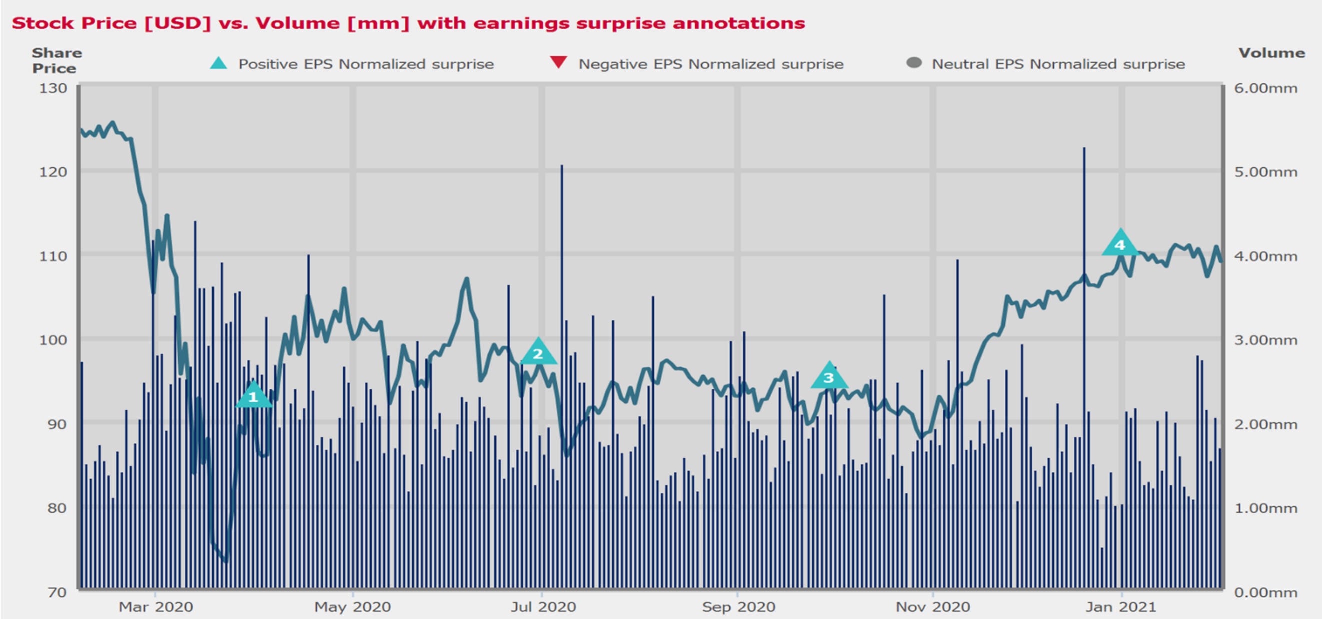
FQ4 2020 Earnings Call Transcripts

Thursday, February 04, 2021 2:00 PM GMT

S&P Global Market Intelligence Estimates

	-FQ4 2020-			-FQ1 2021-	-FY 2020-			-FY 2021-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS
EPS Normalized	3.82	5.87	▲53.66	4.03	12.70	14.73	▲15.98	12.62
Revenue (mm)	9670.72	9279.00	▼(4.05 %)	10404.98	40059.64	37073.00	▼(7.46 %)	42304.06

Currency: USD
Consensus as of Feb-04-2021 10:34 AM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ1 2020	3.31	3.54	▲1 6.95 %
FQ2 2020	1.62	2.46	▲2 51.85 %
FQ3 2020	1.76	2.94	▲3 67.05 %
FQ4 2020	3.82	5.87	▲4 53.66 %

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Glenn Thomas Shapiro
President of Personal Property-Liability of AIC

Mario Rizzo
Executive VP & CFO

Mark Nogal
Head of Investor Relations

Thomas Joseph Wilson
President, CEO & Director

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

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Joshua David Shanker
BofA Securities, Research Division

Michael Wayne Phillips
Morgan Stanley, Research Division

Paul Newsome
Piper Sandler & Co., Research Division

Presentation

Operator

Ladies and gentlemen, thank you for standing by, and welcome to The Allstate Fourth Quarter 2020 Earnings Conference Call. [Operator Instructions] As a reminder, today's program is being recorded.

And now I'd like to introduce your host for today's program, Mark Nogal. Please go ahead, sir.

Mark Nogal
Head of Investor Relations

Thank you, Jonathan. Good morning, everyone, and welcome to Allstate's Fourth Quarter 2020 Earnings Conference Call. After prepared remarks, we'll have a question-and-answer session.

Yesterday, following the close of the market, we issued our news release and investor supplement and posted today's presentation on our website at allstateinvestors.com. Our management team is here to provide perspective on these results.

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 the 10-K for 2019 and other public documents for information on potential risks.

And now I'll turn it over to Tom.

Thomas Joseph Wilson
President, CEO & Director

Good morning. Thank you for joining us. Amidst the pandemic, Allstate delivered really attractive returns while building higher growth business models in 2020. Exceptional progress is made building higher growth business models to execute our strategy of increasing market share in personal property-liability and expanding protection offered to customers. And as you know, one of our key focuses this year was transitioning the personal property-liability business to higher growth, we took decisive action. And despite the operational complexity of these actions, maintained Allstate brand property-liability policies in force. We'll take you through a reconciliation of the various components of this, and you'll see the path to growth. We made excellent progress in expanding protection offered to customers, with total policies in force increasing by 20.5% to nearly $176 million.

We took advantage of the decline in auto frequency, auto accident frequency, and our cost reductions to improve our competitive price position in auto insurance while maintaining attractive returns. The acquisition of National General is expected to increase auto insurance market share by 1 percentage point in 2021 and provides another platform for growth as we expand its product breadth. These changes position Allstate for sustainable long-term growth. At the same time, Allstate generated strong profitability and returns in 2020.

Net income was $2.6 billion in the fourth quarter, and adjusted net income was $1.8 billion or $5.87 per diluted share. This was driven by lower frequency of auto accident, continued strong profitability of homeowners insurance and higher performance-based investment income. Net income was $5.5 billion, and adjusted net income was $4.6 billion for the year. This represents a 19.8% return on equity, far in excess of most insurance companies.

Our strategy to increase market share in personal Property-Liability while expanding protection services to customers will increase shareholder value. Higher Property-Liability growth with attractive returns, rapidly growing protection services expand our total addressable market. And this growth, combined with our proactive capital deployment strategy, supports returns on equity above the insurance industry and are comparable to the S&P 500.

Slide 3 is there to touch base on the strategy [indiscernible]. So we're not going to spend time on that. So let's move to Slide 4 and discuss this strategy as it relates to the Property-Liability business. A transformative growth has become more than a plan. It's about creating a business model, capabilities and culture that continually transform to deliver market share growth. This is done by focusing on the customer, expanding access and improving value.

Expanding access includes all the ways customers choose to interact, exclusive agents directly through call centers and the web and independent agents. The largest part of this change was transitioning our exclusive agent and direct businesses that operate under the Allstate brand. This gave us the ability to lower costs, leverage scale and increase advertising. This transaction is successfully being implemented, and we achieved key milestones in 2020.

We were pleased with new business growth from existing Allstate agents who remain key to serving our customers and growing. Property-Liability business from existing agents met our goals, except for the pandemic slowdown in March and April where, of course, nobody was buying anything and as we shifted commission to new sales from retention.

We're testing new agent models with less real estate and more efficient service enabled by technology with the goal of having strong local personal relationships with customers. These models will also create learnings to enable existing agents to achieve higher growth. As a result of that, we did stop appointing new Allstate agents in early 2020 while a higher growth in lower cost models being developed. This had a negative impact on points of presence and new business sales. At the same time, we increased direct sales. The net was that overall policies in force remained the same through the transition despite a drop in retention, which was concurrent with the ending of the special payment plans related to the pandemic. Glenn will take you through that reconciliation in a couple of minutes.

The acquisition of National General in January also improves growth prospects. And as you know, this is essentially a reverse merger. The National General team is joining Allstate, and they're consolidating our independent agent businesses, encompassing AIA into their operational and technology platform. Then we're going to be able to broaden National General's product portfolio using Allstate standard auto and homeowners insurance capabilities, which will create growth through independent agents.

We also made great progress at improving customer value last year. From a customer value standpoint, we've maintained attractive margins through cost reductions while investing in growth. This includes improving the competitive price position of auto insurance through targeted rate reductions and a direct pricing discount. And while most of these changes are due to the lower frequency of auto accidents, we are also reducing cost to ensure we continue to generate attractive margins.

We're also expanding our industry-leading telematics offerings, Drivewise and Milewise, to further improve our value proposition and improving pricing position. We're the only company that major companies selling Milewise, which is very attractive to customers today because they're not driving as much.

Our goal is not just to execute this plan but to continually generate transformational growth. We have the brand, market position, resources, capabilities and strategy to deliver this for shareholders. An extensive Allstate agent platform delivers more value per dollar to customers than competitors: A direct business utilizing the Allstate brand, competitive prices, broad product offerings and our insurance expertise; an independent agent business with national distribution and strong position in both auto and homeowners insurance; and protection services with innovative business models and expanding total addressable markets. We're well on our way to achieving this goal after putting the foundational elements into place last year.

Let's move to Slide 4 to discuss Allstate's excellent financial performance in 2020. Revenues of $12 billion in the fourth quarter increased 4.8% to the prior year quarter, with total revenues for the year reaching $44.8 billion, which is primarily driven by higher premiums earned, which is partially offset then by lower net investment income. Net income was $2.6 billion for the fourth quarter and $5.5 billion for the full year 2020. Adjusted net income was $1.8 billion or $5.87 per diluted share in the fourth quarter.

For the full year, adjusted net income increased to $4.6 billion or $14.73 per diluted share. We had strong profitability in both auto and homeowners insurance. Adjusted net income return on equity is 19.8% over the last 12 months, exceeding our range of 14% to 17%, which is near the top of the insurance industry.

Now I'll turn it over to Glenn to discuss the transition of the Property-Liability businesses to higher growth.

Glenn Thomas Shapiro
President of Personal Property-Liability of AIC

Thanks, Tom. Let's go to Slide 6. We'll discuss how Allstate is increasing Property-Liability market share while maintaining attractive returns. With the foundational work completed in 2020, Allstate is positioned to grow market share in '21 while developing a leading position in all 3 primary distribution channels in Property-Liability. Some of the actions taken in '20 have impacted growth in the near term, but they were critical to advancing transformative growth in the longer term.

Starting with Allstate exclusive agents who serve customers that value local advice and relationships. We're focused on accelerating growth and improving efficiency. Allstate agents continue to be a core strength of our organization. We're further strengthening that model by focusing on new business growth and lowering costs by improving marketing effectiveness, centralizing customer services and enhancing customer connectivity.

Leveraging Esurance's direct capabilities under the Allstate brand, we've created an omnichannel experience that meets the customer where, how and when they want to interact with us. We completed the integration of direct processes and systems in 2020 and expect direct sold business to continue to accelerate.

As Tom mentioned, National General is another exciting growth platform for us. I mean National General's independent agent-facing technology is among the best in the industry, and then our combined agency footprint covers the vast majority of the U.S. market. So as we expand products on the National General platform, we're going to be in a position to grow share in the IA channel. The totality of this go-to-market model with strong capabilities in each distribution channel is designed to generate higher growth.

Allstate's leading pricing and claims capabilities, including our strength in telematics, puts us in a strong competitive position. We're also enhancing our price competitiveness while maintaining attractive returns. The impact of the pandemic on miles driven and lower costs for auto losses gave us an opportunity to improve auto affordability through targeted rate reductions. We've also lowered underwriting expenses, as Tom mentioned. They're down 1.9 points over the last 2 years when excluding restructuring and coronavirus-related expenses. These efficiencies and continued cost structure reductions allow us to improve pricing relative to competitors while generating excellent returns.

Allstate has a strong record of profitability across lines of business and in different market conditions. The average combined ratio in auto insurance over the last 5 years was 94.4, and that excludes, obviously, 2020 results, which were influenced by the pandemic. We're equally strong in homeowners, where we averaged a combined ratio of 89.5 over the last 5 years. And that reflects the higher cost of capital or the higher capital requirements, I should say, in homeowners product versus auto. The point is we expect to grow, and we expect to earn really attractive returns.

So let's go to Slide 7, and we're going to discuss National General, the acquisition in a little more detail. On January 4, Allstate closed the $4 billion acquisition of National General. We are incredibly excited about the opportunity ahead with National General and how this advances our strategy to grow personal lines. And it gives us an estimated increase of over 1 percentage point of total personal Property-Liability market share. Allstate is now a top 5 personal lines carrier in the IA channel with significantly better competitive position.

We utilize National General as our independent agent platform by consolidating our Encompass and Allstate independent agency operations into the new entity, which will be branded National General and Allstate company. We expect to grow by rolling out new standard auto and homeowners insurance offerings starting later this year and completing countrywide deployment in less than 2 years.

Consistent with past acquisitions, we've developed measures of success, and we're showing those in the bottom of this slide. First, we expect the acquisition to be accretive with growing earnings, adding to returns and total profit. Second, we expect to achieve synergies by consolidating the 3 IA channel businesses into one, improving our competitive position. Third, we'll grow IA channel policies in force by broadening the product offering to fully meet customer needs for auto, home, other personal lines and from nonstandard to middle market to mass affluent. We'll continue to provide updates on our success in this channel as we report our National General brand results in the first quarter.

Moving to Slide 8, let's delve deeper into how we've strengthened Allstate branded Property-Liability distribution. As we said before, some of the actions we took in 2020 negatively impacted near-term growth while accelerating it in other areas. We supported Allstate agents to increase new business growth in 2020, with the exception of March and April, the beginning of the pandemic when things slowed down. At the same time, we stopped appointing new Allstate agents while higher growth and lower cost models are being developed, and that had a negative impact on new business. And as Tom mentioned earlier, we expect the new models are going to create learnings that enable our existing agents to achieve higher growth, too.

The chart on the lower left breaks down Allstate's personal auto new business applications compared to the prior year. If you exclude the declines in March and April due to the pandemic, Allstate brand new business increased with an improving trajectory throughout the year. The red bar on the far left of the chart shows the estimated unfavorable impact of the pandemic on new business in March and April.

Moving to the right, you can see the negative impact of stopping new agent appointments during 2020, but that was partially offset by an increase in existing EA production. And that shows the viability of growth with those existing agents when we just made a slight compensation change towards new business from renewal. They just have a great opportunity to grow.

Moving to the center of the chart. The total direct channel increased compared to prior year, and this is the combined Allstate and Esurance view. And it's because Allstate brand direct applications more than offset the decline in Esurance brand. That reflects the redirection of branding investments and resources from Esurance to Allstate brand. We expect continued growth in the direct channel as we optimize web and call center sales capabilities.

A relatively small number of independent agents operate under the Allstate brand and had a small positive impact on overall growth but a really nice percentage increase among that group. And it highlights the growth opportunity we have going forward in the IA channel as we transition those appointments to National General over time, expand National General's product offerings upmarket and endorse the brand as an Allstate company.

The overall Allstate and Esurance policies in force maintained prior year levels in 2020 as we managed through significant change in our operating model and had a small decrease in retention levels, which you can see all of that in the lower right. Total Property-Liability policies in force declined slightly, driven by the Encompass brand, which will be integrated in the National General's platform in 2021.

Now I'll turn it over to Mario to discuss the rest of our quarterly results.

Mario Rizzo
Executive VP & CFO

Thanks, Glenn. Let's turn to Slide 9 to discuss the performance of our Property-Liability business. Property-Liability results remained strong with excellent recorded and underlying profitability. Net written premium declined in the fourth quarter by 1.5%. While homeowners premium grew 3.2% from the prior year quarter due to average premium and policy growth, this was more than offset by a modest decline in auto insurance premiums, driven by premium refunds.

Underwriting income of $1.4 billion in the fourth quarter and $4.4 billion for the full year, increased relative to the prior year by $420 million and $1.6 billion, respectively. As shown in the chart on the lower left, the recorded combined ratio of 84 in the fourth quarter improved 4.7 points compared to the prior year. This improvement was primarily attributable to a lower underlying loss ratio in auto insurance, driven by fewer auto accidents, partially offset by higher auto insurance claim severity and a slightly adverse underlying loss ratio in homeowners insurance compared to prior year.

Homeowners continues to generate attractive returns, with a recorded combined ratio of 78.5 in the fourth quarter and 90.0 for the full year 2020. Additionally, the underlying combined ratio performance has consistently achieved our low 60s target, which speaks to our expertise in managing this business. Favorable underlying loss ratios were partially offset by higher catastrophe losses along with restructuring charges related to transformative growth.

The underwriting expense ratio improved 0.2 points compared to the prior year quarter, which reflects a 0.6 point improvement in the expense ratio, excluding restructuring costs, partially offset by 0.4 points of restructuring. As you can see from the chart on the bottom right, when excluding restructuring charges and impacts from actions taken as a result of coronavirus, the expense ratio improved 1 point in 2020 and 1.9 points over the past 2 years, demonstrating continued progress toward the goal of reducing our cost structure to maintain returns while improving the competitive price position of auto insurance.

Shifting to Slide 10. Let's discuss protection services, which were formerly known as our Service Businesses. Protection services revenues, excluding the impact of realized gains and losses, increased 17.5% to $497 million in the fourth quarter, reaching $1.9 billion for the full year. Allstate Protection plans continued to deliver significant growth, ending the year with nearly $1 billion in revenue. Policies in force increased 28.6% to $136 million, driven by Allstate Protection Plans.

As shown in the table on the bottom right, adjusted net income was $38 million in the fourth quarter and $153 million for the full year, representing increases compared to the prior year of $35 million and $115 million, respectively. The increase in both periods was driven by growth of Allstate Protection Plans and improved profitability at Allstate Roadside Services.

Now let's turn to Slide 11, which highlights investment performance for the fourth quarter. The chart on the left shows net investment income totaled nearly $1.2 billion in the quarter, which was $502 million above the prior year quarter, driven by higher performance-based income. Performance-based income totaled $557 million in the fourth quarter, as shown in gray, primarily from higher private equity valuations and gains from sales of underlying investments. Market-based income, shown in blue, was $63 million below the prior year quarter. With lower interest rates, our reinvestment rates remained below the average interest-bearing portfolio yield, reducing income.

GAAP total returns are shown in the table on the right. Our 2020 portfolio return totaled 7.1%, reflecting income generation and higher fixed income and public equity valuations. Our performance-based investment return was 7% for the quarter and 4.9% for the full year. Our performance-based strategy has a longer-term investment horizon and higher but more volatile return expectations compared to the market-based portfolio. The compound annual rate of return on the performance-based portfolio is 8.8% over the past 5 years, as shown in the bottom right of the table, exceeding the market-based portfolio return by 330 basis points.

Let's move now to Slide 12 and review results for Allstate Life, Benefits and Annuities. Allstate Life, shown on the left, recorded adjusted net income of $56 million in the fourth quarter, $20 million below the prior year, primarily driven by higher contract benefits as coronavirus death claims totaled approximately $30 million in the quarter.

Allstate Benefits adjusted net income of $34 million in the fourth quarter was $18 million higher than the prior year quarter, reflecting lower benefit utilization, likely due to the coronavirus and the nonrenewal of a large underperforming account in 2019. Allstate Annuities had adjusted net income of $160 million in the fourth quarter, attributable to strong investment income generated from the performance-based portfolio.

Starting in the first quarter of this year, the majority of the Allstate Life and Annuities business will be classified as held for sale on our balance sheet and results will be presented as discontinued operations following our recently announced agreement to sell Allstate Life Insurance Company.

Now let's move to Slide 13, which highlights Allstate's attractive returns and strong capital position. Allstate continued to generate returns that are among the highest in the insurance industry with an adjusted net income return on equity of 19.8%. Excellent capital management and strong cash flows have enabled Allstate to return cash to shareholders while simultaneously investing in growth, a capital deployment strategy, which leads to increased shareholder value.

Investing in growth opportunities remains a priority, as evidenced by our investments in building higher-growth models and completing the $4 billion acquisition of National General. We also continue to provide cash returns to shareholders.

In September, Allstate executed a $750 million accelerated share repurchase agreement. And upon completion on January 12, $1.45 billion remains on the $3 billion common share repurchase authorization, which we expect to complete by the end of 2021. We returned $2.4 billion to common shareholders in 2020 through a combination of $1.7 billion in share repurchases and $668 million in common stock dividends.

Last week, we announced the pending sale of Allstate Life Insurance Company which will enable us to redeploy up to $2.2 billion of capital out of lower growth and return businesses with minimal impact to our 2-part strategy.
With that context, let's open up the line for questions.

Question and Answer

Operator

[Operator Instructions] Our first question comes from the line of Josh Shanker from Bank of America.

Joshua David Shanker
BofA Securities, Research Division

One thing that really didn't get express, maybe you can talk about is the extent to which we're seeing buy downs to like pay per mile products and whatnot or unbundling is going on that you're keeping the homeowners and not the auto. To what extent is a customer being shrinking their wallet with Allstate taking place in this transition?

Thomas Joseph Wilson
President, CEO & Director

Josh, this is Tom. I'll start and then get Glenn to talk a little bit about Milewise and our success there. First, we don't really see an unbundling. I know you mentioned that in your report. Our actually bundling percentage went up. That doesn't mean that it's not happening, and we just don't see it, but we're seeing our bundling actually go up.

As it relates to the buying down and sort of getting lower average premium, I think what you're seeing is through telematics is more accurate prices, the way I would describe it. And so if you look at our -- the total revenues we take in and then what we pay out, we -- as Glenn showed consistently made money in auto insurance for a long period of time. That will change by customer.

So if somebody gets Milewise and they only drive 2,000 miles a year and pay less, then there'll be somebody else who will have to charge more. So we maintain that overall profitability. So we see it as a good thing that people get the most accurate price, particularly since we're more sophisticated than most of the industry, and we have some of the tools like telematics. Glenn, what would you add to either bundling or telematics?

Glenn Thomas Shapiro
President of Personal Property-Liability of AIC

Yes. So thanks for the question, Josh. I think on the bundling side, I would look it as it actually -- I'd flip it the way Tom did there, we're actually seeing some increase in bundling, and I think that's helping our homeowners. So part of the story in the homeowners growth, it's only part because we got a lot of good parts of the story and homeowners there is bundling.

In terms of Milewise and Drivewise, I'll talk about both of them, we definitely see the increased demand. So right now, we have Milewise available to 45% of the market, and we're continuing this year to roll out to more states. And we have Drivewise just about everybody is 1 state that doesn't allow it. But the demand for telematics has gone significantly up. Milewise, for example, admittedly a relatively small base, but was up 35% in terms of sales.

So people are looking at the pandemic. They're not driving as much. It's -- we're advertising it a little bit, and we're getting a lot of people interested in the notion of pay by mile. From a Drivewise standpoint, most people really want to now include the telematics as part of their offering from us. So we're seeing a nice upswing on the demand post pandemic.

Joshua David Shanker
BofA Securities, Research Division

Okay. I'm going to try and digest all that and figure out how it works. If we can go to the slides you prepared on Page 8, you have this very interesting slide about new issued applications. I'm trying to understand it a little bit better. First of all, when it says Allstate brand direct submissions were up but Esurance was down. Is that 4 months of Allstate brand direct and 8 months of Esurance? When we should think about that not only is Allstate brand bring in more customers than Esurance, but it's a smaller time line. Is this the right way to think about that?

Thomas Joseph Wilson
President, CEO & Director

No, those numbers are for the entire year. And what we're trying to show there is that we've made -- successfully made the transition to the Allstate brand selling direct, both operationally, which wasn't simple, by the way, in terms of changing web flows and all kinds of other stuff. They're getting the branding changed and putting the price discount in if you buy direct under the Allstate brand because it doesn't come with an agent. So we've made that change. And what that shows is that overall, we did -- we grew.

There's -- we did keep selling some under the Esurance brand, those companies, because they're open, they're -- people call -- get on our website, they track their way down to it. So it's really low cost business. So we didn't completely shut off, Josh, the Esurance. So you can still buy. Over time, it will go away as we quit advertising it and quit doing and people quit coming to that website. So what it's really trying to show there is that we've made the turn indirect, and we feel good about our ability to operate under one brand, and there were many people who didn't think that was possible, whether that was perceived channel conflict or just operational capabilities.

Joshua David Shanker
BofA Securities, Research Division

And then on the EA channel part, is the -- a significant portion of annual of new policies coming through the EA channel coming from new appointments? If we don't do a lot of new appointments going forward, should we expect that's a multiyear issue in terms of growth in the EA channel?

Thomas Joseph Wilson
President, CEO & Director

I don't think you should think it's a multiyear issue. Obviously, Glenn mentioned we're trying to -- we are working on creating some new higher growth models, and he can talk you through that in a second here. The part that may not be as obvious is in the -- putting the under -- putting Allstate agents onboarding them with the old model, the commissions were substantially higher than you pay to an existing agent. And the idea being if you open an office and you got nobody coming in, you sell the first policy, you need to make some money, and the commissions were quite high there.

What Glenn is working on is coming up with a model where an agent can build the business and be successful without us having to incur the additional cost upfront to build it, which kind of rolled out over 3 to 5 years, it was expensive. And so we made the -- what we thought -- what we made was the economic choice which was save shareholder money, don't keep investing in a model that you think you get a better one for and then get the -- make sure the existing agents continue to grow. Glenn, do you want to talk about the new agents and then what you've done with the existing agents as well?

Glenn Thomas Shapiro
President of Personal Property-Liability of AIC

Yes, absolutely. So -- and I always want to emphasize on this. The -- our exclusive agents are a huge strategic advantage for us and a core capability for Allstate. As much as we talk about, and I'm excited about the direct growth and what we can do in the independent agent channel, it's still the -- a large, large channel out there and a lot of customers really like to go to a local agent and a branded agent like an Allstate agent to go there. So it's a great model for us, and we want those agents to keep winning.

So what we've done with existing agents is, as you know, we've shifted compensation a little bit. We've motivated more on the new business side than just on the renewal side. But we're also working with them on the way we market. We're putting more money into marketing. We really want them to be successful. From a new agent standpoint, we've got a few models in market right now. And without going too detailed into it, the general theme would be, if you think about the virtual world we're operating in, can you have a local agent that doesn't really require brick-and-mortar?

And we think the answer is yes to that, that there's an opportunity for agents to be a local point of sale, people who are active in the community, people who have relationships locally and sell through those relationships in their communities, but don't necessarily have a staff and have a brick-and-mortar office where we perform the back-end service in a more centralized way. It's a significantly lower cost model to get started, as Tom mentioned, and one that we're pretty bullish on our ability to scale.

Operator

Our next question comes from the line of Greg Peters from Raymond James.

Charles Gregory Peters

Raymond James & Associates, Inc., Research Division

My first question is around price and competitive positioning. Obviously, we're listening to when watching the new products that you're rolling out the product enhancements and the focus on profitable growth. Your underlying combined ratio for the year is 79.3 is obviously a very excellent result. But do you think that your price for your Allstate brand auto is competitive in the marketplace considering how profitable the business is at the moment?

Thomas Joseph Wilson
President, CEO & Director

Greg, this is Tom. The answer is yes that we think we can be even more competitive. It's a complicated question, of course, because with billions of price points, you -- in some segments, you're not competitive at all because you don't want to be competitive because you think that somebody else is undercharging and other places you want to be competitive. And the trick is where you want to be competitive, to be competitive enough to win the business but not so competitive that you're giving away margin. And so we have a very sophisticated approach of doing that.

We do think that we can shift -- we can change our pricing so we can be more competitive overall. But yes, we look at our close rates, and we're right in the market. And that depends how we carry ourself too, right? So if you look at us versus other people who have exclusive agents [indiscernible] and in general we're very competitive. If you look at us versus direct, I'd say we're less so, which is why we made the change to put in a direct discount on that business. So we are more competitive with -- because people are not getting an agent, they don't want to pay for one. So I would say we're highly competitive. That said, I think we can always be better. And when you look at what drives customers purchase price, a lot of it's the price. Now you got to make sure you make enough money. And that's the trick. Glenn, anything you would add to that?

Glenn Thomas Shapiro
President of Personal Property-Liability of AIC

Just a couple of things. I'll hit there. One would be, you mentioned, Tom, that close rates, like so we keep a really close eye on our close rates and our close rates have improved. Our new business is up. I mean you look at -- you're talking auto, but I'll say, auto and home, we were up 2% and 8%, respectively, between -- on new business. So folks are buying the product, and you really can't sell the product if you're out of the market from a competitive standpoint. So those are good signs that we are, but we're working to get more competitive.

And the last point I'll make with it is, I always go back to this, we manage state by state. We have a talented group of state managers that like they've got their hands on the lever in each state, and they're looking at the competitive position, specifically in that market. And as Tom said, on which types of business are we more or less competitive on younger drivers, older drivers, homeowners, not homeowners, married, not married, all the different components in there, and they're pulling those levers and getting us as competitive as we can be while earning attractive returns.

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

Got it. I'd like to pivot to the expense ratio I think you -- the chart you put on Slide 9 of your presentation and very strong improvement from 2018 to 2019 to 2020. So 2 questions -- 2-part questions with the result and then going forward. How much of the 23.2 is benefited from reduced T&E because of lockdown? Or look at a different way, I know you've been focused on integrated services platform and other tools, is it an expectation that there -- you can drive further improvement in '21 and the expense ratio?

Thomas Joseph Wilson
President, CEO & Director

So Mario has been our lead on cost reduction. Mario, do you want to take that?

Mario Rizzo
Executive VP & CFO

Sure. Greg, thanks for the question. When you look at the expense ratio for the year and the improvements we made, we came into the year really focused on taking cost out of 2 principal areas. One was acquisition-related costs and the other one was operating costs, which your T&E component is a part of that, but those are people-related costs and operations and those types of items. And that's really what's driven the improvement once you take the noise of restructuring and pandemic-related costs out of the equation. The improvement we've seen this year has really come from those 2 principal areas.

We've actually spent a little more on marketing, like we said we would as well. So -- but our reductions in those 2 areas have really created the space for us to increase our growth-related investments. As we go forward, as we've said on past calls, our focus is on continuing to drive our cost structure down because it is a core part of our growth strategy. It's how we're going to be able to continue to improve our competitive positioning in terms of auto insurance pricing and continuing to deliver really attractive returns. So that's a core part of our strategy, and our focus is to continue to drive that ratio down.

Operator

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

David Kenneth Motemaden
Evercore ISI Institutional Equities, Research Division

Just a question, and, I believe, on one of the slides you had just talked about how you had a 94.4 average combined ratio in the auto business over the last 5 years excluding 2020. That's obviously -- obviously, 2020 is an abnormal year. But is that sort of a level you're comfortable getting back to in order to return to growth? And I guess, what sort of level are we willing to let that go to in order to accelerate growth?

Thomas Joseph Wilson
President, CEO & Director

David, good question. I think I would go up all the way up to the top and say that what we said is we can grow the market share on personal Property-Liability and as a company will deliver 14% to 17% return on equity. And we believe that will drive lots of shareholder value, both in terms of economic value creation and valuation multiples.

When you look specifically at the components of that, we have a headwind in investment income with low interest rates. We do have and have had, for a long time, great profitability in auto insurance. We would have put a longer period of time in there, but the pension accounting kind of change the way we did it. But we've been earning great returns in the auto insurance business for a long time and expect to continue.

At a 94, you still earn a really attractive return on equity because of the -- you don't have to put up as much capital on that line and some other lines. And so 94 would be -- we don't -- we like to make as much money as we can and grow as fast as we can, and it's really about how do you drive net present value for the whole company. So we don't have -- we don't publish and have a target of safety there. But 94 would be a return I would be highly comfortable with. I'd be comfortable with 93. I'd be comfortable with 95. They're all really great returns.

The other part to focus on is homeowners insurance, where that's a higher capital return business, and so we have a lower combined ratio there. And we're 10 to 15 points better than another large public competitor, which is somewhere between $700 million and $1 billion a year of profit. So we think all of those then add up to a 14% to 17% return. So we're comfortable we can grow the business and earn good returns. And it will bounce around, as you saw -- as you mentioned this year, frequency went way down.

So we made a bunch more money. When if frequency goes back up, we'll just have to raise our prices up. And the question is, are you good at it. And the point of putting those 2 statistics on the bottom of that page was just to give our shareholders comfort that we have a history of managing returns and profitability, and we expect to continue to do it. Not going to be the same every year because the world changes, but we know how to make money.

David Kenneth Motemaden
Evercore ISI Institutional Equities, Research Division

Great. That's helpful, Tom. I appreciate that. And I guess just maybe switching gears a little bit to the new appointed agents, and thanks for the slide on Chart 8 -- or Slide 8, I'm sorry, that was very helpful. Some encouraging trends there. I guess I just wanted to ask on the new agents and appointments. Do you expect that to still be a drag in '21? Or is that something that will turn from a drag to an addition to new apps and to growth? Or is this -- is that something that you expect to still be a little bit of a drag as these new models ramp-up?

Thomas Joseph Wilson
President, CEO & Director

I'll make some overall comments, and then Glenn, you may want to make some comments. First, I would say that when you do these year-over-year comparisons and sometimes I feel like the external view of the company, you just look 1 year. And so next year, obviously, we won't have had them much for this year. So [it would] actually be a negative versus the prior year. That said, I think the transition of Allstate agents to higher growth and lower cost will have some bumps in it.

That said, as you see, when we -- the people we focus on, the existing agents that are doing well, they know how to grow. They know their local market. They're aggressive salespeople. They have aggressive salespeople working for them. And so I don't know that it's as simple as like that's now gone and we get the new one. The new one, we think, should add additional volume for us, and Glenn can talk about how that will roll out.

And then at the same time, the beauty of our strategy is as direct grows, it keeps our advertising money highly effective because if we're not closing enough because through some agent changes, we can close more in direct. So we have a fallback. We don't think we need it, but we got plenty of opportunity to balance between those. Glenn, would you -- is there -- do you want to talk about the -- I think the view is on the agents, we have a ways to go to actually figure it all out, but we're making good progress.

Glenn Thomas Shapiro
President of Personal Property-Liability of AIC

Yes, and it's a great question. I think -- if you think about that chart and you look across at the direct part, too, I think it's a similar story. Like -- I think 2020 is a story really good success. We've built the foundation in that year and actually manage to grow more on the Allstate side than we lost on the Esurance side. And so that's sort of an ideal scenario that while you're in the midst of the muck and the mire of making a change like that, you actually are able to grow it.

We absolutely are making that type of change within the EA system, as we've said. We've got a lot of agents out there that are phenomenal at what they do and they grow and we're going to invest with them and have them be successful, and then we have a new model upcoming.

I think the way to look at this is to across all 3 channels. With EAs, we will ramp up some time later this year some new models and through next year. And so there's that coming as well as work with the existing EAs that really know how to grow. With direct, we've really done a lot of the heavy lifting of making the transition, and we should be able to continue to grow, and we're very confident in our ability to continue to grow it.

With IA, which is really, for all intents and purposes, a bit of a new channel for us. I know we've had Encompass in the small Allstate independent agents in there. But really jumping into the top 5 will start like the first state will roll out in the third quarter of this year with new products going upmarket on the National General platform, National General and Allstate company platform, and then multiple states per month and like we'll be finished with the rollout across all 50 states through 2022. So you can kind of see all of these things coming together, and we're building a long-term and sustainable growth platform across all of the channels.

David Kenneth Motemaden
Evercore ISI Institutional Equities, Research Division

Got it. That's helpful. And if I -- and I think the new agent, the new EA agent strategy is -- I mean, it sounds actually really promising. I guess one question I have is, are those new agents -- I guess, the more remote exclusive agent, are those -- are they as productive as under the old brick-and-mortar model?

Thomas Joseph Wilson
President, CEO & Director

I would say we don't know yet. But we do think it will be lower cost, if you want to look at it that way.

David Kenneth Motemaden
Evercore ISI Institutional Equities, Research Division

Yes, absolutely.

Thomas Joseph Wilson
President, CEO & Director

Right. You might have to have more people doing it. And then, David, you get a little bit of math because the existing agents also have salespeople in their office. So when you do it by agent, but then they might -- these people might be so low producers. So net-net, we think we know over half the people want to buy from a person and having a person local is good. It's just the way we've traditionally done it hasn't given us as much growth, and its costs don't need to be as high as they are today.

Operator

Our next question comes from the line of Michael Phillips from Morgan Stanley.

Michael Wayne Phillips
Morgan Stanley, Research Division

You guys mentioned the impact on the end of the payment plans and the pandemic on retention and growth in the quarter. I guess is -- I guess, Part A of this is, is there any way to quantify that? And what I want to get at is, if so, how much of -- given that the EA is still the bulk of your business, how much of -- was there a drag on retention because of things that you're doing with commissions and emphasis on direct and everything else that's going on? So can we quantify that impact, one? And then how much of an impact if everything else was on retention?

Thomas Joseph Wilson
President, CEO & Director

Well, Glenn can give you some detailed specifics on the year. Of course, retention is always hard to figure out, right, because you have a bunch of stuff going on, you have people changing lifestyle, not driving as much, some people shopping more. You have competitive moves. You have things that we did like shelter-in-place payback and payment plan forgiveness -- not forgiveness, we just let you defer. And so as those things roll through the system, it's kind of -- it's hard to do attribution on it.

That said, it was down this year, which, of course, we're focused on. The -- our Net Promoter Score really peaked throughout the year. We got peaked in about July. When we were doing all the shelter-in-place paybacks, it came down a little bit towards the end of the year, but not anything of any consequence or significance. Glenn, do you want to make a comment about the actual retention numbers?

Glenn Thomas Shapiro
President of Personal Property-Liability of AIC

Yes. I don't know I can add a lot to what you said, Tom. I think you hit it well. I mean the retention is in a decent range right now. So it's off of our highs that we hit. But we're within a long-term window on retention of where we've operated. And certainly, all the things that Tom mentioned had a drag on it. We know that the coming due of special payment plans had some drag on it in the competitive environment.

We know that there were some competitors out there that took some rate down. We also know that people facing financial hardship either shop, some people even give up a car. So all of those things have some play in it. And as you said, Tom, the attribution is next to impossible on that. But we're within a decent range of our long-term retention, and we're focused on it. And of course, we want to retain every customer that we work hard to get in the first place.

Thomas Joseph Wilson
President, CEO & Director

And I think if the underlying question there was are existing agents performing well enough to keep retention levels up or somehow made a mat or something like that, our answer there would be no, like we don't see any in there that says that existing agents are doing anything that they haven't done before or that they're not stepping up and helping their customers even more in the pandemic.

I mean they really reached out tons of calls on shelter-in-place and the payment plans and that kind of stuff. So our agents were doing a great job. I don't think there's anything structurally in there as it relates to this transition that says we're not. And I would point out that, that's a huge part of agent compensation. So their interests are aligned with our interest, which is keeping our customers happy.

Michael Wayne Phillips
Morgan Stanley, Research Division

Okay. That's helpful. Second question, still on kind of channel mix. Near-term and longer-term question. In the near term, I guess, just this year, you talked about a 1 point change in market share. Should we expect that to be kind of even throughout the year or more back half weighted in terms of that market share shifts? And then longer term, more interested in maybe 10 years down the road, what does Allstate look like? How does this mix look, 1/3, 1/3, 1/3 or something still weighted towards EA and IA?

Thomas Joseph Wilson
President, CEO & Director

We closed National General on January 4. So that in and of itself means we'll get that revenue for the entire year. So you should expect to see total auto premiums go up throughout the year. We would expect that as we continue to roll out things in the Allstate brand that we start to see some more growth in that business over time. And yes, but we don't really give it out even do it by quarter, just as much as you can.

In terms of the long term, I'm like, we'll take anybody we can get, like. So we have 1 out of 10. We still got 9 out of 10 to go, I'd be happy if all of them got a lot bigger. And that's what we're setting up to do. So we don't have a percentage. When you look at percentages from what customers want, you have about -- it's probably today, 25% of the customers really prefer self-serve, and it's a range.

If you look at those who want an agent, it's over 50% and usually around 65% -- or about 60%. And then in between, you have people who are sort of -- they go with whatever is in front of them, and they're indifferent. So we think there's plenty of opportunity to grow. Some of the shift you see in channels is really due to customers wanting it differently, like not feeling like they need help to buy the product.

Some of the shift is just because direct companies have been advertising more. So you yell loud enough and people come to you. So we think what we should do is give people exactly what they want, give them choice. And what they want in the -- with the person is really to help buy it. They need and want less help on service, and so the existing insurance agent businesses have been built on both. What we're trying to focus on is really helping them buy and then give them self-serve or have computers do it or whatever to lower the cost on the service side because it's cheaper, better and faster. So we don't need to do as much local service as we do. So we'll take as many people as we can get through any channel.

Operator

Our next question comes from the line of Paul Newsome from Piper Sandler.

Paul Newsome
Piper Sandler & Co., Research Division

I was hoping you could maybe help us understand a little bit more about how the investment portfolio will look after the life sale? Will the P&C business kind of have a little bit of a different mix of assets? And will that have an impact on the yield as well?

Thomas Joseph Wilson
President, CEO & Director

Great. Paul, let me give you a slight overview from a corporate standpoint, and John can talk about the specifics. So obviously, the sale of Allstate Life Insurance Company substantially reduces our investment portfolio as we exit a spread-based business. And the Blackstone entity is taking almost all the assets that are used to asset liability match that business. They are not taking all of the performance-based assets. So that increases the percentage some relative to the overall portfolio, which also gets smaller. And we looked at it, obviously, prior to the sale. We're comfortable with the risk and return of it.

You will remember that we reduced our equity holdings in February this year by $4 billion, not because of the Allstate Life sale, but because we just didn't like the risk and return profile there. So we do make changes up and down. And this will still have the ability to go up and down even though this portion of the portfolio is less liquid than the public equity as a whole because we still have public equities to get high yields. We have a bunch of ways we can manage the overall risk of the portfolio, and we're very comfortable with where we'll be. John, do you want to talk specifically about performance space?

Unknown Executive

Yes. Thanks, Tom, and thanks for the question, Paul. When you look at performance space, too, it's part of a broader overall portfolio context. So while that percentage will go up, we look across risk and return factors across every security and every investment we hold and take it in its entirety. So we have -- as Tom mentioned, we have a lot of ways to compensate for additional risk we may take in one area.

When you look at the performance space, if you -- this is a long-term holding for us. We've looked at gradually growing that over multiple years. And in some ways, this just accelerates that gradual path that we're on. As we built this portfolio, we've always looked for the best partners and the best direct investments we can across private equity, real estate and other areas. And the assets that we'd be bringing on board are ones that we're already very familiar with. We already own them, obviously, and very familiar. So it accelerates our path forward in a way that we're quite comfortable with.

And I guess, I just finish by saying that the return on this has stood up quite well over -- even in what's been a volatile year, we've been looking back at what our returns have been over the last 5 years and 10 years, and our performance-based assets have fared quite well relative to public markets, and we think that it continues to be an integral part of the portfolio.

Thomas Joseph Wilson
President, CEO & Director

Jonathan, let's take one last question and then we'll wrap up to keep people on time.

Operator

Certainly. Our final question for today then comes from the line of Gary Ransom from Dowling & Partners.

Gary Kent Ransom
Dowling & Partners Securities, LLC

I wanted to loop back on telematics. You mentioned increased demand for the product. A couple of questions there. Did that make any material difference to the growth in new business that you're seeing, that roll forward you showed on Slide 8? And then secondly, whether the difference between your mile -- by the mile product and the standard product, whether the demand is different. And with that question, I'm really just trying to think ahead is to buy the mile product more the way of the future.

Thomas Joseph Wilson
President, CEO & Director

Gary, let me make a couple of comments. First, I don't believe it's actually driven people to us. So I think with our advertising, when they get to us, and then we talk to them about it. So like, oh, that's interesting. And what it enables us to is give them a more accurate price, which protects them competitively. So the more accurate the price they are, the -- if someone takes them away from us, and we're really accurate buy through a lower price, then they'll, we think, lose money. And we won't lose people because we're overpriced for the risk. So it's really -- it will drive more sustainability to growth as opposed to people calling us and saying, "Hey, I want to do it." That doesn't mean people don't see our ads and say, geez, I'm tired of paying this much for insurance, and I hardly drive sort of cost. But I'm not seeing a big well spring of people saying because it tends to be more in the sale itself.

In terms of a long-term basis, I think this is the way that pricing will be done. I mean insurers for a long time have been trying to get more and more accurate on the individual risk, particularly in auto insurance and home insurance for that matter, of course, going to telematics here. But as credit was a big move, I don't know, 15 or 20 years ago when we first got into that using stuff out of the credit file, and it's very powerful. This is very powerful, as powerful, not so much in the fat part of the curve. They're being moderate risk people. But in really low-risk or really high-risk people, it's very effective. So I think it will lead to more sustainable growth through better retention because we'll have a really accurate and competitive price.

Gary Kent Ransom
Dowling & Partners Securities, LLC

That's helpful. Can you also talk a little bit about how you might be using telematics on the claims side, whether that is developing or having much effect at this point?

Thomas Joseph Wilson
President, CEO & Director

Glenn, do you want to take that?

Glenn Thomas Shapiro
President of Personal Property-Liability of AIC

Sure. So we've got some capability there that is, I would call it, developing. And it's about accident notification. And I think this is -- Tom talked about it being the wave of the future for pricing, which I totally agree with from the telematics. I think it's going to be the wave of the future. When you think about connected cars, you think about our devices in OBD ports or even the mobile, there's accident detection through Arity through the mobile telematics. So early notification, emergency notification, first notice of loss taking are all areas in development, and I think will be a wave of the future.

Thomas Joseph Wilson
President, CEO & Director

Gary, I would expand on that and say, if you go to digital claims settlement, we believe we've been leading the industry, whether that's a quick photo claim, whether that's using algorithms to look at pictures and decide how you should settle the claim. I know another company is talking about going into a SPAC and raising some money. We've worked extensively with that company.

We think our platform, our technology and the ability to utilize data will make us even better at settling claims. So it's not really related to telematics, but it's really related to digitization of the business, which is another way that we're trying to change both our business model and really our culture with this to drive that kind of growth.

So thank you all for participating. We are trying to build really transformational growth business models. It's more than a plan. It's really a way of life. And we expect to deliver increased growth and earn good returns, which will both create economic value just because we make more money and should lead to higher valuation multiples. Thank you much. We'll talk to you next quarter.

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