S&P Capital IQ

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The Allstate Corporation NYSE:ALL

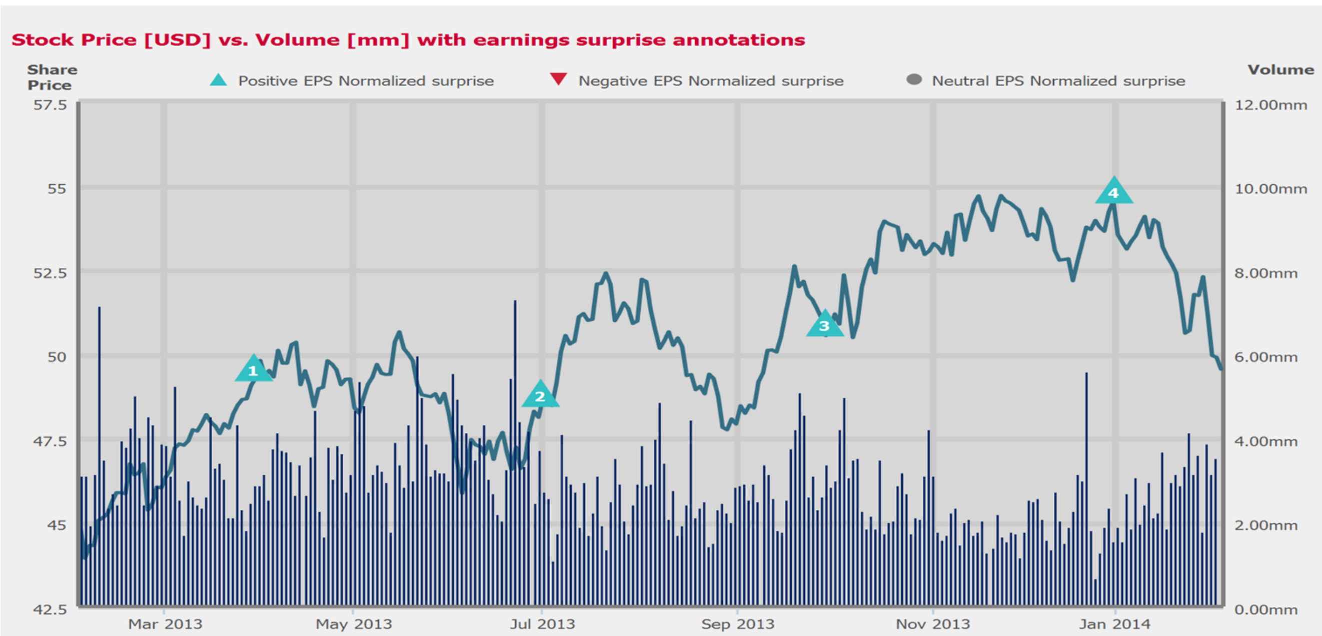
FQ1 2014 Earnings Call Transcripts

Wednesday, May 07, 2014 1:00 PM GMT

S&P Capital IQ Estimates

	-FQ1 2014-			-FQ2 2014-	-FY 2014-	-FY 2015-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	1.18	1.30	10.17	1.22	5.13	5.74
Revenue (mm)	7069.89	7064.00	(0.08 %)	7179.06	29308.39	30443.08

Currency: USD
Consensus as of May-07-2014 12:25 PM GMT



- EPS NORMALIZED -	CONSENSUS	ACTUAL	SURPRISE
FQ1 2013	1.29	1.35	4.65 %
FQ2 2013	0.98	1.12	14.29 %
FQ3 2013	1.38	1.53	10.87 %
FQ4 2013	1.37	1.70	24.09 %

Call Participants

EXECUTIVES

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President of Emerging Businesses - Allstate Insurance Company

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Matthew E. Winter
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Presentation

Operator

Good day, ladies and gentlemen, and welcome to the Allstate First Quarter 2014 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. Pat Macellaro. Sir, you may begin.

Patrick Macellaro

Thanks, Matt. Good morning, everyone, and thank you for joining us today for Allstate's First Quarter 2014 Earnings Conference Call. after prepared remarks by Tom Wilson and Steve Shebik, we'll have a question-and-answer session.

Yesterday, following the close of the market, we issued our news release and investor supplement, filed our 10-Q for the first quarter and posted a slide presentation to be viewed in conjunction with our prepared remarks. We also posted a document describing our current reinsurance program. These are all available on our website, at allstateinvestors.com.

As noted on the first slide, our discussion today may contain forward-looking statements regarding Allstate's operations. Allstate's results may differ materially from these statements, so please refer to our 10-K for 2013, the slides and our most recent news release for information on potential risks. Also, this discussion will contain some non-GAAP measures, for which there are reconciliations in our news release and on our website. We're recording this call and a replay will be available following its conclusion. I, along with Steve Shebik and our Treasurer, Mario Rizzo, will be available to answer any follow-up questions you may have after the call.

Now let's begin with Tom Wilson.

Thomas J. Wilson
Chairman & CEO

Well, good morning. Thank you for investing your time with us to keep updated on Allstate's progress. Before we begin, I'd like to say a few words about Bob Block, who most of you know passed away a couple of weeks ago after a battle with cancer. Bob led our Investor Relations efforts for 17 years and was a member of the Allstate family for 39 years. In everything he did, he was just a consummate professional. He was balanced, direct, thoughtful, respectful. We will miss his expertise and friendship. Bob's family greatly appreciates all of your messages and prayers, as well as the donations many of you made to the Pancreatic Cancer Action Network on his behalf.

In the room today with me, in addition to Pat and Steve, are Matt Winter, who leads Allstate's personal lines; Don Civgin, who's responsible for Allstate Financial and Esurance; Kathy Mabe, who leads Allstate Business to Business; Judy Greffin, our Chief Investment Officer; and Sam Pilch, our Corporate Controller.

Let's begin with Slide 2. Allstate's first quarter results show the resiliency and strength of our strategic and operating platform. The strategic decision to create unique customer value propositions for each customer segment and personal lines is providing profitable growth opportunities. Operationally, we are making good progress on all of our 2014 annual operating priorities. Financial results for the quarter were good despite the severe weather in January and February. We also completed 2 strategic initiatives: the sale of Lincoln Benefit Life was closed on April 1; we also completed the capital restructuring program that we initiated early last year.

So let's go through each of these, and then Steve will cover the operating results. So a visual depiction of our strategy is on Slide 3. On an overall basis, we achieved policy in force growth of 2% when compared to the previous year quarter, which resulted in a 5.2% increase in net written premiums. Overall profitability was good with a recorded combined ratio of 94.7, despite severe winter weather and the launch of a new advertising program for Esurance. The underlying combined ratio for the quarter was 88.4, which is in the range we provided for the full year.

Growth was achieved in all segments, as you can see from the data in each of the brands' specific boxes. If you start in the lower left, which is the largest segment in the market and the largest segment for us, which is served by Allstate agencies, we had continued broad-based unit growth of 2.1% in auto, which was offset by a 1.2% decline in homeowners policies. Given the success of our repositioning of the homeowners line, we expect that decline for homeowners to become less of a drag on growth in the future. The recorded and underlying combined ratios were in line with expectations.

Esurance, in the lower right, had another quarter of strong growth. The combined ratio is about where we expected it. There were a number of offsetting pieces. First, there was a large increase in advertising expense, there were the benefits of the profit-improvement actions we've put in place in 2013 and then the impact of severe winter weather. Advertising expenses were 28% of premiums in the quarter as we launched new advertising to reinforce the insurance for the modern world positioning.

Encompass, in the upper left, also continued to grow but at a slower rate than last year. That reflects the profitability-improvement actions we've put in place last year and are still working on this year.

Answer Financial sells nonproprietary policies to the web and call centers, in the upper right. Nonproprietary premium increased 10% over the prior year.

So we like the strategic and operating flexibility that the utilization of these different offerings gives us in the marketplace.

If you go to Slide 4, our 5 operating priorities are shown on this page. We just discussed the insurance policies in force growth, so let's move to maintaining the combined ratio. The underlying for the -- combined ratio for the quarter is within our full-year outlook, so it's a good start to the year. This includes, of course, the impact of severe winter weather. We've been within or better than our expected annual range every year since we started this practice in 2007.

Investment returns were good in the quarter. The expected decline in interest income was partially offset by another strong quarter for limited partnership investments. You'll remember, we shortened the duration of the Property-Liability portfolio because we did not like the risk and return trade-off in investing in long bonds. As a result, the portfolio yield has decreased versus the last-year first quarter.

The priority to modernize the operating platform reflects programs to simplify our technology infrastructure and continuous improvement actions, both of which provide greater operating flexibility and improved customer satisfaction levels.

Building growth platforms is another important priority given the operating and financial strength of the current business, improving Allstate agency effectiveness and expanding capacity to support growth in that largest customer segment. Expanding Esurance's product offering will allow us to compete more effectively against the large direct carriers that primarily sell auto insurance. Leveraging the Allstate Benefits platform, which grew at 10% over the last year, is another source of profitable growth.

If you move to Slide 5, the financial results generated in the quarter reflect our growth initiatives and proactive approach to managing margins and risk. Revenues were $8.7 billion, or 2.6% higher than 2013. This reflects 5.2% growth in the Allstate Protection net written premium, partially offset by lower capital gains and investment income.

Net income of $587 million declined from the prior year quarter, primarily due to a decline in operating income and realized capital gains. Operating income of $588 million was 9.1% lower than in the first quarter of 2013, primarily due to higher catastrophe and non-catastrophe weather-related losses. Operating income per diluted share decreased only 3.7% to $1.30, reflecting the accretive impact of share repurchases on EPS. Operating income return on equity was 14.4% for the trailing 12 months.

We continue to provide strong cash returns to shareholders this quarter, as has been our history, with $113 million of common stock dividends and $987 million in share repurchases for a total of $1.1 billion.

Steve will now cover the operating results in greater detail.

Steven E. Shebik

CFO & Executive VP

Thanks, Tom. I'll start the review in the first quarter financial highlights on Slide 6.

Starting on the upper left. Property-Liability had earned premium of $7.1 billion in the first quarter, 4.3% higher than the first quarter of 2013 and recorded combined ratio of 94.7. The underlying combined ratio was 88.4 for the quarter, which is within our full-year outlook range of 87 to 89. Catastrophe losses were $445 million, 24% higher than the first quarter of 2013. Net investment income for the Property-Liability segment was down 8.5% from the prior year quarter, reflecting interest rate risk reduction actions taken during 2012 and 2013. As a result, Property-Liability operating income in the first quarter was $468 million, 15.8% lower than the first quarter of 2013.

The Property-Liability combined ratio on a recorded and underlying basis is shown in the chart on the upper right-hand side of the slide. You can see that both the recorded and underlying combined ratios rose in the first quarter. Severe winter weather, as Tom had mentioned, impacted the combined ratios of all 3 brands in the first quarter. The table below this chart provides a view of the underlying combined ratio by brand for the past 5 quarters. We've also broken out the Esurance underlying loss ratio to provide greater visibility by excluding investments in advertising and expansion, which are immediately expensed.

The Esurance loss ratio remains higher than we would like it to be on a long-term basis, so we continue to adjust price -- pricing underwriting to ensure long-term profitable growth. These actions had negative impact on growth, which is offset by higher spending on a new advertising campaign to further strengthen the Esurance brand.

The Encompass brand's combined ratio for the first quarter was 102.6. The underlying combined ratio of 91.8 in the first quarter was 6.1 points lower than the first quarter of 2013 and reflects the benefit of ongoing profit improvement actions.

We expect to continue our profit improvement initiatives for both Esurance and Encompass brands.

Allstate Financial on the bottom half of the slide, had a 4.8% increase in premiums and contract charges in the first quarter, including a 7.8% increase for Allstate Benefits. Operating income of $189 million was a 31% improvement over the first quarter of 2013, driven by increased investment margin and lower expenses. Net income of $162 million for the first quarter includes an additional $18 million after-tax loss on the sale of Lincoln Benefit Life.

On Slide 7, we showed net written premium and policies in force by brand. For Protection, in the upper left chart, the red line shows the continued trend of policy growth that began in the second quarter of 2013. Overall, policies grew 2% from last year and 0.5% from the first quarter -- from the fourth quarter of 2013. Each brand achieved growth in the first quarter in both net written premium and policies compared with the prior year quarter.

Moving to the upper right chart, Allstate brand policies ended the quarter 1.1% higher than the first quarter of 2013. Allstate brand grew net written premium 4.3% in the first quarter versus the prior year quarter, driven by continued favorable trends in both retention and new business, as well as higher average premium. Allstate brand auto net written premium increased 3.3% from the prior year, while policies rose 2.1%, up from the first quarter of 2013. Allstate brand homeowners net written premium grew 5.8% while policy in force declined by 1.2% compared with the prior year.

On the bottom 2 charts, you can see growth trends for Encompass and Esurance. Both brands continued their growth in premium and policies in force compared to the first quarter of 2013. Esurance's rate of growth is slowing due to its increasing size and the pricing and underwriting actions being taken to ensure long-term profitable growth, partially offset by the impact of the higher advertising investment. Keep in mind that the scales on the charts for these 2 businesses are much smaller than the 2 charts at the top of the page.

Moving on to Slide 8. The charts on the left-hand side show the earned premium and underlying loss trends for Allstate brand auto and home, while the charts on the right show the combined ratio trends. For Allstate brand auto, you can see the impact of non-catastrophe weather in the underlying loss ratio compared with a very favorable first quarter of 2013. Physical damage frequency had increased during the quarter due to challenging winter driving conditions. This increase was concentrated in Midwestern and Eastern states and accounts for most all of the increase of physical damage frequency in the quarter. Finally, injury frequency declined slightly while severity showed only modest growth over the prior year.

We continue to take rate increases as needed in the first quarter, as shown on the graph on the upper right, with average state-specific rate increases of 2.5% in 19 states. Despite higher underlying losses in the first quarter, the underlying combined ratio for auto is still within our expected range.

For Allstate brand homeowners, showed on the bottom half of the slide, the first quarter story is similar to auto. Underlying loss cost per policy reflects an increase in non-catastrophe weather-related losses, such as frozen pipes, ice damage and higher levels of fire losses. The first quarter increase in homeowners losses was driven by states that experienced lower-than-average temperatures.

The combined ratio trends for Allstate brand homeowners are shown in the lower right-hand chart. You can see our underlying 12-month average has essentially flattened out as we approach price adequacy.

The composition of our investment portfolio is presented at the top of Slide 9. Over time, we are shifting to an asset mix we believe will have higher returns. We expect to rely less on interest-bearing assets and more on equity and other assets where returns is derived from idiosyncratic operating performance.

Interest income will remain the largest and more stable component to investment results while equity investments will have attractive or more available returns over time.

The lower left graph shows first quarter investment income before expenses of $999 million and a portfolio yield of 4.5%. The expected decline in the interest-bearing yield to 4.1% from 4.3% in the first quarter of 2013 reflects the interest rate reduction in the Property-Liability portfolio and a smaller portfolio due to Allstate Financial liability balances.

Strong limited partnership income partially offset lower income from the interest-bearing portfolio.

The last column in the table shows investment results for the quarter exclusive of LBL. The yields are unchanged, but investment income was $126 million lower. Our total portfolio return, presented at the bottom right, was a strong 2.1% for the first quarter, reflecting improved fixed income valuations and positive equity market performance. You can, see however, that the valuation impact has been highly variable, while the income yield has been relatively stable as the last 5 quarters.

Finally, on Slide 10, we provide a view of our capital position at the end of the first quarter. During the quarter, we completed the capital restructuring plan commenced last year, we -- which included tendering for and replacing higher coupon senior debts with a mix of lower-cost senior debt, hybrids and preferred stock to result in a capital structure that is stronger and more efficient, along with enhanced financial and strategic flexibility.

On the top-left chart, we show our capital structure both pre- and post-restructuring, where you can see the substantial reduction in senior debt levels and the increase of hybrid debt and preferred stock. A pro forma view of our capital mix adjusted for the expected pay-down of approximately $1 billion of debt during 2014 is also shown on the far-left bar.

We finished the first quarter with $22.1 billion total shareholders' equity. Book value per share of $46.70 increased 3.1% since year end and 7.5% since March 31 of last year. The statutory surplus of our operating companies continues to reflect the financial strength of our insurance operations while deployable assets at the holding company level increased to $3.4 billion at quarter's end.

During the quarter, our board authorized a new $2.5 billion common stock repurchase program and increased our common share dividend by 12%, which enabled us to return $1.1 billion in cash to common shareholders during the quarter.

After completing our previous $2 billion authorization, we began repurchasing common shares under the new program, both through open-market purchases and the execution of an accelerated share repurchase agreement.

Overall, during the first quarter, we repurchased 17.8 million common shares for $987 million. The final number of shares we repurchased under the ASR will be determined when the contract is completed.

In addition, we paid $113 million in common stock dividends during the quarter.

Overall, in the first quarter, we made good progress in the execution of our customer-focused strategy and achieved each of our operating priorities. We are well positioned to continue to effectively execute our differentiation strategy while delivering strong returns to shareholders.
Now let's open up the call for your questions.

Question and Answer

Operator

[Operator Instructions] Our first question is from Robert Glasspiegel of Janney Capital.

Robert Ray Glasspiegel
Janney Montgomery Scott LLC, Research Division

Let me echo your kind memories of Bob, Tom. He'll be definitely -- be missed by all. Question on Esurance. What exactly is the strategy right now? It seems like the increase in advertising would suggest that you think you've got the underwriting fix within plan. Is that a fair read of the scenario?

Thomas J. Wilson
Chairman & CEO

Bob, thanks for the comments about Bob. Let me make a macro comment about Esurance as to how it fits into our overall portfolio and then Don can talk about the new advertising program. So first, we like having 4 approaches to the marketplace. It gives us the ability to get very clean customer value propositions for each of those target segments. So for example, in Esurance segment, one of the components to the customer value proposition is giving me tools to make me smart, whereas in the Allstate Agency channel, it'll be my agency and my agent who knows me. So you can see the difference that does. You can think of that difference as it relates to our operating set. So we like the ability it gives us to really hone in and give the customer exactly what they want. It also gives us the ability to compete more effectively against those people who are trying to serve multiple brands. And so we use those brands in conjunction to compete on 2 fronts, as opposed to just competing on 1 front. We obviously, in all brands, they're supposed to make the adequate return on capital, and we've talked about Esurance's progress to improve their loss ratio. We're happy with where -- the progress they're making, but they're not where they need to be yet. That said, that doesn't stop us from wanting to continue to invest and compete aggressively because the returns are still above our cost of capital in that business. So Don, perhaps you want to talk about the new advertising program and what we have going?

Don Civgin
President of Emerging Businesses - Allstate Insurance Company

Yes. Bob, let -- first of all, let me reiterate. I mean, our strategy with Esurance is to grow the business as fast as possible while maintaining positive economics over the lifetime of the business we're writing. And we've talked about this many times before, but that's, by definition, going to be reflected in a higher GAAP combined ratio, which you saw, again, this quarter. It was a pretty exciting quarter for Esurance. They built on a number of things that they've been doing with the customer value proposition by continuing to build their advantage. So they continue to be the only direct multiline carrier with the addition of motorcycle and homeowners. They've continued to build out their features, which are making their product differentiated from the competitors, and they continue to improve the ease of doing business. The ad campaign, I think, we've transitioned a little bit this past quarter. In the past, we talked about Esurance and what quadrant and what customers they were serving. This past quarter, we spent more effort to make sure people understood just how good we were getting within that quartile and against the competitors. So you see us go -- very aggressively against the fact that we can do quotes on the Esurance website in 7.5 minutes. And obviously, put -- we put a lot of advertising weight behind that. You can see in the supplement another 12.8 points of expense. I'd say, by all measures, that campaign has worked quite well. The Super Bowl campaign, we had 3.4 million entrants. We had 2.7 billion social impressions, unaided awareness and consideration of the brand is up to all-time highs, the trust level is up, the quotes were obviously up pretty dramatically in the quarter. And I think those are good results, in particular, because we've been taking a lot of pricing action and a lot of underwriting action to get the loss ratio back to where we wanted it to be. And while we're not entirely there, as Tom said, absent the January, February weather, we've actually seen a nice improvement in the loss ratio here in the first quarter. I would also say the results for Esurance in the first quarter are particularly good because we know, at least through February, that the main competitors had substantially increased their spend as well. So I think we feel good about where the campaign's working. It's all predicated on Esurance building a customer value proposition that is differentiated than the competition. And so I think we'll continue to build that out. But we still have work to do on the loss ratio. And Gary and the team are all over that, and we continue to expect -- I would continue to expect us to improve the loss ratio throughout this year. But it's going to come with pressure on the top line.

Robert Ray Glasspiegel
Janney Montgomery Scott LLC, Research Division

Okay. And final question is what free cash was generated from your life companies? Is it consistent with what your earlier guidance was going to be?

Thomas J. Wilson
Chairman & CEO

Bob, you mean free cash on the sale of Lincoln Benefit or free cash in total?

Robert Ray Glasspiegel
Janney Montgomery Scott LLC, Research Division

Yes.

Thomas J. Wilson
Chairman & CEO

It's consistent with what we thought it would be, which was $1 billion of freed up capital. But we've got to -- as you know, we've got to move it through the system to get it up to the holding company.

Operator

Your next question is from Josh Stirling of Bernstein.

Josh Stirling
Sanford C. Bernstein & Co., LLC., Research Division

So I wanted to ask a question, a follow-up on Bob's question on Esurance. So just to be clear, you guys have doubled your ad spend at least in the sort of recent run rate. I'm wondering if that's sort of a sense of how you expect to continue to spend money in Esurance? And as we think about looking at the profitability of the business going forward, should we expect you to continue to spend that kind of money should end? And as we think about sort of total earnings, is this the sort of thing that pays off over the next year or 2? Or are we going to be lagging sort of the additional ad spend in terms of sort of Esurance-driven profitability and Esurance-driven underlying growth for some time?

Thomas J. Wilson
Chairman & CEO

Josh, thanks for the question. Let me split it into a couple of pieces. When you -- when we launch a new advertising program that's trying to get new features across, we invest heavier upfront in that than we would on a continuing basis. So you saw that whether that's you buy a Super Bowl ad, which is expensive, or you just buy a lot more media in February, March. We don't disclose what our future advertising program will be because that tends to be competitive. But the normal pattern would be you invest heavier upfront and then you come back to something that's more sustainable over time. So I wouldn't expect to see it at the same -- you shouldn't expect to see it at the same level in -- for the rest of the year, as you would here. But that said, we do believe that the extent we are writing economic business, we have the earnings capacity as the total company to continue to grow that brand, and we'll continue to invest to the extent that it is economic. So I would -- our commitment is to grow the business in total to balance between the brands that deliver the right strategy and to serve each customer. How we move that -- the money around between them, as long as we're meeting our overall underlying combined ratio commitment to the Street, we feel like we should use the strategic and operating flexibility to drive what are the ultimate economics for the shareholders, which is discounted cash flow. Is that helpful?

Josh Stirling
Sanford C. Bernstein & Co., LLC., Research Division

Yes, that's helpful, Tom. If I could ask just another sort of bigger question, then. We're sort of looking beyond the numbers, to try and link some of your strategies together. You guys have a very broad product set: auto, home, accident, health and traditional life. And a couple of years ago, you were talking about sort of cross-selling. I think we're seeing you start to do that. Obviously, the Esurance. Encompass has been successful for -- with the package for a long time. And you've got sort of the voluntary benefits thing working in your Allstate brand. I wonder if you can sort of give us a sense of how big a lever this is, as you -- especially in your more mature channels. Will you actually be able to get any meaningful sort of cross-selling opportunities from selling, say, voluntary benefits to P&C or term life and things like that to P&C customers?

Thomas J. Wilson
Chairman & CEO

I'll make the general comment and Matt can talk about the efforts he has undertaken on what we would call the trusted advisor. So you're right, we do have a broad range of products in the portfolio. We're thrilled, actually. You saw that Allstate Benefits has now over 3 million policyholders. That sometimes gets lost by people. Our Good Hands Roadside has well over 1.5 million customers. So we garnered these -- and that's a product we launched like 3 years ago or something. So we garner these people like with millions, and it tends to get lost because we are so large. But we do think it is an advantage for us. We obviously -- Don mentioned the work that Esurance is doing to leverage the skills and capabilities we have at the company. We have also created our Business to Business unit under Kathy Mabe, which is trying to leverage that broad set of skills and capabilities as it relates to business customers because we've always been highly focused on consumers. We think we have plenty to offer businesses, particularly small businesses. And so we have a lot of work going on there. And then as you point out, we've been at in our main channel with the Allstate agencies. We've been working on having multiline relationships for as long as I've been here, which is 19 years, and made some progress. But it's always been one of those areas where we feel like we have much greater potential. And Matt's hard at work on that on trusted advisor piece. Matt, you want to talk a little about that?

Matthew E. Winter
President and President of Allstate Insurance Company

Sure. Thanks, Tom. So the company, as Tom has described it several times before, is really in an evolutionary status. So we went through a period early on where there was an attempt to create a bundled offering for our customers. But that was disrupted somewhat by what happened with homeowners for a 4- to 5-year period as we had to do some risk mitigation there. And when you take homeowners out of the mix, it really is problematic to try to create a diverse set of offerings and present a whole bundled offering to your customers. Now that, as you can see, our homeowners business is back in a fully fledged mode, we're then able to shift out of what I'd call the subcontractor auto-specialist mode to more of a general-contractor trusted-advisor mode for our agency owners who are able to position themselves as the personal risk advisors for their customers, offering a variety of risk mitigation and protection products, including not only auto, not only home, but life products, but retirement products, PUP, motorcycle, renters, LPP, the full line of personal lines products and life and retirement products that an individual customer might need and might come to an Allstate Agency owner for. The trusted advisor model is based upon some work done by David Meister [ph], the Meister[ph] model, and many of you in consulting and others probably are familiar with that model.

And we've begun shifting towards that trust-based advisory model here and are building the entire system around it, including the technology information capabilities for the agency owners. The processes, we are doing a fair amount of continuous improvement, reengineering work to change some of the workflows. We're doing some work that we call unbundling the value chain to make sure that our agency owners are spending their time and energy and their staff is spending their time and energy on things that truly add value to their customers. When you take all of that and combine it, the impact should be and we're seeing very encouraging early signs of it, that they are shifting to more bundled offerings. They are approaching their clients, their customers in a more holistic manner. Now when we look at our new homeowners business, our homeowners new business, right now, that 80% of it is bundled with auto. 40% already had an existing auto policy and are purchasing homeowners on top of that. And 40% added a new auto policy at the same time as they purchased their homeowners policy. That, combined with what our exceptionally strong growth trends in our consumer household lines now, shows us that our agency owners are now living into that new model. Life in retirement is going to be more difficult. Voluntary benefits, I put along with that. Just because it's a different type of business for many of them, for the longer-term agents, it's something that they're not that familiar with. For many years, they were used to passing on those leads to others and involving our financial specialist from a distance in that opportunity. And now we're asking them to work with their financial specialist in a more integrated manner. So I think it holds and Tom thinks it holds great promise for us as a company. I think it's core to our differentiated value proposition for the Allstate Agency owners and I think you should expect to see it receive the increasing degree of emphasis and importance over the next several years.

Thomas J. Wilson
Chairman & CEO

I'm very excited about what Matt's got going there. Besides, as Matt pointed out, the alignment with customers, we are building stronger local businesses, those agencies which are worth billions of dollars. One of Matt's job is also to make those agencies worth more. And to an extent they have a stronger relationship with customers, it makes them more valuable. I'm very excited about what it does for them and for us.

Operator

Your next question is from Jay Gelb of Barclays.

Jay H. Gelb
Barclays PLC, Research Division

First, for the impact of non-cat weather on the underlying combined ratio in the quarter, what was that versus a year ago?

Thomas J. Wilson
Chairman & CEO

Jay -- Matt, you want to, I think, maybe just talk about winter weather frequency? You're talking about frequency, is that right, Jay?

Jay H. Gelb
Barclays PLC, Research Division

Yes, I mean, I'm sure there was a good portion of winter weather that's not included in the cat impact. So I'm just trying to get a better sense of the baseline on the underlying excluding the impact of non-cat weather?

Thomas J. Wilson
Chairman & CEO

That's a really good question. And as you know, we manage our business with great precision. Matt, can you deal with that?

Matthew E. Winter
President and President of Allstate Insurance Company

Yes. So, Jay, it's interesting, it was intuitive to all of us that winter weather was going to have an impact on first quarter. But we wanted to really spend some time looking at it in a granular light, a granular level to ensure that we weren't just kind of discounting the rise in frequency as a result of winter weather when we weren't absolutely 100% sure that was the causal factor. So we did some fairly intense work on a state-by-state basis. So let me give you some facts because I think, rather than just conclusions, the facts should be helpful. And I'll do it on auto and I'll do it then on home for you. So when you look at physical damage frequency for total auto, it was -- the increase was driven entirely by states that experienced increased snowfall or dramatically lower temperatures that caused icing. So let me give you a breakdown there. We had 25 states and we did this comparison by month, by state, comparing this year's snowfall and temperature with last year's snowfall and temperature, looking for statistically significant deviations and what the impact was on frequency. We had 25 states that had increased snowfall in elevated frequency. And that -- those 25 states represented about 55% of our premium NF [ph]. The first quarter PD frequency in those states was 7% above the 3-year average. If you look at the 10 states with the largest increase in snowfall, that account for 25% of the total lift, they contributed over 50% of the unfavorable variance in frequency. So that's just on the snowfall side. Now look at the temperature side, which, as I said, caused unexpected icing. There, we had 32 states with colder temperatures. That includes 24 of the 25 snowfall states. For some reason, Wyoming was an outlier there. That represented 60% of premium NF [ph]. And there, too, we had a 7% rise in 3-year -- above our 3-year average for PD frequency. And if you look at those 10 states with the largest decrease in temperature, they contributed over 75% of the unfavorable variance in frequency. So clearly, the frequency actually improved in the rest of the country that wasn't impacted by statistically significant increased snowfall or dramatically lower temperatures. We did the same thing on the homeowners side. And remember, homeowners, we basically experienced 3 major winter impacts, frozen pipes in the eastern half of the company -- country, fire losses form heating sources in the south, especially in Georgia and Texas, and ice damming from temperature fluctuations in the Midwest. And now, the non-cat examples of those are the space heaters, the fire, the ice damming, many of the frozen pipe claims would not come as cats, they would show up in underlying due to reporting delays. It's hard to attach them to one particular storm or event. And as you know, house fires aren't cats either. So you look at the impact there, 30 states with colder temperatures and higher loss ratios representing 70% of the premium NF [ph]. That was a 16 percentage point loss ratio increase, including cats. So fairly significant. One other little factoid for you. We had more freeze claims in January alone than the previous 24 months combined, which is a fairly significant occurrence. And the biggest one was the January 2 freeze event in the Midwest to Northeast, down to Georgia. So again, if you take out those areas impacted by the lower temperatures that caused the house fires, the frozen pipes and the ice damming, the loss ratio actually improved in the rest of the country. Did I answer your question, Jay?

Jay H. Gelb
Barclays PLC, Research Division

Yes. And just back on the original point. What was the -- can you quantify the impact of non-cat weather in that underlying combined ratio of 88.4?

Steven E. Shebik
CFO & Executive VP

Matt gave you the impact on frequency. We haven't taken it so close to, say, it's x point to the combined ratio. I would say, now when you go above all that, if you look at the auto combined ratio, it's 93 to 94, depending on which one that you want to use, whether it's underlying or reported. And so we covered it that way. Or if you look at homeowners, what we've done with homeowners is -- combined ratio was 87 on a quarter basis. So while it's clearly -- and some would think -- and you would expect it's about time [ph]. So we don't want to -- weather happens every quarter. Sometimes it happens in January, February and it's cold. Sometimes it's fog. Sometimes it's other things. So we don't want to act like you should ignore the impact of weather. We still are responsible for an overall combined ratio. What Matt gave you was the information to help you see that. We don't think the bump in the underlying combined ratio up is a sustainable bump due to general trends around the country, which are not weather-related. But I don't want you to also just take it out and say that next quarter, that we're not going to have weather because we'll have weather every quarter. Does that make sense?

Jay H. Gelb
Barclays PLC, Research Division

Absolutely. And then just a quick follow-up on the Esurance. It looks like the company is looking to raise rates to address the loss ratio issue, but at the same time, ad spend is also going up. So how do you sort of clarify those 2 countervailing issues?

Thomas J. Wilson
Chairman & CEO

How about we want it all? We want to grow and we want to make money. All right. I'm looking at Don as I say that.

Operator

Next question is from John Hall of Wells Fargo.

John Arthur Hall
Wells Fargo Securities, LLC, Research Division

My first question has to do with the Allstate Financial. During the quarter, there was quite a significant drop in the expense -- expenses over there. I was just wondering if you could comment on sort of the profit profile of Allstate Financial going forward x LBL? And whether that drop in expenses is a permanent stair step-down.

Thomas J. Wilson
Chairman & CEO

Okay, Don will take that.

Don Civgin
President of Emerging Businesses - Allstate Insurance Company

Yes, let me first address the LBL question. It's -- we had about $34 million of operating income in the quarter that was related to LBL and so, obviously, going forward, that business is no longer part of Allstate. And as it relates to expenses, given that we reduced the size of our business pretty substantially, you should expect that expenses to come down. We've been hard at work during the last 6 or 9 months on expenses. A lot of it is driven by the headcount. But the fact is we're running a smaller business, we're running a simpler business. Matt and Tom talked earlier about advancing the Allstate customer value proposition with the trusted advisor. And Allstate Financial over the last 10 years or so has been in a lot of distribution channels. That takes a lot of resources, a lot of effort. With the conclusion of the LBL transaction, we are now committed 100% to the Allstate customer. There's only one channel. We're all in on the trusted advisor model. So we are changing our expense structure and our organization around to simplify it. Quite honestly, make the adjustments we need to because we simply can't spend the way we did 2 or 3 years ago. And we've been successful at it. We've also had benefits from lower pension expense from what we did last year and some shared service expenses and so forth, as well. It isn't all of just what we've done. But yes, we are committed to getting the expenses down so we can make better profitability.

Matthew E. Winter
President and President of Allstate Insurance Company

John, there's a paragraph in the Q that does a good job of breaking out the 3 components of that, which when you get the chance, we can direct you to it.

John Arthur Hall
Wells Fargo Securities, LLC, Research Division

Great. And then just following up on the homeowners. If I look at the ads that you guys have been running, fire kitchen -- kitchen fire and the return of Mayhem as the cleaning person. It seems like you're actually targeting homeowners rather directly. Should we be expecting homeowners to go from a negative PIF to a positive PIF over the near term?

Matthew E. Winter
President and President of Allstate Insurance Company

I would agree with everything you said other than perhaps near term. We are obviously working -- and Matt's team is hard at work. We talked about trust advisor driving that. We've not yet called when we think that negative will become positive. But obviously, with what we've done with the homeowners business, we'd like to turn it into a growth initiative as well.

Operator

Our next question is from Vinay Misquith of Evercore.

Vinay Gerard Misquith
Evercore ISI, Research Division

The first question is really on the loss trends versus the earned premiums. On the last 4 quarters, the loss trend seemed to be up around 1.9% to 2.4% on the Allstate brand auto. And the earned premiums, I believe, are up around 0.7%. So now you guys are taking pricing up 2.4% now, so that should be a positive for the future. Just curious as to whether we should expect pressure on margins, at least in the near term, while the earned premiums catch up with the loss trends?

Thomas J. Wilson
Chairman & CEO

Vinay, this is Tom. I'll ask Matt to deal with both where he feels they are in pricing and loss cost trends in auto in general. But we do read all of your -- everybody's stuff. And earlier this morning, we were trying to figure out your 1.9%. So we couldn't. So we'll get back to you on the specific on the 1.9% after the call. But Matt can talk in general about both where he feels the business is and what he's doing to make sure we keep in line with our second priority, which is to maintain underlying combined ratios.

Matthew E. Winter
President and President of Allstate Insurance Company

We're overall feeling very good about where we stand in auto in the underlying and our margin and our capabilities for continued growth and maintenance of good profitability. As I've talked about on previous calls, we really run the auto business by geography, not solely as one large system. And it's managed on a real-time basis by quite competent teams at the market operating committee level, who are aware of what's going on in each geography, watching trends emerge, looking at regulatory issues, watching demographics and other factors and making calls on a day-to-day basis to ensure we are staying ahead of those trends to the extent we can and that we are maintaining the margins. And as I said before, we break down our combined ratio and our loss ratio in what I would call almost agonizing detail. We know what's happening there. We're not surprised by any. And we feel confident that we are approaching it in a rational way. We are, as I've said, also previously, trying to optimize the point between growth and profitability to ensure we're able to continue the kinds of growth that we've been experiencing recently. We've just had, in terms of new business production, one of the best total auto quarters since 2001. We like that. Retention is up significantly and has been up for a steady period of time now. We like that. And we're balancing our desire to grow, capture market share and retain profitability and ensure we meet all of the commitments we've made regarding our underlying combined ratio.

Vinay Gerard Misquith
Evercore ISI, Research Division

Okay, that's helpful. The second question was on the net investment income on the P&C portfolio. And I am looking at it x prepays and litigation. And we actually saw first stabilization in the -- some interest-bearing securities there and stabilization in yields. Are you doing something now more positive in a sense that is changing the asset mix there where you see a stable yield and should we? And is your move away from a longer duration to shorter duration securities or is it that we'll see more stable net investment income from here on out?

Thomas J. Wilson
Chairman & CEO

Judy will answer that question while I make sure I get the math right. So the stabilization, are you talking about the earned yield fourth quarter of 2013 to first quarter of 2014? Or stabilization...

Vinay Gerard Misquith
Evercore ISI, Research Division

Yes.

Steven E. Shebik
CFO & Executive VP

Okay, because it is down about 20 basis points versus a year ago.

Vinay Gerard Misquith
Evercore ISI, Research Division

Yes, yes.

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

So there is stabilization. And as Tom mentioned, over the past year, we have moved to shorten the duration in the portfolio. And that work is largely done. So when you look at the portfolio at this point, we've got a duration a little bit under 3 years and we plan to stay there for the time being. So it isn't necessarily a change in the mix. It's more that we've done the work that we wanted to do. We're going to continue to see the impact of the work that we did last year in terms of year-over-year. But quarter-over-quarter, it has largely stabilized where we are today and the portfolio yield is down so the differential between where we're investing today and the portfolio yield isn't as great as it would have been a few years ago.

Operator

Our next question is from Michael Nannizzi of Goldman Sachs.

Michael Steven Nannizzi
Goldman Sachs Group Inc., Research Division

Tom, I want to ask you a little bit about the other personal lines business. I mean, it's come up a little bit more recently in some of the calls. A couple of billion dollar book, I mean, it looks like now, 3 quarters of double-digit growth, margins are in mid to high 80s on an underlying basis. Wanted to just get a little bit better understanding of what's in there? I mean, I guess, specifically, it looks like the growth is coming from dealer services and roadside. What are the margins in those businesses, specifically? And are those higher, if you can tell us, higher-margin business than the rest of the stuff that's in there?

Thomas J. Wilson
Chairman & CEO

Okay, I'll make some general comments and then Kathy can talk specifically about what we're doing in roadside and dealer services. But first, when you go all the way up in other personal lines, there's lots of other stuff in there. So there's a number of consumer household products where that the personal umbrella policies, many of the policies Matt talked about that fit inside of that organization and are fully integrated with the way we deal with our agencies, just like auto, home and everything else. And those businesses Matt mentioned are also growing well. So renters and some other things are having a good year there. In addition to that, as you point out, we have a number of other really strong and significant businesses that oftentimes don't get the attention that auto and home do. So one of those would be roadside, the other would be dealer services. Roadside, we have really 3 parts to that business. There's our standard, our auto -- our motor club policies we sell for a fee and then we have our Good Hands Roadside where it's pay-when-you-use-it. That's where I mentioned we have over 1.5 million customers. And then there's our wholesale business Kathy can talk about. That business is growing quite rapidly in that third piece, and she can talk about what she's doing there and what we need to do to -- in terms of profitability there. Then dealer services sells extended warranties and things through to dealers. That's also a pretty large business. That's a longer tail business. So the profitability, as you have to -- it burns in over time, and she can talk about what we have going there as well.

Katherine A. Mabe
Executive Vice President of Brand Distribution

Thank you, Michael. With regard to roadside, Tom had talked about the different components. Inside that, in terms of its profitability, the business is growing rapidly. The wholesale business is less profitable than what we call the retail business or the Allstate segment of the business. So in the short term, we're focused on slowing the growth a little bit on the wholesale side while we focus on increasing the profitability of that segment. We're, at the same time, we're doing -- taking steps to aggressively grow the Allstate branded part of roadside, which is highly attractive, and we're doing that. Matt talked about the trusted advisor. That's a component, a piece that we want to sell through the Allstate Agency distribution force. With regard to dealer services, there are a number of things going on there. It is a rapidly growing business. Most of the growth is coming from the vehicle service contract portion of the business. We feel that it's adequately priced, although we are taking steps to make sure that we're getting the profit margin that we need on that business and working aggressively to pursue that. We love some of the synergies that we see in dealer services with regard to the property casualty business as well and some of the other businesses in B2B.

Michael Steven Nannizzi
Goldman Sachs Group Inc., Research Division

I guess, the question -- I mean, you see them really, I mean, just looking at your supplement, I mean, those 2 have seen the lion's share of growth in other personal lines over the last maybe at least quarter for -- over the last year. And over that -- over the past couple of years, the underlyings have come down and really kind of settled into that 80s, low 90s sort of range. I'm just wondering, like, are the areas that are growing, are those just more profitable than the others? Or is there something else that's happening at the same time that these 2 areas are growing that's caused that profitability to kind of settle in?

Thomas J. Wilson
Chairman & CEO

Yes, I think where Kathy was -- is the wholesale business, it grew quite rapidly. We picked up GM, which is a giant account. And actually, that business is not as profitable as the other businesses. So that's actually reduced our overall profitability. And the dealer services business, so we like the profit there. We think it's decent -- we think it's got good pricing and its growth is profitable. I think, Mike, there may be some other pieces in there in terms of what we're doing in renters and personal umbrella policies. So I would say, let us help you, we'll dissect that for you because I think you're looking at a broader combined ratio measure than just the businesses we're talking about.

Operator

Our next question is from Josh Shanker of Deutsche Bank.

Joshua David Shanker
Deutsche Bank AG, Research Division

I apologize, everyone between Jay and John, my questions were answered.

Operator

Our next question is from Meyer Shields of KBW.

Meyer Shields
Keefe, Bruyette, & Woods, Inc., Research Division

One nitpicky question. The corporate expenses went down or were flat year-over-year but were down significantly from the fourth quarter. Is the first quarter number a good run rate going forward?

Steven E. Shebik
CFO & Executive VP

You're talking about the corporate expense line we've broken out. So there's -- yes, interest expense is down some. And then there are some shared service costs that rattle through there in pension and other things that are down in terms of -- remember last year, we took a big shot because we restructured the pension plans and added to the balance sheet and, as a result, in terms of -- we took the liability down and it reduced our expenses by well over $100 million a year. So part of that rattles through, but a large part of that also, as Don mentioned, gets allocated back out to him. So -- which is a good thing. So it gets reflected in the profitability of our businesses. So but there's no big trend going on in corporate, I guess, would be [indiscernible]. Once you get through the capital restructuring plan, and we got to -- you've got to look at the preferred dividends relative to interest expense because that shows up in a different line item, so...

Meyer Shields
Keefe, Bruyette, & Woods, Inc., Research Division

Okay, that's helpful. Bigger picture, I guess. Is there a time frame for expanding the target focus of the Encompass to maybe attack a more broad segment of the independent agency customer base?

Thomas J. Wilson
Chairman & CEO

Our current strategy with Encompass is to continue to roll out and expand the package policy because we think we have room geographically to do that and room within some of the agencies to do it that we exist to do business with. And while we're doing that, we're still working to improve profitability in some of the states. So we've actually shrunk, Meyer, the what we would call the segment business, which is the standalone auto policy over the last 4, 5 years. Over time, I believe you're right, that we know how to price auto, we ought to be back and expanding that business. But right now, it's not on our list of priorities.

We'll take one last question.

Operator

Our final question is from Adam Klauber of William Blair.

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

The BI severity was pretty low. It's been trending down. Is that more Allstate-specific actions? Or is that some market phenomena?

Thomas J. Wilson
Chairman & CEO

It's hard to answer what a market phenomenon is, but Matt might want to talk some about the actual results we have.

Matthew E. Winter
President and President of Allstate Insurance Company

Yes, I think, boy, that's an interesting question to try to break it down from the entire market. But we have, as I said before, we've taken a fair amount of effort to look at this on a state-by-state basis and manage it as well as we could. We -- there's always geographic mix issues and policy limit shifts and other things that impact that. And I guess I would say, I don't believe that we've done anything dramatic recently to indicate a trend line that you should read into this.

Thomas J. Wilson
Chairman & CEO

Remember, part of the trend is Florida. We had some profit issues in Florida and New York that tend to be higher with the ice states. And so my point is you really got to look at it by state. And I would say, if you go all the way up, Adam, it's -- we are, to an extent, our BI cost severities go up, frequency goes up in BI or the same with PD, frequency or severity would reflect that in our pricing and all of it is manageable, if you look at our average pricing, we're feeling pretty good about it.

Thank you, all, for participating. Our strategy gives us flexibility, as you can see, to operate in a variety of different customer segments. We're going to stay heavily focused on our 2014 priorities and the success we've had by being proactive from an operating and strategic standpoint over the last 4 years has put us in a position to just begin to build on a great franchise. Thank you, all. We'll see you next quarter.

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