The Allstate Corporation NYSE:ALL

FQ4 2018 Earnings Call Transcripts

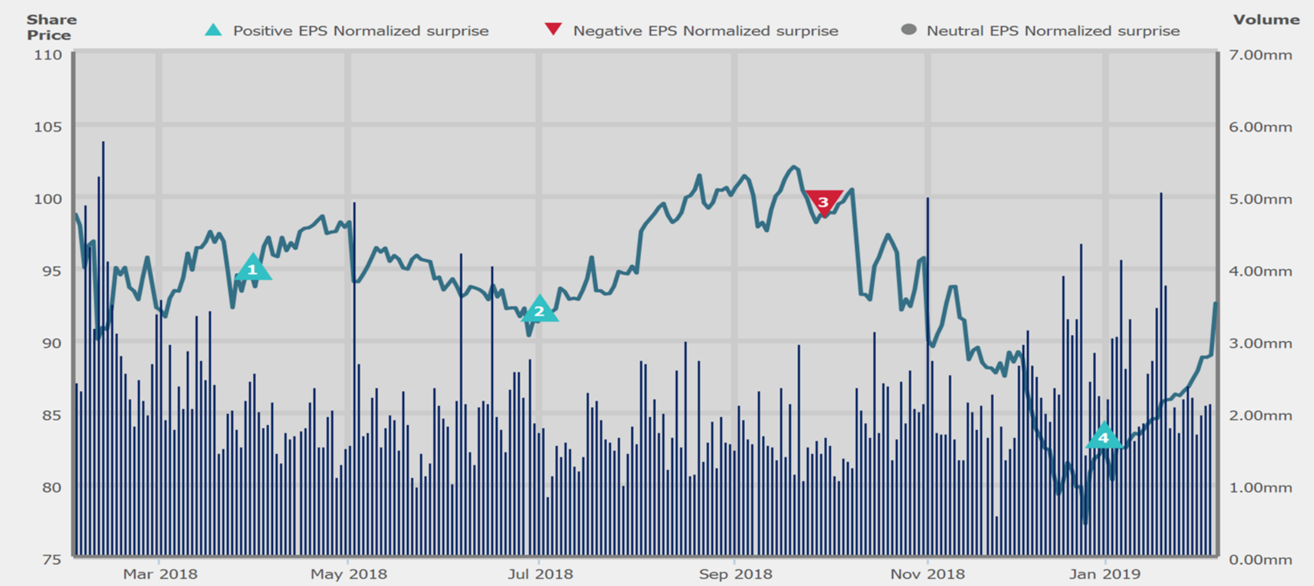
Wednesday, February 06, 2019 2:30 PM GMT

S&P Global Market Intelligence Estimates

	-FQ4 2018-			-FQ1 2019-	-FY 2018-		
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	ACTUAL	
EPS Normalized	1.17	1.24	▲5.98	2.58	7.97	8.07	
Revenue (mm)	8663.50	8707.00	▲0.50	-	34563.90	34048.00	

Currency: USD
Consensus as of Feb-06-2019 11:50 AM GMT

Stock Price [USD] vs. Volume [mm] with earnings surprise annotations



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ1 2018	2.64	2.96	▲1 12.12 %
FQ2 2018	1.50	1.90	▲2 26.67 %
FQ3 2018	2.25	1.93	▼3 (14.22 %)
FQ4 2018	1.17	1.24	▲4 5.98 %

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President of Service Businesses - Allstate Insurance Company

Glenn Thomas Shapiro
President of Allstate Personal Lines & Director

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Presentation

Operator

Good day, ladies and gentlemen, and welcome to the Allstate Fourth Quarter 2018 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, Mr. John Griek, Head of Investor Relations. Please go ahead, sir.

John Griek
Head of Investor Relations

Well, thank you Jonathan. Good morning, and welcome everyone to Allstate's Fourth Quarter 2018 Earnings Conference Call. After prepared remarks, we will have a question-and-answer session.

Yesterday, following the close of the market, we issued our news release, 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 our 10-K for 2017 and other public documents for information on potential risks. We are expanding the quarterly earnings call to not only review quarterly operating results, but to highlight other value creation initiatives. Today, we will do a deeper dive on our success in using telematics in auto insurance. And now I'll turn it over to Tom.

Thomas Joseph Wilson
Chairman, President & CEO

Well, good morning. Thank you for joining us to stay current on Allstate. Let's begin on Slide 2.

Allstate continued to deliver strong operating results, while building the future. And we achieved all of our 5 2018 operating priorities and we generated excellent returns. The Property-Liability underlying combined ratio of 85.8 for 2018, was better than the range we established with you at the beginning of the year.

For 2019, the Property-Liability business is expected to have an annual underlying combined ratio between 86 and 88. And so if you move to the table at the bottom, revenues excluding realized capital gains and losses were $10.4 billion for the quarter and $40.7 billion for the year, driven by increased insurance premiums in the Allstate and Esurance brands. Adjusted net income was $430 million, which was $1.24 per diluted share in the fourth quarter.

For the full year, adjusted net income of $2.9 billion was 15.6% higher than 2017, which reflected strong insurance markets. Net income return on equity was 10.5% and adjusted net income return on equity was 14.8%.

If you turn to Slide 3, we delivered an all 5 2018 operating priorities. The first 3: better serve our customers; achieve target economic returns on capital; and grow the customer base are all intertwined, what it does is ensure we have profitable long-term growth. Customers were better served as Net Promoter Score improved across all of our major businesses. Higher customer retention across the 3 underwriting brands with the key driver growth last year.

Returns remained excellent, Property-Liability policies increased by $784,000 in 2018, which was a 2.3% increase in the Allstate brand and a 10% growth at all Esurance. When you combine that with the significant growth at SquareTrade, policies in force surpass the $113 million in 2018.

The $81 billion investment portfolio generated $3.2 billion in net investment income in 2018, which was also slightly higher yield on a market-based portfolio in good performance-based results, which was compared to a very strong 2017. The total portfolio return was 0.8% in 2018, reflecting the stable contribution from net investment income that was offset by a lower fixed income equity values particularly, at the end of the year.

We also made progress in building long-term growth platforms in 2018. I'll discuss telematics next and Mario will discuss SquareTrade's performance. We also accelerated our expansion into personal identity protection with the acquisition of InfoArmor in October, but these operating priorities will remain unchanged for 2019.

Before we discuss telematics, let me set the context with inside -- within our overall strategy. So Allstate strategy is to grow by protecting people from life’s uncertainties. We start with the upper oval, the personal Property-Liability is 4 consumer segments and provides protection by ensuring automobiles, homes, boats and personal liability. We use differentiated products, sophisticated analytics, telematics and are building an integrated digital enterprise to grow market share in this protection space.

Our strategy also protects people from a range of other uncertainties, which are shown in the bottom oval. Then we leverage our brands, our customer base, investment expertise, distribution and capital. It began in 1957 with life insurance. In 1999, we acquired Allstate Benefits, which provides protection products such as life and disability insurance to employees at the worksite. That business is now 4 times its size from when we bought it and it's with 4.3 million policies in force and adjusted net income of $119 million in 2018.

We purchased SquareTrade in 2017, began offering insurance to transportation network company last year as well and recently closed the acquisition of InfoArmor. This strategy creates shareholder value through customer satisfaction, unit growth, attractive returns on capital. It also ensures we have sustainable profitability and a diversified business platform.

If you turn to Slide 5, this quarter is not -- that we want to highlight the value created from the use of telematics in auto insurance. So we've been investing in telematics for almost a decade to increase auto insurance pricing sophistication, to improve the customer value proposition, and leverage our capabilities in data to create a new source of growth and profit.

So let's start with what we do now. We began to use telematics and auto insurance in 2010 and now have a suite of products in the market. Drivewise and DriveSense are telematics-based offerings from Allstate and Esurance and represent the bulk of our proprietary connections. These products either use a customers' mobile phone or an OBD port device, which goes up underneath the dashboard to establish a connection with the car.

We launched Milewise in 2016 in 2 states, expanded to 4 more states last year, which allows customers to pay for insurance by the mile. Streetwise is offered through our online insurance aggregator Answer Financial in conjunction with Arity to enable other insurance companies to benefit from telematics-based insights. Arity is the telematics service provider to Allstate and is separate from the auto insurance companies.

Moving to Slide 6, auto insurance pricing will eventually be significantly influenced by telematics information because it's just better than existing approaches. From a pricing standpoint, if you look at the top of that chart, auto insurance policies today are priced by who you are, such as age or gender. And where you live, which is a proxy for where you drive. For example, if your car is registered in Montana, there's a low likelihood you'd be computing -- commuting that from New Jersey to New York. So telematics though enables pricing to be based on how you actually drive and telematics is also based on exactly where, when and how much you drive. So that leads to increased pricing accuracy, lower subsidization between risks, and creates a highly personalized risk-based price.

Telematics will be required to effectively price auto insurance. Allstate is also using telematics to improve the customer experience by staying connected with customers. We provide customers with rewards for safe driving, safe-driving tips that can lower their premiums, decode the maintenance, light needed, your car you know when that light comes on and says maintenance needed.

If you have one of our OBD port devices in your car, we can tell you specifically what's wrong, how serious it is, what's your cost of repair. And enable you to link to repaired facility. So given these benefits, we believe telematics will be integrated into auto insurance -- insures business models in the future.

As a result, we created Arity outside of the insurance companies to create more value for shareholders. If you turn to Slide 7.

In 2015 we defined a strategic platform to help us design Allstate's business model and you can see that in our 2015 annual report we laid that out. And a strategic platform is a system of capabilities, assets, information and shared intelligence. These platforms tend to be broad and flexible and create multiple uses for wide range of customers and partners. So in our definition, we would consider Apple, Facebook and Amazon's marketplace to be examples of platform businesses.

Companies that control strategic platforms generate high-economic returns. These returns reflect the benefits of reduced friction in cost between participants and the ability to improve returns to increase knowledge and analytics. Platforms are also graphically scalable.

The transportation system can benefit from such a platform. So telematics platform enables companies to increase their speed to market, in a connected car world. If you want to price auto insurance with telematics, you need data which is enabled by a platform. As more companies in the industry use Arity, the breadth and depth of data ensured intelligence will grow, more data on the platform allows companies to refine and customize their specific business models, their specific needs. So for example, ridesharing companies can use the Arity platform to enable and to select safer drivers or better manage their operations. It also lowers the cost of collecting information. So just like with credit scoring data, it's inefficient to have many companies collecting the same information.

We decide to build Arity as a telematics platform to capture a portion of these additional economic benefits. It is little downside to us, since we need to build these services for ourselves because we're so far ahead of most of the industry.

Today, Arity has 12.5 million active connections, of which more than 1.5 million are through the Allstate entities. They analyze over 300 trips per second and create a proprietary driving score they can be used by insurers or shared mobility companies.

Arity scale continues to grow and it's now adding 10 billion miles of driving data per month. Arity generates substantial advantages for Allstate's insurance operations today. They are actively working with other insurers to help them utilize telematics in auto insurance. We'll keep their information confidential, but all parties benefit from the network effect of a consistent and large data set. If Arity grows, it will also provide us with new sources of revenue from the transformation of the personal transportation system.

I will now turn it over to Mario, who will discuss our quarterly and annual results in more detail.

Mario Rizzo
Executive VP & CFO

Thanks, Tom. On Slide 8 you can see that Property-Liability results remained strong. Net written premium increased 6.8% in fourth quarter and 6% for the full year, driven by accelerated growth in the Allstate and Esurance brands. Allstate brand auto insurance net written premium grew 5.7% in 2018, reflecting a 2.7% increase in policies in force and higher average premium.

Esurance brand net written premium grew 12.7% in 2018 and policies in force increased 10.4%. The reported combined ratio of 97 was 6 points higher than the prior year quarter, due to higher homeowners insurance combined ratio, primarily from catastrophe losses related to Hurricane Michael and the California wildfires.

The auto insurance combined ratio remained solid, as higher premiums earned and lower accident frequency more than offset higher physical damage severity. The underlying combined ratio, which excludes catastrophes in prior year reserve reestimate was 86.8 for the fourth quarter of 2018. This was

1.1 points higher than the prior year quarter, primarily due to noncatastrophe weather-related losses in Allstate and Encompass brand homeowners insurance.

The underlying combined ratio of 85.8 for the year was within the revised annual outlook range of 85 to 87. Allstate Brand Auto and homeowners insurance continued to deliver attractive returns and generated underwriting income of $1.7 billion and $472 million, respectively, in 2018.

Turning to Slide 9, let's review Allstate Life Benefits and Annuities. Allstate Life shown on the left generated adjusted net income of $68 million in the fourth quarter, up 19.3% from the prior year quarter, as a lower effective tax rate and higher premiums more than offset higher contract benefits.

Allstate Benefits adjusted net income shown in the middle chart was $25 million in the fourth quarter. The $5 million increase from the prior year quarter was primarily driven by increased premiums and a lower effective tax rate, partially offset by higher expenses.

Allstate Annuities on the right had adjusted net income of $31 million in the quarter, which was $24 million lower than the prior year quarter. This was primarily due to lower performance-based investment income.

Moving to Slide 10, our service businesses continue to provide strategic and economic value. SquareTrade written premium increased 107.1% to $323 million in the fourth quarter of 2018 and revenues increased to $137 million. Adjusted net income was $9 million in the fourth quarter of 2018. Arity continues to invest in advancing our telematics platform. In the fourth quarter, Arity had revenues of $24 million, primarily related to affiliate contracts.

Allstate Dealer Services revenue was $105 million for the quarter and $403 million for the year. Adjusted net income was $6 million in the fourth quarter of 2018, benefiting from improved loss experience.

Allstate Roadside Services revenue was $74 million for the quarter with an adjusted net loss of $7 million, in line with the prior year quarter. InfoArmor is the newest addition to the Service Businesses segment, contributing over $1 million policies in force.

Slide 11 takes a closer look at the acquisition measures of success for the SquareTrade. SquareTrade is delivering on the 3 objectives supporting its acquisition, as domestic policies in force increased, loss experience improved and the business is expanding beyond U.S. retail. SquareTrade written premium increased 81.5% to $773 million in 2018, due to the continued growth in U.S. retail as SquareTrade became the exclusive protection-plan provider for a leading U.S. retailer in the second half of the year.

Adjusted net income was $23 million in 2018, reflecting full year improvement of $45 million. Slide 12 highlights our investment result. We proactively managed the investment portfolio considering market conditions, the nature of our liabilities and risk appetite. As a result, we have a high-quality, market-based investment grade bond portfolio that generates substantial, annual income and cash flows. We also have a performance-based equity portfolio that generates high returns for longer-dated liabilities.

The chart at the lower left shows net investment income for the fourth quarter was $786 million lower than the fourth quarter of 2017. Market-based investment income increased and reflects higher purchase yields and a modest duration extension for the Property-Liability fixed income portfolio, partially offset by a reduced allocation to high-yield bond.

Performance-based investment income generated $145 million of income in the fourth quarter. Performance-based income for 2018 was solid with a yield over 9%, but fourth quarter was below the prior year quarter reflecting a lower number of sales of underlying investments and more moderate asset appreciation. The components of total return are shown in the table on the right. The negative 0.2% return in the quarter includes a stable contribution from investment income, reduced by lower fixed income and equity valuations. The total return for 2018 was 0.8%.

Slide 13 provides an overview of returns on capital. We continue to generate attractive returns on capital. Adjusted net income return on equity shown on the left was 14.8% in 2018, an increase of 1.4 points compared to the prior year. Our capital position remained strong, and we returned $1.2 billion to common shareholders in the fourth quarter, bringing the total cash return to shareholders to $2.8 billion for the full year, as you can see in the chart on the right.

As part of the $3 billion share repurchase authorization, we executed a $1 billion accelerated share repurchase program in the fourth quarter. Additionally in 2018, we completed the acquisitions of InfoArmor for $525 million and PlumChoice for $30 million, and redeemed $385 million of our preferred shares. We continue to take a proactive approach to managing our capital. Now, I'll open up the line for questions.

Question and Answer

Operator

[Operator Instructions] Our first question comes from the line of Elyse Greenspan from Wells Fargo.

Elyse Beth Greenspan
Wells Fargo Securities, LLC, Research Division

My first question is just on the severity trends that you're seeing within your auto book. PD severity remained elevated for the second consecutive quarter. If you can just tell us is it the same factors that you saw driving that last quarter? And then within your underlying margin guide for 2019, are you assuming that severity trends will remain elevated?

Thomas Joseph Wilson
Chairman, President & CEO

Elyse, this is Tom. So, Glenn will answer for the Allstate brand, if you want to go into the other brands, let us know. And we -- as you know we don't give you -- we don't give breakouts on what's in the underlying combined ratio guide.

Glenn Thomas Shapiro
President of Allstate Personal Lines & Director

Yes, so thank you Elyse. I want to start with a little bit context on it and then talk about the issue itself and actions from it. So from a context standpoint, as you know that losses represent about 70% of the combined ratio. And within those losses, because we price Allstate auto in total, you have physical damage about half of it and then you got the injury covered just about half of it. And then within those, you've frequency and severity impacting each of those. So those 4 quadrants, right now, we actually see 3 of them performing as expected or well, favorable severity in both injury and physical damage and then the injury lines are performing as expected as you can see in our reserve releases. No question there's pressure on the physical damage part of it and they are similar trends to what we saw in the prior. So the issue is an industry-wide one. We've seen more sophisticated cars costing more to repair. And as a result of that, particularly at the high end of repairs, more cars are then reaching sort of that capitation level of the total loss. So you'll see across industry trends not only in the fast-track numbers of overall severity up, you'll see that more cars are reaching that total loss threshold, and particularly in recent model years. And I'll give you a specific example just to illustrate because our team in claims are actuaries, are product folks. They do a ton of work getting deep into making model and what's driving different trends. So the specific example take a Camry, which is pretty common vehicle and we looked from 2013 to 2018 what the changes were in repairing a front-end impact. And the answer is the net 5-year window, they've doubled. It's the impact of more sophisticated cars with sensors that are actually helping us on the frequency side, but they're costing more to repair. That added $1,700 alone, just the sensors that help avoid accidents. A really specific component, taking on that car specifically, is the headlights. Headlights went from $350 in 2013 to over $1,900 in 2018. And I give you the specifics in example for 2 reason: One is to give you an idea what's going on and what we see in make and model. Two is to illustrate we do go deep on this issue and we look at it very thoughtfully. So that takes you to what do you do about it? One lever is rate, which obviously, we look at on market-by-market basis where we need to take pricing. The next would be to be more sophisticated and laser focused on that rate. So how do we get better and better in the make and model pricing, which we do today, specific make and model pricing. But the more we learn and the deeper we go, the more sophisticated we get on specific make and model pricing. And the third one would be working with OEMs and the repair community on improving the overall cost to repair because as more and more cars are reaching at total loss threshold, I don't think there's anybody to have sort of disposable vehicles that in the newer model years and we want to be able to repair cars and return them to customers. In answer to the question about whether it's included, it's -- we absolutely include all the factors that we look at in giving guidance and it's included retroactively in all of our financials, our ultimates are projected in there.

Elyse Beth Greenspan
Wells Fargo Securities, LLC, Research Division

Okay, that's very helpful. And then my second question on, throughout -- very recently we've seen a whole host of transactions and the annuity spaces companies have entered into deals that have helped to free up capital. Could you let us know your thoughts? Would Allstate be interested in entering into transaction with their annuity exposure? And if you did -- if there was a transaction that was able to free up capital, would you be more likely to use that for share repurchase? Or potentially to hold on for M&A opportunities?

Thomas Joseph Wilson
Chairman, President & CEO

Elyse, we obviously don't comment on any transactions that people think we could share, maybe we're thinking about. So I have no comment on that. What I can tell you is we've always been very aggressive about managing our capital, as I'll do the second part first. So whether that's to use -- do share repurchases, buy companies who were better owner than somebody else and continue to grow our business. So that part won't change at all as it relates to that. We have, as you know, been working hard on improving the long-term economic returns on the annuity business, which have hurt the current book returns. So specifically, for the payout annuities, which are long-based liability some 20, 30, 40 years, the right way to invest behind those liabilities, much likely with the pension fund, put it mostly in equities because once you get past 10 years, your return on equities is twice what it is in bonds and your risk is lower. So the downside to that is that the regulators require a significant capital of requirement for equity because they think about the equities as being volatile on a day-to-day basis, not on a 10-year basis. So we've been working with the National Association of Insurance Commissioners to come up with a horizon-based capital standards, particularly as it relates to equities and the payout annuities which will free up a tremendous amount of capital, of course. That we can then use the way we -- I started to talk about. So we're looking at every possible way we can improve every element of our capital deployment each and every day whether that's the annuity business, using reinsurance, using preferred stock to buy back stock. So it's just a part of light for us. So you should know we're focused on how do we improve returns, annuities and success. There's opportunities where we can take advantage of, and we run for it.

Operator

Our next question comes from the line of Gary Ransom from Gary Ransom from Dowling & Partners.

Gary Kent Ransom
Dowling & Partners Securities, LLC

I'd like to dig in on Allstate brand PIF growth. You've talked in the past about how it takes time to energize the agents, but we're now seeing more improvement. And I'd like to just ask, how is that growth spread among the agents? How -- is it subset -- is that subset of growing agents building throughout the past year? So maybe that's one part of the question and then another part of the question is, is there any change in the quality of your new customers? Are they more bundled? Or as you talked about, are more of them using telematics in that process? So sort of 2 parts the spread among the agents and then the character of the new customer.

Thomas Joseph Wilson
Chairman, President & CEO

Okay, Gary, let me go up a minute and then come back down to Glenn, as he can answer your specific question on the agency owners, breadth of distribution what we're seeing. So obviously, we've a variety of both short and long-term strategies to grow and each brand is different and there's differences by geography and by component of the leverage you can have in each of those. So there's growth drivers, and you know customer satisfaction is up in all of our brands last year and retention is up in all of our brands last year. So that's a big driver of growth. Obviously, distribution is one you mentioned. There's also the level and quality of our advertising, there's the breadth of our product offering. And so we pursue those -- all of those. So Glenn will talk about the auto, home, life in the Allstate brand. If others want to get into Esurance and Encompass of the transportation network companies, Steve can handle that one. And Don, obviously, have services business. But, Glenn, why don't you deal with Gary's questions?

Glenn Thomas Shapiro
President of Allstate Personal Lines & Director

Yes, thanks, Gary. So first talking about the agents. It's really is a fun part of what's going on right now in terms of our growth and it's, I call it, a system-wide growth because you're touching on an important part because you can see the policy growth, you can see the premium growth but what's really happening underneath that is we've got 2,700 more points of sale. And new agents join us to start [indiscernible] or new sales people joining the agency because they want to win. They don't start it to stay flat, they want to grow. And we're attracting them because right now we're competitive in the market. There's good health in the system. As Tom said, we're retaining more customers, which is helpful to the growth. And with those additional points of contact, we have good momentum, sort of, built into system and we're growing in a healthy way and we're competitive in the market. You also asked about the new business coming in and how it's bundling and you asked about telematics. And so quickly on those, bundling has been very favorable. We're bundling more of our new business than we have historically. We also have more people buying full coverage than we've seen historically. Both of those are good bellwethers for the quality of business. And from a telematics standpoint, we grew that by 30% this year. We added about -- over 300,000 connections -- active connections to our Drivewise. And on the Milewise side, which is the pay per mile, as Tom mentioned before, that's -- I think about it like a start-up. Its small numbers, but it's growing like crazy. In the fourth quarter alone, we over doubled the size of Milewise as an offering for us. So it's an exciting area where we're growing our business.

Gary Kent Ransom
Dowling & Partners Securities, LLC

Just as a follow-up, are there any areas right now where the PIF growth is lagging, but has the potential to do better in the future?

Thomas Joseph Wilson
Chairman, President & CEO

This is Tom. By any, I would say, that the -- if you look at the Allstate brand -- Glenn's got a number of strategies, different states where he thinks he can grow faster. Obviously, retention is always a benefit that we get in return. Esurance, you saw we had a 10% growth last year, so we're feeling good about that. It's back on the, again, decent market share gains. Encompass, less so. So that would be one where I would say we still need to come up with a sustainable growth plan that drives items in force growth.

Operator

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

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

The first question is around the homeowners business. And I was looking in your statistical supplement, I think it's page 25, where you talk about gross claim frequency and paid claim frequency and it being up almost double digit in the fourth quarter and actually for last couple of quarters, it's been up pretty strong. But then I looked at the Allstate homeowners underlying loss ratio and it improved in the fourth quarter. So I'm trying to sort of bridge the gap there and understand what happened?

Thomas Joseph Wilson
Chairman, President & CEO

Greg, let me -- first let me -- again, I'd like to set a little bit of context. So the Allstate brand, homeowners business is very attractive for us, $7 billion of premium made $470 million of underwriting income in the year where there are a fair amount of catastrophe. So it's a business we like and does well. Obviously, things bounce around from quarter-to-quarter and Glenn could talk about this specific question.

Glenn Thomas Shapiro
President of Allstate Personal Lines & Director

Yes, Greg. I think, there's a mix there of the quarter-over-quarter versus the year-over-year change. So yes, it did come down quarter-over -- from the third quarter to fourth quarter. But year-over-year, it was up a couple of points in terms of the underlying combined. But to Tom's point, in a year with a lot of catastrophes, particularly in the fourth quarter, we produced a recorded combined. And I'd like to go to the recorded because managing the overall risk over the long term of catastrophes is a big part of what we do. Even though we focus on the underlying in 93, in a year that had -- type of catastrophes we had was pretty strong and then you have to -- before the fourth quarter, you'd have to go back almost 7 years to have a quarter that didn't produce an underwriting profit. So strong work across the system, which is the underwriting approach that we take. It's the pricing, the reinsurance, which obviously, played a part in fourth quarter for us. And our claims approach that we think helps to mitigate cost. Part of your question relative to the underlying, I'd say, 2018 was an extremely wet year. I mentioned that in the third quarter, continued into fourth a bit. It was a heavy, heavy rain year. We got some pricing for that. We reacted to it. You saw the 1.1 sort of rate in the fourth quarter, which is rate not premium because we do have automatic inflationary factors in the policy as well.

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

And then, Tom, I know you highlighted the success of the Esurance. And I was looking at the underlying loss ratio and I guess it's seasonally high in the fourth quarter, but it certainly seemed to be trending up from what I used to think -- you used to like the target in a low 70s and the underlying loss ratio seems to be pushing up close to the 80. I'm wondering if there's anything that I should be thinking about with that loss ratio and the underlying loss ratio as it relates to future growth in that business.

Steven Emil Shebik
Vice Chairman

So Greg, this is Steve. You're actually right. Our targets have generally been -- we've said the lower 70s or below 75 range. And for the quarter, it was elevated. Couple of reasons for that, I think, is -- you see, one, the report given the growth we had in the business during 2018. We have a greater proportion of new customers. There's some higher loss ratio with newer customers. It's only a piece of it though. Clearly, we have had the same type of issues in terms of severity that we talked about in the Allstate business. And you look at the offset to that, we brought our expense ratio down a large amount over the last 3 years. So in total, where we actually have a combined ratio on an underlying basis below 100 for the whole year and for -- all but the last quarter of the year, we've had good results. We're starting to get profit on the business as we grow. So we feel good about the overall profitability. You're correct, we need to work harder on the underlying combined ratio and drive it down a little bit from where it is today and that will accelerate our growth. We feel really good about the growth and the profitability for 2018.

Operator

Our next question comes from the line of Mike Zaremski from Credit Suisse.

Michael David Zaremski
Crédit Suisse AG, Research Division

My first question is about auto accident frequency. Can you remind us what Allstate's long-term trend has been on frequency? And does that differ from your estimate of 2019 frequency? And if it does, maybe you can talk to why?

Thomas Joseph Wilson
Chairman, President & CEO

Okay. So by long term, we can go real long because I've been hanging around the hoop for a long time. So Mike for -- I don't know, 15-plus years it just came down pretty steadily, as we had third brake light on the car, anti-lock brakes, airbags, brought some stuff down. So it just worked on both frequency and severity for a long period of time. Then it kind of flattened out for a while and I'm not -- I don't have the exact years in my head, but it kind of flattened out about 10 years ago and wasn't really going up or down much. Then, of course, in '15 and '16 it just spiked way up. Still unclear exactly as to why that happened, somewhat driven by miles driven, some by economic activity, which is related to miles driven. There have also been people that speculated it's due to, like, the big cellphones and stuff but that just stretches driving. I think the answer is it's really hard to get attribution as to why. Glenn talked about the decline in frequency since then, which has been in part due to less miles driven but also safer cars and some of the trends that were present earlier in that long-term cycle, so a little hard to tell exactly what it is. As it relates to the forecast for next year, I mean, maybe -- I'm sure everybody has thought about this. So as you know we try not to go through the components of the guidance, we do make an estimate of what we think is likely to be and that includes some trends that are just external, we don't control. So for example, frequency would be one of those, we can't control whether people get in accidents or not. There are some which are partially controllable and Glenn talked about that severity and the -- and physical damage or bodily injury, you can control some of that, some of it's inflation, some of it's across the parts. So you can try to do a good job making sure your customers get the right amount, not too little, not too much. And then there are trends we create, like price increases and expenses that both Glenn and Steve talked about. So when we're looking at the underlying combined ratio guidance, we look at the trends, we don't know -- we can't control. We look at the ones we think we can have some influence on and then the ones we do have influence on. And then we -- as a result of that, set our guidance at 86 to 88. It's obvious, of course, that that's just a small part of the value created. As I mentioned, it doesn't include catastrophe losses, it doesn't include prior reserve changes, it doesn't include things like pension settlement charges, which I think led to some confusion in the third quarter. It doesn't include investment income, it doesn't include our Life businesses' mix, it's almost $300 million a year. It doesn't include Allstate Benefits. So as it relates to doing projections on the business, we think it's useful as a way to help you understand how we feel a large component of our business is operating. But I always try to caution us against thinking that it's the only value creator and the only thing under which shareholder should decide as to whether this is a good story or not. Did that -- was there anything specifically on frequency in the fourth quarter that we can answer for you?

Michael David Zaremski
Crédit Suisse AG, Research Division

No, I think not. I guess just the answer was there's not really a conclusive long-term trend line to frequency. If you think I understood your answer correctly.

Thomas Joseph Wilson
Chairman, President & CEO

No, I think, it bounces around a lot, Mike. What you do want to do and what we try to do is just be flexible, quick and adapt to it. So if it goes up, you've got to raise prices. If it goes down, you have to make sure it goes down and then maybe don't raise prices much and you get a little bit of retention. And you've seen both of those stories in the last 4 years.

Michael David Zaremski
Crédit Suisse AG, Research Division

Okay, great. And my follow-up is regarding telematics. Thanks for the information and you gave out one stat earlier on the call saying telematics' Drivewise policies, I think, grew 30% year-on-year. Can you give us maybe some more stats or color on what the adoption rate is for telematics? And maybe how we can try to start thinking about the adoption curve longer term? How are you guys going to get these policies into the hands of your policyholders?

Thomas Joseph Wilson
Chairman, President & CEO

Well, Glenn gave it a number of 30% for the Allstate Brand, the Esurance brand was up substantially more than 30%. They really got focused on this year. We're finding the adoption rate to be relatively high and going up, but you have to manage it. So you have to manage the initial conversation. You have to manage the on-boarding and you have to manage not just the conversion rate but the retention rate, so you also have to manage the ongoing relationship. So we focus on all of those components. We've made progress on all those components in 2018. We don't give the specific numbers out because that's just too competitive and don't want everybody else to do it. As it relates to where it can go, I think most insurance is going to include a -- most auto insurance is going to include telematics pricing. It's just way too powerful. It's every bit as powerful as credit was when that was adopted, so the industry is going to adopt it. We made that call when we decided to build areas of platform that we thought it just -- it's too powerful a rating factor. And if you go back to just the location, so if you price your auto insurance by where somebody's car is garaged, people figure that stuff out. So they garage it one place and drive it someplace else because it's cheaper. So not everybody does that but it leads to small inefficiencies in the market and to the extent you can be more efficient than when, where and how they drive. It can give you much better pricing. So it's going to happen. It's hard to tell what the adoption rate will be, but I think you can look at credit as an example and see how that rolls out in the industry over a period of time and basically almost everybody is using some form of credit or some proxy for -- today.

Operator

Our next question comes from the line of Amit Kumar from Buckingham Research.

Amit Kumar
The Buckingham Research Group Incorporated

I wanted to go back to your example on auto parts in response to Elyse's question. I think not a day passes that we see new headlines on auto tariffs and tariffs on auto parts, and seems like we're getting closer to some sort of conclusions. Have your conversations internally or with the repair shops changed? And how are you thinking about in case we do see some action on that?

Thomas Joseph Wilson
Chairman, President & CEO

I'm sorry, Amit, I missed -- the action on what, what was that...

Amit Kumar
The Buckingham Research Group Incorporated

On the auto tariffs discussion, you know, has...

Thomas Joseph Wilson
Chairman, President & CEO

Okay, yes. Sure. I'll let Glenn talk about what he's doing specifically inside the business. Obviously, tariffs on steel and to the extent parts are made of steel, they got expensive and that rather suits the pricing, it's obviously an indirect cost. And in terms of the cost to repair and by the -- I think, it's time to actually have a conversation about the cost to repair versus the cost to buy a car. And if the auto manufacturers are giving away the razor to sell the blades, as a way to make profit and that shows up for individual consumers at higher insurance prices, which they don't really understand because it's embedded in the fact that -- Glenn's example that the headlight now costs $1,900 instead of $300. My first car cost less than the $300 and certainly I could have gotten a better one for $1,900. So I think they're -- that's an economic trend between industries that we need to sort out. Glenn, anything you want to say about the specific parts and body shops?

Glenn Thomas Shapiro
President of Allstate Personal Lines & Director

Yes, we were -- there's a lot of different approaches we take and our claims team does a really great job working on agreed pricing with large auto body shop aggregators and there's number of components of how they're trying to manage overall cost. Specific to the tariffs, it's up and we're keeping an eye on, similar to other things we look at from an inflationary standpoint. Like we look at the cost of petroleum because a lot of auto parts, and certainly roofing materials and homeowners is petroleum based, and we look at price of steel. To Tom's point, the tariffs would be another inflationary factor we look at because about 60% of auto glass, for example, comes from China and you have a significant percentage of metallic auto parts coming from China as well. So as those work through the system, it's essentially an element of inflation that we watch.

Amit Kumar
The Buckingham Research Group Incorporated

Got it, that's helpful. The only other question I have is, just going back, I guess, to the discussion on pricing. If you look at slide -- sorry, Page 22 of the stat supplement, it says 25 number of locations the Allstate Brand change was only 0.3% for Q4. How should we think about, broadly, the trajectory of rates from here into 2019 in terms of plan rate actions?

Glenn Thomas Shapiro
President of Allstate Personal Lines & Director

Yes, this is Glenn, I'll take that Amit. We look at -- first of all, I think, setting context on it, we had the same underlying combined ratio 2 years in a row. We look at our margins and we manage for attractive returns. And I think we've shown that where we went after pricing when we had to with the frequency spike a few years ago. And we showed it in the fourth quarter on homeowners, where we saw some trends there and had to grow up the pricing. So on a state-by-state, market-by-market basis, we're going to look at the pricing and keep in mind our competitiveness, our need for rate and act accordingly with it. Where you saw the last couple of quarters with very low rate is we have taken a lot of rate a little bit ahead of the rest of the industry, following that frequency spike. And we were more rate adequate in more places, so it's reflected in good, stable rate environment for our customers, which helps with the retention, helps with the growth. But as that turns, we will, on a market-by-market basis, make those decisions. I can't project forward, obviously, for you what rate we'll take. But I think our history is a good evidence of the fact that we'll take the rate necessary to make sure we're managing our margins appropriately.

Operator

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

Kai Pan
Morgan Stanley, Research Division

My first question, a follow-up on your guidance for 2019. The range 86%, 80% exactly same as a year ago, but the operating environment, a little bit different. Pricing today is less than a year ago. On the loss trend side, frequency better today, but severity a little bit worse. So just wondering, like, do you built in the same level of conservatism in the initial guidance that will still end up to be like at a lower end or better end of the guidance as we did in 2018? Or this operating environment is totally different?

Thomas Joseph Wilson
Chairman, President & CEO

Obviously, each -- you're correct in saying that 2019 is not 2018 and it wasn't the prior 10 years or 11 years, how long we've been doing this. And so we look at each year differently. We feel comfortable at 86% to 88%. I would -- there is one word you said that I don't think is accurate, which is conservative. We set the range and we think we're going to be in the range. We don't set the range if we think we're going to be below the range. We pick a number we think is reasonable. This year, we revised the range down as you pointed out after the first quarter because frequency was down so much relative to the prior year that we didn't think that we would be in the range anymore, and obviously we're not. We're in the middle of the new range, but not where we said at the beginning of the year. And so that's one of those trends though that I mentioned, you just can't forecast. Like we -- that we have no ability to forecast frequency in total. We have our estimates, we look at our trends, Glenn goes by number of times renewed by state, he looks at frequency of model -- make a model year, he's done all kinds of work on it. But if you said do we have a solid number that goes into 88% -- 86% to 88%, we make an estimate on that frequency and what we can manage to. And I think that the other important part is, we think we can manage the 86% to 88% depending on what happens in the marketplace. And we think that's a great place to be because we're earning incredibly high -- we're earning very attractive returns on capital at that level and so we should be growing the business back.

Kai Pan
Morgan Stanley, Research Division

My second question, on SquareTrade, the top line growing for the full year about 80% year-over-year in terms of region premiums. If you're excluding Walmart and what underlying growth rate has been for that business? And also could -- do you have a sort of long-term view on the profitability of the business? Because I just wonder when can this rapid growth, meaningful sort of top line growth, will translate to a mature impact on your Allstate earnings?

Thomas Joseph Wilson
Chairman, President & CEO

Well, as Mario mentioned, we set 3 objectives when we did the acquisition things we needed to do and that included the growth you talked about in the domestic retail business and we've achieved all 3 of those objectives. Don, can give you some color on growth -- the breadth of the growth at SquareTrade.

Dogan Civgin
President of Service Businesses - Allstate Insurance Company

Yes, so when you look at the full year, I mean, the company obviously has been growing dramatically. Part of that has been new customers, as you pointed out, but part of it's been just doing a better job with the customers we have, having them become more able to serve more of their customers. So if you look at the fourth quarter, which was obviously a terrific year, there was a large component of the growth in policies that was the result of a large retailer. But even without that, we still would have had a healthy growth number just because we're growing the existing books that we have as well. As far as the profitability on a long-term basis, you're right, we did set as one of our measures of success, increased profitability and returns on capital. We've been very happy with the improvements we've seen, but we're trying to do it in a balanced way that builds the business for the future. Tom said in his opening comments that Allstate's strategy is to grow by protecting people from life's uncertainties. SquareTrade is a key component of that because it's not just auto and home people need to be protected by -- from, it's also other things in their lives that are important. We could probably have made the numbers better, in fact, I know we could have made the numbers better in 2018 by skipping and not investing for the future but I think we're seeing the improvement in profitability in a nice, balanced, long-term, sustainable way. Loss rates continue to perform attractively for us. We said earlier that we're going to improve our scale of expenses as we grow the business and the growth has helped us do that. And then we brought our paper in-house and so we're taking -- we're underwriting the risk at Allstate, which we're obviously capable of doing, which helps to improve profitability as well. So I'm delighted with the profitability -- improvement of profitability, but I think it's the combination of profit and growth working together that's most attractive at this point.

Thomas Joseph Wilson
Chairman, President & CEO

And Kai, so as Don said, look, we create shareholder value by components. So you're right to ask about the components. We think about it that way, but we also look in total. And to the extent we think there's another component we can grow even if it hurts the total a little bit, we'll do it. So for example, SquareTrade had really good growth in European telco business.

Operator

Our next question comes from the line of Yaron Kinar from Goldman Sachs.

Yaron Joseph Kinar
Goldman Sachs Group Inc., Research Division

First question is on industry pricing in auto. Are you surprised to see that rate filings aren't really showing much improvement given the severity trends in the second half of the year?

Thomas Joseph Wilson
Chairman, President & CEO

I don't know. We don't manage other people's books of business. So we try to just -- we watch what they do. There are some people that run combined ratios higher than we think we need to. We think that the economic rents you can extract in the market relative to value creates are ones that we're very comfortable with. So if you look at our combined ratio whether that be auto or homeowners, we think it's very attractive. There are other people running combined ratios in homeowners insurance, which we wouldn't do either and they're growing quite quickly. So we try to manage our own book and look to them. I don't think they'll -- like these trends that you're seeing in severity will impact other people, is our assessment. I can't say when they'll have to react to that.

Yaron Joseph Kinar
Goldman Sachs Group Inc., Research Division

Okay, let me try a little differently then. I think heading into 2018, you had said that you thought your pricing put you in a competitive advantage and I think that was a little bit of a change from the prior few years where you had taken early pricing action. As you look at the environment into 2019, how do you think of your pricing relative to the industry in auto?

Thomas Joseph Wilson
Chairman, President & CEO

Glenn can talk about how he's thinking about pricing relative to auto, but I want to just take it up a little bit. So it's both growth and profitability and doing a better job for our customers. I think what you saw in 2018, in terms of our growth, was not just fewer price increases but the fact that for 3 or 4 years we've been working hard on the Net Promoter Score. And the benefits of those improvements got overshadowed by the fact that we did what we described, which is we raised prices faster than other people, so our retention went down. So if you're looking at profitable growth, it's both what we price to, which I can talk about, but also how much of our existing business we'll be seeing.

Glenn Thomas Shapiro
President of Allstate Personal Lines & Director

I'll just add on -- as we look at pricing, we see competitors, as you do, in filings. Some are still taking some rates, others aren't. The CPI, most recent number, which is a trailing indicator, it was between 5% and 6% and it's come down from much higher than that. And expected to continue to come down because the filings are different now than they were late '17 and early '18, which created that filing change CPI in auto. But the other thing I would look at is we look a lot at the absolute price change, but we don't start with what the competitive position of a particular carrier is. And -- now we look internally at our competitive position by market and by competitors and so somebody may take a 3% price decrease. But if they're 10% higher than the market and they take that, well, they're still higher than the market. So the -- in absolute level, we're looking at our competitiveness on a more granular level than the price changes.

Yaron Joseph Kinar
Goldman Sachs Group Inc., Research Division

Okay, that's helpful, I appreciate that. And then one on capital deployment, if I can. I think this year you deployed well more capital than you generated in earnings and I think that's a multiyear trend now that we're seeing. How sustainable is that barring a change in asset -- or capital requirements by the regulators?

Thomas Joseph Wilson
Chairman, President & CEO

Yaron, the deployment of the capital -- you're talking about share repurchases in comparison to earnings?

Yaron Joseph Kinar
Goldman Sachs Group Inc., Research Division

I'm talking about share repurchases, dividends, M&A, like all the deployment avenues.

Thomas Joseph Wilson
Chairman, President & CEO

Of course, we use preferred stock to restructure some of the balancing. I don't think you should assume that -- what I heard, it might not be what you're implying, was are you just jettisoning a lot of capital from the business more than you make. That's not the way we think about it. We think about deploying capital to the extent we don't need to deploy capital or we can get alternative capital that's cheaper than having it from our shareholders, we do that. That could be -- we use a bunch of reinsurance, it could be other alternative capital, it could be preferred stock. So we're always seeking to try to optimize the return on our shareholders' capital by using other capital. But we don't have sort of a metric that measures earnings relative to just dividends and share repurchases. We think about it broader than that. Does that make sense?

Dogan Civgin
President of Service Businesses - Allstate Insurance Company

Yes, and one thing I'll add is we've been saying for a lot of time that we -- our CapEx position is really strong and we continue to generate capital organically. So it's not a -- we start from a position of strength to make individual decisions around acquisitions and buybacks. There's no formulae of what they're approaching at, but we still feel really good about where our capital position is even after the $2.8 billion that we returned in better position.

Operator

Our final question for the day comes from the line of Ryan Tunis from Autonomous Research.

Ryan James Tunis
Autonomous Research LLP

Just a couple, it's interesting because in the past the homeowners haven't been so volatile on an underlying basis, but this year it actually was a pretty big headwind. Just curious how you're thinking about your guidance for next year? What type of -- directionally, what are you contemplating for margins in home?

Thomas Joseph Wilson
Chairman, President & CEO

Glenn, we absolutely -- Ryan, we don't like to give some underlying combined ratios for the different components. But let me just maybe make a comment about the pretty big headwind. The underlying combined ratio for homeowners, which is in the low 60s because there's such a large amount of catastrophes that comes from that business. And as Glenn said, we manage it in total. We give you the underlying combined ratio because we can't estimate catastrophes. And yes, the underlying combined ratio was up some in 2018 versus the prior year. It's still though -- we still earned a 93 -- had a 93 combined ratio, made $470 million. So I don't know that we thought if it was a headwind. Are we paying attention to it? Yes. And Glenn can talk about the underlying combined ratio of components and homeowners.

Dogan Civgin
President of Service Businesses - Allstate Insurance Company

Yes, so we took it seriously. We talked about it last quarter that we were seeing more non-cat weather and we had to look at that. And as we always do by market, we looked at pricing and so you saw us react with some price. 1.1 in the quarter and you annualize that, that's a meaningful move on pricing. And then on top of that, that's the rate we get and inflationary factors so the premium is a larger number than what you see in rate. We can't predict much like, Tom talked about frequency, we can't predict whether we're going to have another significant non-cat weather year. We know that -- we look at trends, our actuaries work on this whether you look at a 5 year, 10 year, 15 year. The 1-year trend looks worse than the 5, which looks worse than the 10, generally. So if weather patterns are getting worse and here to stay than we're prepared to react to that with the right pricing.

Ryan James Tunis
Autonomous Research LLP

Got you. And then on the auto side, was there a current action to your true up at all there that swung the loss ratio one way or another in Allstate Brand?

Thomas Joseph Wilson
Chairman, President & CEO

Credit or true up. Are you talking about prior reserve releases or...

Ryan James Tunis
Autonomous Research LLP

Was the current year like a reserve release or change in the loss back in the fourth quarter?

Thomas Joseph Wilson
Chairman, President & CEO

Well we, of course, change. So -- why don't we have John take you through that.

I guess here's what I would say is, one, we think the numbers accurately reflect what we earned in 2018. We made changes in reserve picks for this specific year in which we're operating as we go through the year, sometimes if you make them in October you should have made them in June then you've got a little bit of a catch up and I think that's what you're referring to, but it's not a significant element as it relates to the Allstate Brand. Some of the smaller brands can have a little bigger quarterly swing because of those true ups. But the Allstate Brand is usually big enough so it doesn't make much of a difference. But -- and John can help you with sort of any additional pieces.

So thank you for being on the call. Allstate's strategy is obviously to protect people from life's uncertainties. We'll continue to reward shareholders by -- who decide to be part of our story, which is by innovating, growing market share and earning attractive returns. So thank you all for being on the call. 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.