S&P Capital IQ

CONTENTS

The Allstate Corporation NYSE:ALL

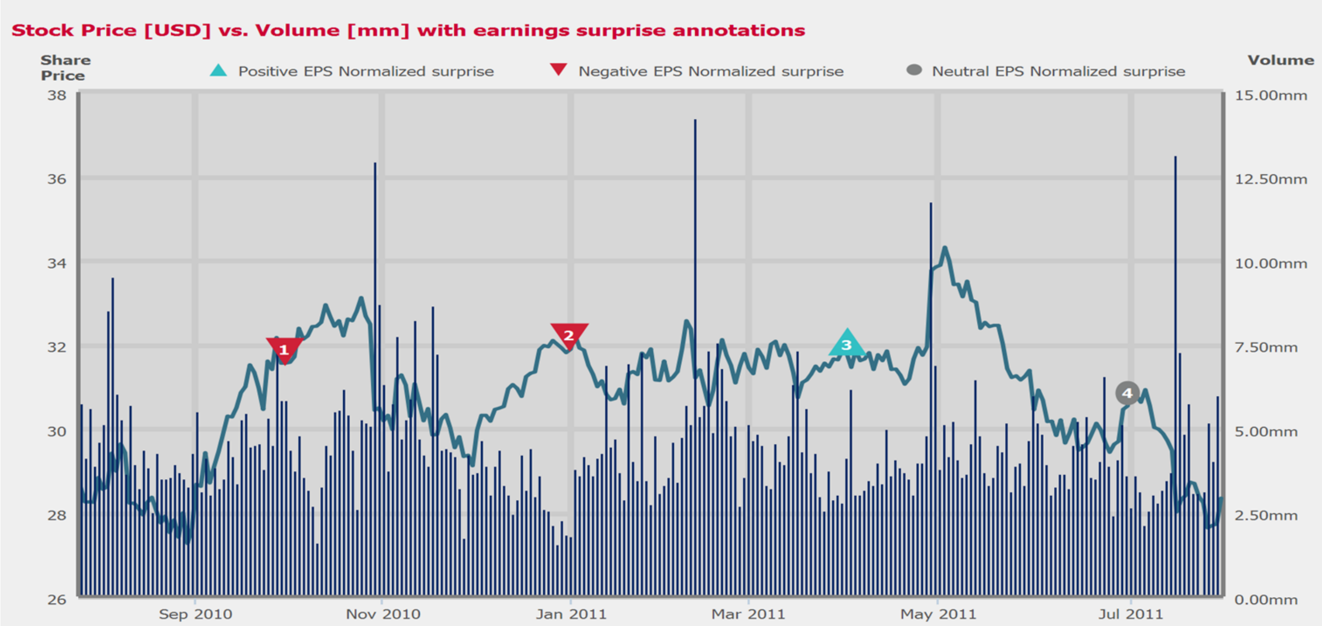
FQ3 2011 Earnings Call Transcripts

Tuesday, November 01, 2011 1:00 PM GMT

S&P Capital IQ Estimates

	-FQ3 2011-			-FQ4 2011-	-FY 2011-	-FY 2012-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	0.12	0.16	33.33	0.93	0.78	3.72
Revenue (mm)	6460.82	6432.00	(0.45 %)	6504.83	26629.07	26469.64

Currency: USD
Consensus as of Nov-01-2011 12:05 PM GMT



- EPS NORMALIZED -	CONSENSUS	ACTUAL	SURPRISE
FQ3 2010	0.96	0.83	1 (13.54 %)
FQ4 2010	0.88	0.50	2 (43.18 %)
FQ1 2011	0.68	0.93	3 36.76 %
FQ2 2011	(1.55)	(1.23)	NM

Call Participants

EXECUTIVES

Don Civgin
President of Emerging Businesses - Allstate Insurance Company

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

Mark R. LaNeve
Former Senior Executive Vice President and Chief Marketing Officer of Allstate Insurance Company

Matthew E. Winter
President and President of Allstate Insurance Company

Robert Block

Thomas J. Wilson
Chairman & CEO

ANALYSTS

Alison Marnie Jacobowitz
BofA Merrill Lynch, Research Division

Brian Robert Meredith
UBS Investment Bank, Research Division

Ian Gutterman
Adage Capital Management, L.P.

Jay H. Gelb
Barclays PLC, Research Division

Keith F. Walsh
Citigroup Inc, Research Division

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

Michael Steven Nannizzi
Goldman Sachs Group Inc., Research Division

Michael Zaremski
Crédit Suisse AG, Research Division

Robert Ray Glasspiegel
Langen McAlenney

Vinay Gerard Misquith
Evercore ISI, Research Division

Presentation

Operator

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

Robert Block

Thanks, Matt. Good morning, everyone, and thank you for joining us today for Allstate's third quarter earnings conference call. Tom Wilson, Don Civgin and I will make some brief remarks to provide more color on our results for the quarter. We'll then hold a question-and-answer session, and we ask that you limit yourself to one question and one follow-up so that we can hear from as many folks as time permits.

Joining us for the Q&A session are Judy Greffin, our Chief Investment Officer; Mark LaNeve, Senior Executive Vice President, Agency Operations and Chief Marketing Officer; Sam Pilch, our Controller; and Matt Winter, Senior Executive Vice, Insurance operations and President and Chief Executive Officer of Allstate Financial.

Late yesterday afternoon, we issued our press release and investor supplement as well as filed our 10-Q for the third quarter 2011. We also posted a slide presentation, which will be used in conjunction with the prepared remarks. All of these materials are available on our website.

Our discussion today may contain forward-looking statements regarding Allstate's operations. Actual results may differ materially from those statements. Please refer to our 10-K for 2010, our 10-Q for the third quarter and our press release for information on potential risks. The discussion may also contain some non-GAAP measures for which there are reconciliations in our press release and on our website. After our call concludes, Christine Ieuter and I will be available for any follow-up questions you may have. Let's begin with Tom Wilson. Tom?

Thomas J. Wilson
Chairman & CEO

Good morning. I'd like to begin our conversation by reviewing our strategy in operating commitments for 2011. Then I'll compare this to our third quarter results and discuss our 2012 priorities. Bob and Don will then go through the underlying drivers of our results.

If you begin on Slide 2, we're in the business of selling protection products to consumers based on their preference for price, service and delivery channel. It's a long-term strategy designed to evolve with the changing marketplace. Our Board and management are fully aligned behind this strategy in goal of generating an operating return on equity of 13% by 2014. To do that, we're focused on 3 near-term priorities. First, we must maintain margins in the auto insurance business at industry leading levels. Secondly, we must improve returns in homeowners and Allstate Financial. Thirdly, we must aggressively manage our capital. On a longer-term basis, we're repositioning our products and distribution platforms to meet the changing needs of customers. So near and long-term, of course, we continually manage our most powerful asset, that's the Allstate brand, and it gives us unparalleled access in opportunity within our core businesses and to each of the company's core constituencies.

So let me review our progress in the third quarter on Slide 3. We strengthened the breadth of the Allstate brand standard auto insurance profitability by improving combined ratios in New York and Florida. Both of those states continue to have loss ratios that are higher than the countrywide average, though the results have improved significantly relative to 2010, reducing the pressure on countrywide results. The rest of the country continues to have strong results. The overall combined ratio for Allstate brand standard auto insurance is 94.2 for the quarter and 95.8 for the first 9 months of the year. The Allstate brand homeowners combined ratio was 131.9 for the quarter, of which 55.8 was due to catastrophe losses. To improve returns, we continued to increase prices and downsize this business with average premiums are up 5% and then there's a 4% reduction in items in force versus a year ago. The underlying combined ratio was 72.3 for the 9 months, which is a 0.9 improvement from the prior year for the quarter. It was 1.7 points better than the prior year.

Overall, the property liability underlying combined ratio was 88.9 for the first 9 months, which is at the favorable end of our committed range of 88 to 91 for the year. Allstate Financial had a solid quarter with operating income of $134 million, a 24% increase from the third quarter of 2010. The returns from Allstate Financial were improved over the prior year as a result of higher investment income and lower crediting rates.

The fixed deferred annuity business declined by $4 billion in contractable balances since the year end of 2010 as surrenders continue to outpace these sales. Proactive management investment, portfolio gave us 3 great results. We maintained yields. We realized substantial capital gains, and we increased the absolute level of unrealized gains in the portfolio from the end of last year. Our capital management program includes an active outsourcing program for products such as homeowners and annuity. In the homeowners business, we've reduced our items in force by $1.2 million or 15% over the last 4 years, in part by offering coverage from other carriers. Today, we broker our homeowner premiums in many markets, the vast majority of which is Florida and other hurricane exposed areas. And as you know, of course, we are a substantial user of reinsurance, which enables us to shift risk to third parties and recover most of the cost through higher prices from customers. Allstate Financial uses similar strategies. Of course, we sold the variable annuity business in 2006, but the Allstate agency distribution channel sold $736 million of nonproprietary variable annuities in the first 9 months of the year. Earlier this year, we instituted a similar strategy for fixed annuities, so fixed annuity deposits declined $439 million so far this year. So the Allstate agency distribution channel expenses were reduced by increased fees in these arrangements.

This capital management strategy, what it does is it enables us to meet our shareholders' objectives of getting a 13% operating return on equity, without sacrificing customer relationships. And so we'll continue to aggressively use those tools as ways to improve shareholder value.

We also completed our most recent $1 billion share repurchase program at the end of the quarter, which was about 5 months ahead of schedule. As you know, we usually determine our capital plans in February after the conclusion of catastrophe season and when we have a good read on year-end capital ratios. We're accelerating that review into the fourth quarter this year.

Let me finish current results by commenting on some important organizational changes. As you know, to drive higher performance and increase urgency, we've been changing our performance management practices and rebuilding Allstate's top management team, which includes replacing some people who retired. 60% of our senior leadership team joined the company within the last 4 years, which when combined with the breadth and depth of Allstate experience from the remaining 40% gives us a really good blend of external and internal perspectives. As a group this team is dedicated to urgency. It has a great sense of urgency. It's completely aligned and is deeply committed to the strategy to deliver the value that we know you all expect. Given the strength of our senior leadership team and the similarities of our businesses, we decided to move to a flatter, more streamlined operating model that separates responsibility for Allstate Protection along functions lines. So in addition to his role at Allstate Financial, Matt will oversee Allstate Protection claims, product operations, risk management and program management. Mark LaNeve's responsibilities have been expanded to include Allstate Protection's field and agency operations, in addition to his role, which was to lead marketing and sales and service programs. This move will shorten the lines of communication and improve our response as an organization to an ever-changing marketplace.

As we look forward to 2012, our priorities are very similar to 2011. We must maintain profitability at the auto insurance line. Improving returns in homeowners and annuities will continue to be an urgent priority for us. Aggressive capital management will continue to be a tool for us to improve operating return on equity to 13% by 2014. In addition, we need to adapt to strategic positions of our businesses to reflect the changing consumer marketplace. The ability to ensure Allstate customers receive the highest level of service from our agency force is as critical as ever to the success of those Allstate agency businesses. That's why we're building stronger local agencies. This is a program that has been implemented in phases over the last 4 years, most recently including a prospective change agency compensation in 2013. Our goals are to build up the average size of agencies so they have that capabilities and financial wherewithal to meet customer needs at an affordable price. We support the mergers of agencies by loaning a portion of the purchase price to high-performing agencies. This program has loaned about $250 million at this point with minimal losses, and we expect to continue to increase over the next 3 years.

Since 2009, the average size of our U.S. agencies has increased by 10% and the overall number of agencies down by 14%. The recently announced compensation change will have the same overall cost to the company but compensation will be shifted to those agencies that are performing at higher levels. All of those changes are supporting increased performance on behalf of customers who prefer the personal touch of a local agency. For those customers who want a local -- a personal touch but are less concerned about the brand and choose to buy through an independent agency, we have new leadership for Encompass and believe our skills and capabilities will enable us to earn solid profitability in that channel. We also closed on our purchase of Esurance and Allstate Answer Financial in early October and are implementing strategies to improve the value of that franchise. Esurance will be able to leverage our preferred risk pricing expertise and very importantly, our claim protocols and systems that both which will enable them to improve their competitive position.

In addition, we're already leveraging the Allstate brand by changing the tag line from Allstate, and they also hired a new advertising agency to position the Esurance brand to compete more effectively with those self-directed or self-serve customers. We now have all the business platforms we need to be successful in protecting U.S. customers while generating a 13% operating return on equity by 2014.

One final update, as we look forward to 2012. Based on the results of last May's shareholder vote, I embarked on a corporate governance listening tour. I meet with shareholders that owned about 30% of Allstate's outstanding shares and the major governance advisory firms. Those were productive and helpful meetings. As a result, the Board is actively working on governance and compensation plan changes to be responsive to their feedback.

Now Bob and Don will cover more of the detail on this year's third quarter results.

Robert Block

Thanks, Tom. On a consolidated basis, total revenues of $8.2 billion increased 4.2% from the third quarter of 2010 on the strength of $264 million of realized capital gains versus $144 million of realized capital losses in the third quarter of 2010. Consolidated net income of $165 million declined by $202 million from last year's third quarter. Increased levels of catastrophe losses, which negatively impacted net income by $449 million after-tax, were partially offset by the favorable effects of higher after-tax realized capital gains of $170 million.

Looking at property liability on Slide 4. Net premium written of $6.7 billion declined slightly quarter-over-quarter, the result similar to the first 2 quarters of the year. Allstate brand's Standard Auto net premium written at $4 billion was down 0.8% compared to the third quarter of 2010 as lower unit volume more than offset a small increase in average premium. New business volume was comparable to the second quarter but off by 13.2% from the third quarter of 2010. Retention improved by 4/10 of a percentage points, relative to last year's third quarter and remained consistent with the first 2 quarters of this year. Profitability actions taken in New York and Florida have negatively impacted unit growth as expected.

Excluding those 2 states, our policies in force growth was slightly positive for the quarter. Allstate brand homeowners' net written premium of $1.6 billion increased 1.5% from the third quarter 2010 as we continued to seek and receive approval for rate increases. In the third quarter, we received approval for rate increases in 15 states averaged 13.9%.

Canada and emerging businesses both contributed positive net written premium and unit growth in the quarter. The Property-Liability combined ratio for the third quarter was 104.8 and included 16.7 points of catastrophe losses. This compares to the combined ratio for the third quarter of 2010 of 95.9, which contained 5.9 points of catastrophe losses. The underlying combined ratio was 89.2 for the quarter and 88.9 year-to-date, well within the range we established at the beginning of the year.

During the third quarter, we conducted our annual detailed assessment of our discontinued lines and coverages reserve levels. We made some minor adjustments to the reserves similar to last year, which resulted in an immaterial increase for the overall combined ratio for the quarter.

On Slide 5, we provide the loss cost trends for Allstate brand's Standard Auto. Bodily injury frequency improved by 3.3% relative to the third quarter of 2010, while property damage frequency declined by 2.6%. Claim severity results for both coverages increased slightly, with increases of 0.2% and 1% for bodily injury and property damage, respectively. Auto loss cost trends remain well within the range of expectations contemplated in our pricing. The combined ratio for Standard Auto was 94.2 for the quarter, an increase of 1 point from the third quarter of 2010. Homeowner loss cost trends are displayed on the next slide. Excluding capacity losses, frequency increased 6% from the third quarter of 2010, reflecting heavier non-CAT weather losses in the quarter. The frequency pattern was consistent with the last several years.

Claim severity increased 3.3%, a level of increase similar to the first 2 quarters of the year. The combined ratio for homeowners was 131.9, with catastrophe losses accounting for 55.8 points. The underlying combined ratio improved relative to the third quarter of 2010, coming in at 73.3, 1.7 points better than last year's result. Rate actions to improve the profitability in this line continue to be reflected in these results.

Allstate Financial results are shown on Slide 7. They had a solid quarter. Net income of $183 million increased $98 million from the third quarter of 2010 on the strength of improving operating income and realized capital gains. Operating income of $134 million increased $26 million as increases in investment spread and lower expenses were only partially offset by a decline in the benefits spread.

Premium and contract charges were essentially flat in the quarter as increases from underwritten products were offset by declines in annuity sales, as expected. We continue to successfully execute on our strategy of reducing the concentration and investment spread products, while improving the profitability of those products focusing on the sales of underwritten products through the Allstate agencies and growing Allstate Benefits.

Now I'll turn it over to Don.

Don Civgin
President of Emerging Businesses - Allstate Insurance Company

Thanks, Bob. As we've done consistently in the past, we've had clear objectives and we've been proactive in the way we managed our investment portfolio. And again this quarter, our approach has paid off in the form of investment income, realized gains and attractive risk return position.

Looking at Page 8 of the presentation, the overall portfolio finished the quarter at $97.5 billion, a small decline from the second quarter of 2011, as the Allstate Financial portfolio continued to decline as planned, consistent with Matt's strategy to downsize the annuity business.

During the quarter, we took advantage of market opportunities to realize gains from sales of primarily government and corporate securities and reinvested those funds into intermediate term investment grade corporates. This resulted in a reduction in the allocation of governments and an increase in the allocation of corporates. You can also see on the right side of this page that we're maintaining the shift in the distribution of fixed-income securities by scheduled maturity date towards the 3 to 10-year category. This is again consistent with what we discussed last quarter.

Net investment income and yield trends are displayed on the next slide. Even in this difficult environment, overall portfolio yields improved compared to prior year as a result of our first quarter interest rate curve and derivative positioning, additional high-yield allocation and limited partnership distributions. The sequential decline in the Property-Liability portfolio yield was driven by a seasonal drop in foreign dividend income in the third quarter relative to the second quarter. Overall, net investment income at $994 million fell by 1% compared to Q3 2010. Increased net investment income for Property-Liability was more than offset by the decline in Allstate Financial due to expected declines in the size of their portfolio. In both portfolios, enhanced yields produced favorable variance in income while declines in the average assets countered the favorable trends.

We generated $264 million of realized capital gains in the quarter as shown on the next slide. That, compared to $144 million of realized capital losses in the third quarter of last year. As I mentioned previously, we took advantage of market opportunities in our fixed-income portfolio to realize $692 million on sales of foreign governments, treasuries and other fixed-income securities, with the proceeds being reinvested primarily in intermediate-term investment grade corporates.

These gains were partially offset by $203 million of impairments and $234 million of derivative losses. The impairments arose primarily in our residential and commercial real estate and equity asset classes, and in the derivative category, the majority of the losses were interest rate related. The unrealized net capital gain position at the end of the quarter was $2.36 billion, down slightly from the second quarter. Unrealized capital gains on our fixed-income portfolio increased to $2.46 billion from $1.91 billion at the end of Q2, while the equity portfolio' s unrealized position went from a $625 million gain to a $95 million loss reflective of the equity market experience in the third quarter of this year.

Moving to our capital position on Slide 11. Shareholders equity was $18.1 billion at the end of the third quarter, a decline of $664 million from the second quarter of 2011. We completed our share repurchase authorization, buying $308 million in the quarter. Book value per share of $35.56 was essentially flat from prior year and down about $0.40 from Q2 2011. The statutory capital levels of our insurance companies remain strong with an estimated $14.4 billion at the Allstate Insurance Co. and an estimated $3.7 billion at Allstate Life Insurance Company. We paid a $200 million dividend from AIC to the holding coming during the quarter bringing invested assets at the holding company to $3.4 billion. As we've discussed previously, we've been hard at work to dissolve the Allstate Bank, and during the third quarter, we received regulatory approval to voluntarily dissolve Allstate Bank. We expect to return all funds to customers, cease bank operations, cancel the charter of the bank and deregister the Allstate Corporation as a savings and loan holding company by the first half of 2012.
Lastly, following the close of the quarter, we completed the acquisition of Esurance and Answer Financial for approximately $1 billion, and we will begin to reflect their results with our fourth quarter report. Now let's open it up to your questions.

Question and Answer

Operator

[Operator Instructions] Our first question is from Bob Glasspiegel from Langen McAlenney.

Robert Ray Glasspiegel
Langen McAlenney

I was wondering if we could dig into Esurance and your strategy and specifically how you're going to integrate Answer Financial into your agency distribution plan for example, when they aren't able to close an account or would you offer that as a vehicle to potentially save customer relationships?

Thomas J. Wilson
Chairman & CEO

This is Tom. I'll make a couple of comments and then maybe Don may want to jump in as well. First, the way we look at the marketplace, we have 4 segments of customers. Those who want a personal touch of a local agency and want a branded product, buy through the Allstate agencies. Esurance is really targeted towards those who are self-directed or prefer to self-serve and want a branded experience. And what we intend to do with that business is position it squarely towards them. Before we acquired them, they had a value proposition which applied more across that board. It was people when you wanted technology and when you don't. That sort of applies to the whole segment. We'll get it a little more focused on the self-directed customers with the new branding program they're working on. At the same time, we're much better in preferred risk pricing and we have great plans and capabilities. We believe we can reduce the variability of their claims costs, use our resources, our systems and our relationships to lower the cost, which will make them competitive, which should help us compete more aggressively in that marketplace. So it will operate as a separate business, but then leveraging the skills and capabilities that reside inside Allstate, including things like the brand that I mentioned earlier. Answer Financial really serves those self-directed customers who, have less preference for a brand. And what Esurance does is when you call Esurance, if they can't close you, they then route you to Answer Financial. Answer Financial gets business from other places as well, but what that does is enable Esurance to lower its advertising cost versus other people because it's monetizing those people who call who they don't close. And that program works quite well for Esurance and Answer Financial, as you point out. That segment of the market seems to be growing, and we're, of course, what Answer Financial then it does place that business with a whole variety of carriers, which we continue to do and it continues to grow. What we do -- We haven't decided yet to do with quotes that come from the people who want personal touch loyalists in the Allstate agencies, whether we would route those to Answer Financial or not, we're going to test that in the next 6 months or so and get a feel for it. But of course, we get millions of quotes that come in to the Allstate agencies. Some of those quotes we don't close right at that particular time -- these are the persons not ready, but they really want that local agency. Some of those people just called because they saw our ad and they'd be perfectly happy to buy it on their own or buy it from somebody else. So we have to sort through really that flow, but we are working as to how to optimize the overall system. Did that answer your question?

Robert Ray Glasspiegel
Langen McAlenney

One other follow-up. Did you push the comp change from 2012 to 2013? If so what was behind the sort of delay?

Thomas J. Wilson
Chairman & CEO

It was initially discussed as middle of 2012, but we have been -- we when did this comp change, we don't just sort of sit in the room and make it up. We had over 300 agency owners working with us through various groups to help us figure out how to design it. When we looked at the timing of it, what it took for them to change their business model, how we could get accuracy around the numbers so that it really drove behavior. And quite honestly, to give people a little runway to adapt to the thing, we moved it back to the beginning of 2013. We did give some people who are excited about the change and believe it will work and support the business model, the opportunity to opt in, in July of 2012, if they want. So it becomes effective for everybody, Bob, in the beginning of 2013 but we're letting some people choose to get in the program, which we see as a good opportunity to help people see how you can win with the new program. Does that make sense?

Robert Ray Glasspiegel
Langen McAlenney

Yes.

Operator

Our next question is from Jay Gelb of Barclays Capital.

Jay H. Gelb
Barclays PLC, Research Division

In terms of being able to achieve the 13% return on equity by 2014, it seems that the biggest lever for that is improvement in the homeowners business. And given the recent track record on catastrophe losses, I'm just trying to get a better handle on what type of catastrophe load you're including on that to be able to achieve those results or what other steps you're taking to improve the all-in homeowners results.

Thomas J. Wilson
Chairman & CEO

Jay, your math is right. About 70% of the improvement is due to the homeowners business, where we've been historically to where we are sort of recently to where we need to go. And as it relates to the catastrophe load, it's sort of the average of what we would have experienced over the last 10 years as opposed to what we've experienced this year. This year, the last 2 quarters, we have had higher catastrophe losses than if you look back at the prior 20 years, higher in just this 6 months than 18 of the last 20 years. So this last couple of months have been particularly bad, as you all know and you can see in our results. As it relates to how do we reduce our catastrophe exposure, that's part of what I talked about in terms of -- some of that we just do through normal insurance underwriting, insuring the right houses, getting deductibles up, making sure we have the right kind of standards as to what we charge for different kinds of roofs and things that are getting pricing right. We also, of course, aggressively use reinsurance and brokering. And I think this is an area where I haven't communicated enough to you how much brokering we actually do. We broker a huge number of policies where we can maintain the customer relationship. So while we want to serve those personal-touch loyalists with everything that they need, we don't have to make it all. And we've done that successfully in homeowners. We've done it in variable annuities. We're now doing it in fixed annuities. To the extent we need to do more of it in homeowners to get to our return, we'll do as much as we need to do. Can I just -- Kirk just pointed out to me that the option -- the opt-in on the agency stuff, Bob, was eliminated as part of some additional change, and maybe people currently didn't feel it's a big need to opt-in so we took that out.

Jay H. Gelb
Barclays PLC, Research Division

My second question is on the change in DAC accounting for 2012. Allstate has $4.4 billion of deferred acquisition costs. And even though -- you said in the Q you're still trying to determine what the impact is. Do you have an early sense of what the potential for write-down may be and whether or not that will impact 2012 earnings?

Don Civgin
President of Emerging Businesses - Allstate Insurance Company

Jay, at this point, I have no estimates of the impact either on the balance sheet or the income statement. So we will adopt it as we're required to at the beginning of next year. And when we have an estimate, we'll share that with you.

Operator

Your next question is from Keith Walsh from Citi.

Keith F. Walsh
Citigroup Inc, Research Division

First question for Tom on Standard Auto. Just looking at new applications, down 13% and down 7% x Florida and New York. Just trying to understand why that is if the ad spend continues to be robust. If you can give us some color on that.

Thomas J. Wilson
Chairman & CEO

Sure, Keith. First, let me point out. The results on new business in a quarter are never, do exactly what you did in that quarter. So I would say that the results in this quarter where due to things we had done much earlier in the year, whether that's advertising, pricing, where we are with agency capacity. So there's a lag impact as to what you do in a quarter. With that said, it's hard to do a variance analysis, of course, but I would say it's a combination of really 3 things, maybe 4,I guess: rate increases, lower share of ad spend in the third quarter, fewer producers and higher homeowner rates. And it's kind of hard to split that up. When you look at the rate increases we've had, it's a little masked by the shift in reducing volumes in Florida and New York, which are high average premium states. So we have had increases in other states, not huge but at the margin they make a little bit of a difference. We have lowered our ad spend in the third quarter. Now we're up this quarter and because the competition continues to stay strong, sometimes we back off a little bit to see what other people will do. But as ad spend stayed up -- State Farm has started spending more money -- you'll see our ad spend be up again this quarter. Fewer producers, we're really working on now expanding the number of licensed sales professionals inside our agencies. While our number of agencies are down, we can increase capacity by increasing the number of licensed sales people who work in those agencies. And then higher homeowner rates, obviously, takes a toll because homeowner rates are a place where you can start to lead the business. Once you get the homeowners, it's easier to get the auto insurance.

Keith F. Walsh
Citigroup Inc, Research Division

Okay, great. And then just a follow-up for Matt on the life side. Just thinking about the new business returns there on the life side, are they in line with the 13% ROE objective or with interest rates at current levels? Or is the mix of business now more dependent on mortality/morbidity margins than interest income?

Matthew E. Winter
President and President of Allstate Insurance Company

That's a great question, Keith. So just for clarity, I think at our Investor Day, we talked about the Allstate Financial returns getting them up to the 9% to 10% range. The 13% you're referencing was for the overall enterprise. So within Allstate Financial, obviously, we had an overweighting in the investment products, the spread-based products, that in today's interest rate environment create a lot of pressure on returns. We've done, I think, a pretty good job with getting increasingly sophisticated in our ALM in order to maximize investment returns. And we managed to do that again this quarter, and despite the decline in the size of the portfolio and the interest rate environment, we managed to actually grow our return. But I think as time goes on, we'll be under additional pressure. Certainly, if this interest rate environment persists for an extended period of time, it will probably accelerate our desire to shift the mix of business towards more of a morbidity/mortality component and a fee component and away from the spread component. We had already begun that at the end of 2008. We accelerated it in 2010 and we're getting the results that we wanted, Keith. So it's a fine line, you want that portfolio to roll off but do so in an orderly and methodical manner so that you don't have pressure to sell assets at the wrong time. We've had the right runoff in the business. It's done what we'd hoped it would do, and at the same time, we've grown the mortality and morbidity-based business. So we're comfortable there. And as you know, the returns on the underwritten business are significantly higher than the spread-based businesses and are in the low teens. And we believe that on some of those products, especially the accident and health products, we can go in the high teens on a consistent basis. So as a result, the more we shift away from the spread-based business towards the underwritten business, whatever interest rate environment we're in for the next 3 to 4 years, it will be to our advantage as long as we do so fairly methodically. Did that answer your question?

Keith F. Walsh
Citigroup Inc, Research Division

Absolutely.

Operator

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

Alison Marnie Jacobowitz
BofA Merrill Lynch, Research Division

I was wondering if there's any chance you could give some more color on the extent that New York and Florida are holding back your margins or maybe how that might progress going forward or some details on the progression already, but quantified.

Thomas J. Wilson
Chairman & CEO

Alison, this is Tom. Both of those businesses are now operating profitably. Of course, you get all kinds of measures of profit, whether that's run rate, includes reserve releases, doesn't include reserve releases. But we feel good about where those businesses are. As I mentioned, they are operating at a combined ratio that's higher than the overall level, but I feel very good about the trends. We made additional progress in the third quarter on a variety of fronts, including rates, including the way in which we handle our personal injury protection claims. We made good progress in getting those costs down. As well, we've also gone in to do a bunch of correct class work in New York, in the third quarter as well. So I feel very good about the underlying strength of what we're doing. It will bounce around from quarter-to-quarter, but it certainly, from my perspective, it certainly made the auto profitability much more robust when you look at it across the whole country.

Operator

The next question is from Michael Nannizzi from Goldman Sachs.

Michael Steven Nannizzi
Goldman Sachs Group Inc., Research Division

So on your ROE goal, you mentioned homeowners. I'm trying to understand, if that's a competitive market, how much can you raise pricing there without eventually hurting auto retention as a result of the bundlers and then just generally overall profitability? And I do have one follow-up.

Thomas J. Wilson
Chairman & CEO

Mike, this is Tom. We're not having a lot of problems raising prices right now, either with regulators or competitors. Of course, it's no surprise since we're all losing money. But we haven't had, and so you can see the increases we've continued to get -- average premium is up 5%. And that includes some fall-through because when you take rates up higher than that, some people raise deductibles and do other things, which of course works, too. Even though you're not getting it in rate, you're getting it in margin because you don't have the loss cost associated with that. So we don't see competitive pressure there.

You do have some customers who obviously don't like the big price increases, and one of the things we've been doing is put increased spread into our rates. So if we say rates are up 9% in a state, some customers might be up 30%, other customers might be down 5%, which is about getting more accurate in our pricing, particularly as it relates to roofs and wind and hail damage. And So that does have a negative impact on the auto business. We don't accept it as a good excuse not to grow the auto business, but we recognize its effect, that it does have a negative impact. So you can't be down 1.2 million policies in homeowners and not have lost some auto policies as a result of that. That said, our goal first and foremost, is we got to get our returns up. So our returns, we want to get the 13% return, operating return on equity so we're going to do everything we need to do that. You can see we've done that in homeowners really over the last -- since, I don't know -- since 2004, 2005 we've been banging away at this thing. We're going to keep banging away as aggressively as we need to get returns up.

Michael Steven Nannizzi
Goldman Sachs Group Inc., Research Division

Okay. And then just on the other lever being capital deployment. Do you plan on buying back more in stock than you generate in cash?

Thomas J. Wilson
Chairman & CEO

Do I plan on buying...

Michael Steven Nannizzi
Goldman Sachs Group Inc., Research Division

I mean, would you plan to deploy more than you make?

Thomas J. Wilson
Chairman & CEO

Well, if you look at our history, we've not used leverage in a massive way to buy back stock, right? We do occasionally restructure our capital structure so I think, I don't know if it's 4, 5 years ago, we did -- or maybe 6 years we did a hybrid, and we bought some stock back. In general, the way we look at stock repurchases is how do we, if we have extra capital, we return that to shareholders, either through dividends or share repurchases. And then we always look to just optimize the capital structure. We'll do that in the fourth quarter. Normally, we would do that in February season when we got through cat season and we knew exactly where we're coming out on capital ratios for the year. And it sort of gives you a greater base from which to look forward. We're going to accelerate that into the fourth quarter of the year. We didn't do it already, quite simply because the hurricane season is just ending, as evidenced by some activity down in Mexico last week. So we just didn't feel it necessary to have it completely linked up. That said, we thought the stock price was attractive so we went and got it and decided we were going to finish the program early.

Michael Steven Nannizzi
Goldman Sachs Group Inc., Research Division

Okay, got it. I guess my question, so the cash flow from the P&C company is year-to-date I think is $500 million. Last year, full year it's $1.4 billion, and before that just over $2 billion. And the cash dividend is about $400 million. So I'm just trying to figure out how you're thinking about deployment versus how much you make and how much you're deploying already through the dividend.

Thomas J. Wilson
Chairman & CEO

Well, we -- let me see if I could be helpful. We, of course, look at how much capital we have at a given point in time. And we think we're adequately capitalized today. We haven't made as much money as we would like this year because catastrophes are $3.7 billion, versus all year last year, they were $2.2 billion, so we had expected, of course, to make more money because we didn't think catastrophes would be would be at such a high level. We do believe we still have enough capital, which is why we went out and bought the stock back early. What we do is we look at how much capital we have at a particular point in time and then we also look at what we think we're going to make going forward in the future. We tend to have a little bit of a lag on that, so I'd like to be a little long in capital rather than cut it right to the margin. So as you look at where we are today versus where we thought we would be, we have less deployable capital today than we thought we would have because of higher catastrophes. That said, I feel good about the underlying profitability of the business. I don't feel good about catastrophes, but it's always a little speculative as to what it's going to be next year. But I feel good about the underlying performance of the business. And of course, from a capital standpoint, we're incredibly solid. We have a lot of capital, we're very strong in terms of our rates. I'm not concerned about that part. So I think we have flexibility to make choices. I don't know what those choices will be yet because I want to see sort of where we are going to come out on our overall analysis in the fourth quarter.

Operator

Our next question is from Mike Zaremski of Crédit Suisse.

Michael Zaremski
Crédit Suisse AG, Research Division

A follow-up to the earlier question regarding the interest rate environments. So if the current environment did persist -- I know you've talked in the past about a target of $1 billion of excess capital being generated in Allstate Financial. Would that be impacted? And then also if you could talk about the overall net interest income outlook for the company. I know you guys -- yields have held up well. Are you guys going to continue to shift towards corporates?

Thomas J. Wilson
Chairman & CEO

Let me see if I can break than into pieces. And Matt can feel free to jump in. The returning of $1 billion of capital from Allstate Financial continues to be our goal. Interest rates, obviously, will affect how much money we earn, but remember part of the capital coming out of Allstate Financial would be as he downsizes that fixed annuity business. So it's down $4 billion in the last year. Matt's working hard to continue to downsize that business because we don't like the returns in it. So we want our money back, and that's what he's going to go do. Matt, anything you want to add?

Matthew E. Winter
President and President of Allstate Insurance Company

No. We feel confident that through some fairly sophisticated work on the asset liability management side and some additional work on liability governance on the in force that we're going to be able to maximize our potential for hitting that $1 billion figure in the required timeframe. But we're also going to use our capital smartly and not do stupid things just to hit an artificial target. So if the interest rate environment applies pressure on us in a way that, that seems no longer the prudent thing to do, then we'll rethink that. But right now, we believe that's still a realistic target. And we still think we'll be able to achieve that. As far as the long-term impact of the interest rate environment, as I think we've said previously, most of our products are at minimums at this point. Very few do we have additional room to lower crediting rates on. We are now spending a lot of our time on the ALM side and bundling our liabilities based upon both duration and liquidity needs and therefore working with the investment organization and Judy to get the proper investment mix and asset mix for each of those groups of liabilities. And as a result, we feel pretty confident that we can do a pretty good job in the foreseeable future in this interest rate environment. But it's undoubtedly true that if this interest rate environment persists for an extended period of time, it will put pressure on us.

Thomas J. Wilson
Chairman & CEO

Mike, let me maybe give you an overview of what Judy's doing in the investment world and maybe she would want to make some comments on it. The position we've taken in investments is sort of a 2 to 3 year time horizon. So we're not trying to make trades for tomorrow but we're looking forward 2 or 3 years. Judy and her team, we wanted to be proactive, to take action, to move ahead. But it's really around risk and return, what's the right trade-off. So obviously, we took some gains this quarter because we thought that was the right thing to do over the medium term. And actually, I think it worked out quite well. Obviously, taking gains and then reinvesting, if you were to reinvest in a like security would mean your overall investment would go down. But that's not the approach we take. As Matt was pointing out, it's very much asset-liability management. So maybe Judy wants to talk a little bit about the shift out of governments into corporates and what you've been doing to maintain yields.

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

Okay. So as Tom mentioned, this year we have done quite a bit of shifting out of out of govies into corporates. And for the most part, we feel good about that trade. I think that probably the more important shift that we've made this year is to curve our repositioning. So if you think about earlier this year, we moved the portfolio and moved some of our near-term maturities to the intermediate part of the curve. We moved some of our longer-term maturities to the intermediate part of the curve. And because of that move, we don't have that much in Allstate Protection that is maturing over the next 12 to 24 months. So we've already done some of that reinvest in what was a higher interest rate environment. So if you look at what's coming off the Allstate Protection portfolio over the next 3 years, it's about 3 billion in 3 years, and it's about $1.5 billion in prepays, all very manageable. And in 2012, it's even more manageable in that we're looking at significantly less, like $500 million in maturities and $600 million in prepays, and those, again, at fairly decent yields in terms of being able to reinvest and not give up that much income.

Operator

The next question is from Matthew Heimermann from JPMorgan.

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

First question, just on auto. Given that you're reporting some year-over-year gains in Florida and New York, I guess, a little surprised that year-on-year both in the quarter and 9 months that underlying combined ratios there look like they're sliding a little bit. So some color there, and if you could just clarify your comment on New York and Florida being profitable. Was that kind of run rate 3Q? Or just some color on that would be great.

Thomas J. Wilson
Chairman & CEO

Matt, I don't know that I got the first part about the combined ratio sliding in other places. Were you talking about other -- that the results were worse in other parts of the country?

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

Well, in aggregate, you reported -- you're reporting higher underlying combined ratios this year than last year both for 3Q and for 9 months. So if New York and Florida have made progress, I guess that implies other places have gone backwards. So just some color on what...

Thomas J. Wilson
Chairman & CEO

I would start at the most macro level, Matt, and say that the returns we're getting on capital in our auto business at the levels in all those states, even where combined ratios have gone up a little bit are great. So we're getting really strong returns in those places, and we try to manage those overall return, return in individual states and then growth and being competitive in the marketplace. So there's nothing in the auto business that concerns me that combined ratio is ready to head to the sky. In fact, I feel better about it because specifically, New York and Florida are in much better position. The story is different for each state as to why do I feel better about it. One could be the -- one is certainly the run rate. The other is the current rate. But then where I see us preserving when I'm looking at the paid trends. On some measure, both states are profitable, and when I look forward, the trends I see indicate that it will continue to stay strong and, in fact, get better. We're still going to be stuck with a little bit of the overhang on growth in those states because if you look at our decline in items in force, 97% of it is due to those 2 states. So we're trying to manage growth in the other states, and early last year we took some changes in combined -- lowered rates in some places to get more competitive. And then the other part, I guess, would be when you look at the quarter, I'm not sure how much. I'd look at maybe taking cats out of that number, too.

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

Well, I'm looking at underlying that are already adjusted out. But I guess I'm just trying to put that in context, given that one of the strategic and financial goals has been relative stability in those margins. So I get your ROIC comment. I'm just trying to put it in context with that.

Thomas J. Wilson
Chairman & CEO

Matt, we're not going to let the combined ratio in auto get out of control. We're on top of it. We watch it every state, every rating plan. We're all over that. It's a core goal of ours. I wouldn't read into what I would say are normal variations in the combined ratio. I mean, frequency, you can't really predict frequency on a quarter-by-quarter, even the 9-month basis with that much accuracy. So it bounces around. It can bounce around by a point easily. That's when we give our ratio -- our 88 to 91, it's with that in place. I feel very good that we'll continue to be finish out here strong. I feel good about where we're headed next year as well.

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

And then the second question I had was just on the corporate, the compensation and governance changes that you alluded to. I guess, based on how you historically have paid people, on the proxy, it's been pretty specific metrics, corporate as well as SPU. So I'm just curious when you refine compensation how we might think about that. And then just general governance, I guess, where the improvements here that you're talking about there.

Thomas J. Wilson
Chairman & CEO

Well, there's a whole host of things we're doing. The biggest change that we're contemplating, and I say contemplating because it's a decision that the Board has to make and I have to work my way through with our management team, but it's using performance stock units instead of restricted stock units as part of the compensation plan. There are some -- governance people do not consider options to be performance-based and they'd like a larger component of compensation to be performance-based. So we're likely to use performance stock units instead of restricted type units for the most senior members. So there will be lost of other people inside our company where restricted stock is absolutely the right way to compensate them. We have moved to -- we do have very specific measures, as you pointed out, much more so than other companies. That over the last 4 years we've changed. That is what funds the pool. It used to be what funded individual pay. We've now shifted to that it still funds the pool. We have very specific measures to fund the pool, which protect shareholders. But then we allocate that amongst people based on their individual performance. And that's why when I started I said one of the things we're trying to do is drive increased performance, greater sense of urgency, more accountability in driving results in the company. So we do that with pay and have been for the last 3 years so that's a change which we've implemented. As it relates to other governance things, there's a whole host of items that we're considering, the largest of which is probably a right of shareholders to act by written consent. As you may or may not know that has been proposed as a proxy item for us in each of the last 2 years. It got, I think, 52% and 55% vote of the current -- of the shares that voted support for it. And we're likely to put that forward to shareholders as something that they can vote on. Then there's a host of other things, Matt, that we've gone and looked at. What we did when we went out and listened to everybody, heard what they had to say and we'll adopt those things that we think meet their needs and drive what shareholders want in terms of governance transparency and compensation.

Operator

The next question is from Ian Gutterman of Adage Capital.

Ian Gutterman
Adage Capital Management, L.P.

Tom, I was hoping you could just talk a little bit about the agency consolidation. And I guess, in regards to maybe 2 things. Just one, the effect on morale especially as the competition changes are coming soon and I think that creates some anxiety as well, how you're managing morale with both of those changes. And then two, I guess I just feel a little bit confused. It seems every month or so I see a press release about Allstate adding 25 agencies in this state, 50 agencies in that state. Why are we adding new agencies, which I'm guessing would be small? At the same time, we're trying to consolidate the agencies on the top side?

Thomas J. Wilson
Chairman & CEO

Let me deal with the morale piece first as it relates to agencies. Obviously, when you change compensation programs, it creates concern amongst the people who are subject to them. That would be true for our employees. It's true for our agency owners. And it's true for each of us individually. Any time there's a change, your sort of first perception is people don't want to pay you more money. They're probably trying to figure how to get a better deal for themselves. That's not true in this case. In this case, what we've said is, we're going to pay out the same amount of money. In fact, to the extent performance is better, we'd like to pay out more money. We do want to shift it, though, towards those people who are doing the best job for our customers. And that's kind of how we designed the program. The program historically has paid out about 10.7% of premiums, of which 10% was stated and 0.7% was bonus and incentives, which we put in place I think 4 or 5 years ago. Something called RFG bonus, which is about $200 million to $250 million a year in terms of compensation, we put that as incentive based plan in place 4 or 5 years ago. We like what we see in that in terms of its driving behavior so we're working on a new compensation plan, which is still 10.7% but has 8% locked in and then 2.7%, which is based on performance. Some of that is very easy to do. You have to be open. You have to have a certain number of licensed sales professional per customer. You have to do protection. I mean, it's you have to have good signage. I mean, it's not like you have to jump over the Great Wall of China to get the money. That said, some people will end up with less in this new program, unless they change their behavior and their practices, which is really driven by what the customers want. So there are a couple of options for them. One is we're trying to support them to help them get better with all kinds of programs and efforts. Secondly, if they don't want to do that, then it would be in their interest to sell to other agencies who do want to do it, who are close to them. And so we then, as I mentioned, we'll loan agencies money to help them buy other agencies, and we do that out of Matt's portfolio, and it's worked quite well for us. Despite that, in any change, you would expect to have some people be unhappy. And there are some people who are unhappy, it's our goal to try to make as many of them that want to be successful, successful so we can do a great job for our agencies. As it relates to adding new agencies, we're always looking for fresh blood and talent. Just because we want the average size to go up doesn't mean that we're not interested in having somebody come in who's entrepreneurial, who wants to build up an agency or somebody who wants to come in and buy an agency, one of the existing agencies. So they don't all have to be consolidated amongst themselves. We're perfectly happy to have new buyers come in, buy an agency and take it to a new level of performance because they see it. And so we're always looking for talent and capabilities. And that of course is obviously just a geographic footprint as people move around and stuff and you have holes in your footprint. We're not as strong in the upper Midwest as we are in the urban areas along the coast because of our history. So we obviously would like to have more agencies in those upper Midwest places where we're underrepresented relative to our brand. Does that make sense to you? Mark,is there you want to add?

Mark R. LaNeve

Former Senior Executive Vice President and Chief Marketing Officer of Allstate Insurance Company

I'll just add that we do continue to need to add what we call scratch agencies, as Tom said, in certain geographic locations. Texas right now as an expanding market would be a good example. We continue to need to bring fresh talent in this buying existing agencies as they exit out of the business or retire. We're doing that with a much stronger selection process and capital requirement than I think we had 7, 8 years ago and as a result, we're getting much higher success rates, much higher productivity levels. So that's part of the overall plan in the different programs such as the loan program to have agents acquire other agents, either operating in separate locations or merging together when it makes sense to increase scale so they can serve our customers better. So it kind of works in concert with each other.

Thomas J. Wilson
Chairman & CEO

I'd like to make a point that the agency's success is completely tied to and important to our success. Sometimes I think people hear some of the noise and people were unhappy with what we're doing. And I think we're at odds. Those agencies are worth billions of dollars. We want them to be worth even more than they're worth today because if they're worth more that means they're bigger, they're growing, they have stronger customer relationships, which is good for us. So we're in this together. We're willing -- we're already in for a $0.25 billion supporting them, and we'll go in for more so. This is about all of us being successful. This is not -- we're not headed into this with a fight in mind or that thinking that it's a zero-sum game if we have to take money away from those agencies. This is about meeting our customer needs, doing the kind of change we need to do, which is never easy but in competing in what's a pretty competitive marketplace.

Ian Gutterman
Adage Capital Management, L.P.

That's all very fair. And I agree with most of what you're trying to do, Tom. I guess what I'm just trying to figure out is, to some extent, if there are some morale challenges, is that part of what's behind the new apps declining some? Is it maybe a little too much, too fast and it's going to hurt production for a while until things settle down? Or am I reading too much into it?

Thomas J. Wilson
Chairman & CEO

I would say that the reduction in new apps as a company is on the company's performance, not on the agencies. The agencies, it has nothing to do with them. They're working hard every day. They're out talking to customers. We have to get a broader pricing target in auto insurance than we have today. We need to be competitive from a technology standpoint and make sure our systems are working quickly and effectively. We have to do good work on customer service. So I would not put that on the agencies. And it's not like they've gone on strike or anything like that. They're busy doing other things. We need to help them, but it's the company's job to start to drive that growth. I wouldn't put that on the agencies.

Operator

Our next question is from Vinay Misquith of Evercore Partners.

Vinay Gerard Misquith
Evercore ISI, Research Division

I first wanted to follow up on the margins in the auto insurance. The loss ratio x cats went up over 100 basis points this quarter. Was there some non-cat weather in that number?

Thomas J. Wilson
Chairman & CEO

Vinay, hard to tell. I mean, we do cat code and so when it goes to a particular state, it gets.. . and there's a catastrophe in that state, it obviously gets carved out. But then, sometimes people don't report it right away. And sometimes it's the neighboring state, your neighboring areas. So I would say that frequency bounces around a little bit. We're feeling okay about frequency this year and importantly, our paid loss trends look good as well. So we're feeling good about this. We were up a little bit in collision this quarter, so we changed reserves a little bit on collision. But we're feeling good about the rest of the PD coverages and BI as well.

Vinay Gerard Misquith
Evercore ISI, Research Division

And on the auto insurance business, what's your targeted combined ratio for that business?

Thomas J. Wilson
Chairman & CEO

We don't have an established countrywide target the way some of our competitors do. But we obviously think that if you're at 96, you're still earning a good return. It's not our objective to take our combined ratio on standard auto up to 96, however, because I don't want you to -- but we do, we look at -- what we want to do is maintain our margins overall and begin to grow the business, which we think we're now in a better position to do given the progress we've made in New York and Florida. It's not going to turn next quarter, so I don't think you should expect to see us suddenly be growing at incredibly high rates next quarter because we've got this fixed. As you know, this business takes -- the strength of this business is 80-plus-percent of what we will earn over the next year we've already written. The downside to that is it's harder to turn the overall growth side because you've got to get past those renewals.

Vinay Gerard Misquith
Evercore ISI, Research Division

That's great. And on the homeowners side, for the loss costs trends, are they up in the 5% to 6% range? And if you're getting rates up say maybe about 8%, do you think you can get to your targets of low 60s on loss ratio by the end of 2013.

Thomas J. Wilson
Chairman & CEO

We're committed to getting 13% return on operating income, return on equity -- I'm using operating income -- by that period of time, and we're going to do what we need to do in homeowners to get there. Maybe we'll do one last question.

Operator

Our final question today is from Brian Meredith from UBS.

Brian Robert Meredith
UBS Investment Bank, Research Division

Two questions here for you. First one, just looking at capital position and knowing that you had to fund the Esurance acquisition, I guess in the fourth quarter. Would it be a stretch to think that you could buy stock back in the fourth quarter even though -- or at least renew it and buy some back?

Don Civgin
President of Emerging Businesses - Allstate Insurance Company

Brian, I think the question you're really asking is the one Tom already addressed, which is we're going to reexamine where we are on share repurchases in the fourth quarter. When we have something to announce, we'll tell you then.

Brian Robert Meredith
UBS Investment Bank, Research Division

Okay. But the Esurance acquisition, I assume you funded that with cash?

Don Civgin
President of Emerging Businesses - Allstate Insurance Company

Yes.

Brian Robert Meredith
UBS Investment Bank, Research Division

Okay. Terrific. And then the other one, I just kind of wonder, Tom, could you talk about the competitive environment out there? Given we've gone through record catastrophe losses this year, has it caused any -- I know in the homeowners line, obviously, people are committed to raising rates. But in the auto insurance side, have you seen it cause anybody to kind of step off the accelerator at all?

Thomas J. Wilson
Chairman & CEO

No, I have not seen -- I mean the 3 large competitors in auto insurance that we all spend a lot of time talking about, called State Farm, Progressive and GEICO, are all continuing to be very aggressive in the auto business. As you can see, just watch some football game or baseball game and you can't kind of get away from us. And so that continues to be highly competitive. You're starting to see some other companies like USAA, Farmers, Nationwide step up a little bit. Whether they can stay in the game as the advertising spend gets higher, I'm not sure. You're also starting to see the competition shift to new products. We didn't talk much about it here, but whether that's the telematics approaches or the products we've been launching. So you're continuing to see pretty aggressive competition amongst those big carriers. Brian, I can't really speak to the smaller carriers in total. But as you know, they have about half the market. And it doesn't look like they're all of a sudden taking prices increases way up, but they're having an increasingly difficult time to compete on advertising and new products, which probably means they'll keep their prices -- sort of try to be as competitive as they can on prices. So I'm expecting that market to stay as competitive next year as it is this year, But it's a market we think we can win in. And we didn't have a great third quarter and new business for some things that happened earlier in the year, but we feel good about what we've got going in the fourth quarter and as we head into next year.

Thomas J. Wilson
Chairman & CEO

Okay. Thank you, all, for participating this quarter, and we'll talk to you in 3 months.

Operator
Ladies and gentlemen, thank you for participating in today's conference. This concludes the program. You may now disconnect. Good day.