S&P Capital IQ

CONTENTS

The Allstate Corporation NYSE:ALL

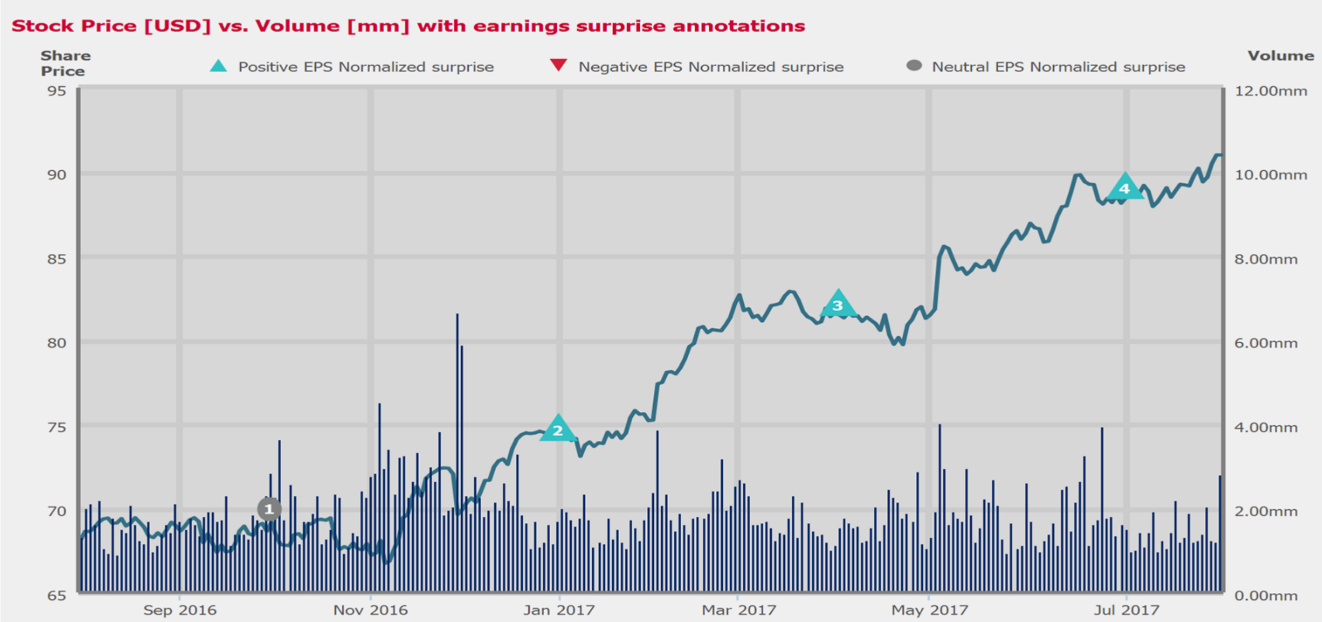
FQ3 2017 Earnings Call Transcripts

Thursday, November 02, 2017 1:00 PM GMT

S&P Capital IQ Estimates

	-FQ3 2017-			-FQ4 2017-	-FY 2017-	-FY 2018-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	0.83	1.60	▲92.77	1.99	6.33	7.12
Revenue (mm)	8068.33	8121.00	▲0.65	8056.75	32209.29	33205.00

Currency: USD
Consensus as of Nov-02-2017 11:36 AM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ3 2016	1.26	1.26	0.00 %
FQ4 2016	1.61	2.17	▲34.78 %
FQ1 2017	1.10	1.64	▲49.09 %
FQ2 2017	0.90	1.38	▲53.33 %

Call Participants

EXECUTIVES

Don Civgin
President of Emerging Businesses - Allstate Insurance Company

John Griek
Head of Investor Relations

Mary Jane Bartolotta Fortin
President of Allstate Financial

Matthew E. Winter
President and President of Allstate Insurance Company

Steven E. Shebik
CFO & Executive VP

Thomas J. Wilson
Chairman & CEO

ANALYSTS

Amit Kumar
The Buckingham Research Group Incorporated

Brian Robert Meredith
UBS Investment Bank, Research Division

Jay H. Gelb
Barclays PLC, Research Division

Jon Paul Newsome
Sandler O'Neill + Partners, L.P., Research Division

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

Robert Ray Glasspiegel
Janney Montgomery Scott LLC, Research Division

Sarah Elizabeth DeWitt
JP Morgan Chase & Co, Research Division

Presentation

Operator

Good day, ladies and gentlemen, and welcome to the Allstate Third Quarter 2017 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.

John Griek
Head of Investor Relations

Well, thank you, Jonathan. Good morning, and welcome, everyone, to Allstate's Third Quarter 2017 Earnings Conference Call.

After prepared remarks by our Chairman and CEO, Tom Wilson; Chief Financial Officer, Steve Shebik; and me, we will have a question-and-answer session. Also here are Matt Winter, our President; Don Civgin, the President of Emerging Businesses; John Dugenske, our Chief Investment Officer; Mary Jane Fortin, President of Allstate Financial; and Eric Ferren, our Controller and Chief Accounting Officer.

Yesterday, following the close of the market, we issued our news release and investor supplement, filed our 10-Q for the third quarter and posted the results presentation we will use this morning in conjunction with our prepared remarks. These documents are available on our website at allstateinvestors.com.

As noted on the first slide, our discussion today will contain forward-looking statements about Allstate's operations. Allstate's results may differ materially from these statements, so please refer to our 10-K for 2016, 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 or our investor supplement.

We are recording this call, and a replay will be available following its conclusion. And as always, I will be available to answer any follow-up questions you may have after the call.

Now I'll turn it over to Tom.

Thomas J. Wilson
Chairman & CEO

Well, good morning. Thank you for joining us to stay current on Allstate's operating results.

Let's start on Slide 2. Overall, we made excellent progress on our 2017 operating priorities. Financially, results were also strong in the quarter. Net income was $637 million or $1.74 per share. Operating income was $1.60 per share. Improved profitability in auto insurance reflects the profit improvement actions initiated in 2015 and the decrease in the frequency of auto accidents.

Homeowners insurance profitability continues to perform well despite higher catastrophe losses. Investment income increased in both the market-based and performance-based portfolios, and as a result, Allstate Financial operating income improved to $157 million in the third quarter.

Operating from return on equity was 13.9%, which is shown in the bottom right of that slide, a significant improvement over last year.

If you turn to Slide 3, we continued to deliver on all 5 operating priorities. The first column is to better serve our customers. We measure our customer satisfaction via Net Promoter Score, and it increased for most of our businesses. We also continue to build an Integrated Digital Enterprise, as evidenced by the expansion of QuickFoto Claim, which reduces auto claim settlement times from days to hours and lowers our expenses.

We continued to excel in our priority to achieve target economic returns on shareholder capital, as is demonstrated by a recorded combined ratio of 95.2 for the first 9 months of the year. And while Allstate Annuities income increased significantly due to investment results, the overall returns, however, are still low.

Total policies in force increased to 78 million largely due to SquareTrade and Allstate Benefits growth. Excluding SquareTrade, Property-Liability policies in force did decline, but the Allstate brand auto insurance new issued applications continued to accelerate, and customer retention improved for the Allstate and Esurance brands. Allstate Benefits continued its 17-year track record of growth with policies in force up 8.1% from the prior year.

Market-based portfolio returns reflect stable income and a higher valuation benefiting from favorable market conditions. The performance-based portfolio results were strong on private equity appreciation and sales of underlying investments.

We're also investing for long-term growth that includes businesses such as Allstate Benefits, SquareTrade and our connected car platform at Arity.

Slide 4 shows Property-Liability results by customer segment and brand. Let's start with the table at the top. Net written premium was $8.6 billion, a 3.3% increase from the prior year. The recorded combined ratio of 94.7 was 0.8 points better than the third quarter of 2016. Included in these results were $128 million in non-catastrophe prior year reserve releases. The favorable reserve reestimates reflected $216 million in Allstate Protection releases, partially offset by $88 million in reserves strengthening for discontinued operations related to the annual asbestos and environmental reserve review.

When we exclude catastrophe and prior year reserve reestimates, the underlying combined ratio for the first 9 months of 2017 was 85.2. The full year result is now expected to be better than the favorable end of the annual outlook range of 87 to 89 provided in February.

As you know, our strategy is to provide different customer value propositions for each of the 4 customer segments of the Property-Liability market, which are shown on a table down below, the graph there. The Allstate brand in the lower left competes in the local advice and branded segment, and our most prominent competitors here are State Farm, Nationwide and Farmers. Obviously, GEICO and Progressive target these customers as well, but they don't offer the same value proposition provided by our 10,400 Allstate agencies. This segment comprises approximately 90% of our total premiums written.

Net written premium was 2.5% higher in the third quarter of 2017 compared to the prior year quarter due to a 3.2% increase in auto insurance. The underlying combined ratio was 84.3 with the favorable prior year comparison being driven by improved loss trends in auto insurance, which had a 91.2 underlying combined ratio, 4.7 points below the prior year quarter.

Esurance in the lower right serves customers who prefer a branded product but are comfortable handling their own insurance needs. GEICO and Progressive Direct get a larger share of this segment than their overall market share. The underlying combined ratio for auto insurance continues to improve relative to prior year and was slightly below 100.

Esurance also now service homeowners in 31 states. Net written premium for the quarter is up 50% from the prior year quarter. Growth in homeowners offers a significant opportunity to fund the products, lower average acquisition costs, increase retention and build a stronger relationship with our customers.

Encompass in the upper left competes with customers who want local advice but are less concerned about the brand of insurance they purchase. We're making good progress in improving underlying margins, but the businesses get smaller as we exit unprofitable markets and raise prices. In states where we're rate-adequate, we are executing growth plans.

John will now go through Allstate Esurance and Encompass results in more detail.

John Griek
Head of Investor Relations

Thanks, Tom.

Let's go to Slide 5 to cover the results for Allstate brand auto insurance. Starting with the top-left graph, the recorded combined ratio for the third quarter was 94.9, which was 4.1 points better than the prior year quarter, reflecting increased average earned premium, lower frequency and favorable prior year reserve reestimates but was offset by higher catastrophe losses, particularly from Hurricane Harvey. The underlying combined ratio of 91.2 in the third quarter 2017 improved by 4.7 points compared to the third quarter 2016 driven by a 6.1-point improvement in the underlying loss ratio. The underlying loss ratio is now performing in line with the levels achieved in early 2014, prior to the rise in auto accident frequency.

The chart of the top right shows the results of the broad-based profit improvement plan initiated in 2015. Annualized average premium, shown by the blue line, increased to $1,015, while underlying loss and expense, shown by the red line, was flat. This resulted in a favorable gap of $89 per policy compared to the mid-teens experienced in the third quarter of 2015.

Gross frequency trends for bodily injury and property damage coverages are shown on the bottom chart. Frequency continued to show improvement across both coverages in the third quarter 2017, and favorable trends were geographically widespread. Externally, frequency trends in 2017 have moderated across the industry, and a portion of the frequency decline can also be attributed to the shift to longer-tenured and higher-quality risks as a result of the profit improvement initiatives.

Earlier this year, we instituted a comprehensive program to increase policy growth as Allstate brand auto insurance has returned to historical margins. Slide 6 shows the underlying drivers of policies in force for Allstate-branded auto insurance. As you can see from the graph at the top, the overall policy count has flattened over the last 2 quarters. The bottom 2 charts highlight both the renewal ratio and new issued applications for Allstate-branded auto insurance.

The renewal ratio is a bigger influence on total policies in force than new business, and we remain focused on retention drivers that are within our control. Key retention initiatives include improving customer satisfaction and engagement while maintaining a stable pricing environment. We anticipate higher customer satisfaction, coupled with more moderate auto insurance pricing, to translate into higher retention. The renewal ratio of 87.7 was an improvement of 0.2 points from the prior year quarter.

Growth in new issued applications continues to accelerate and increased 11.5% in the third quarter compared to the prior year quarter. 41 states, including our 10 largest, experienced increases in new issued applications compared to the prior year quarter, with 29 states experiencing double-digit increases. Executing our trusted adviser strategy and expanding distribution capacity should also build growth momentum for the remainder of 2017 and throughout 2018.

Slide 7 shows similar information for Allstate brand homeowners. The top part of the page provides detail on our profitability results. The homeowners recorded combined ratio was 81.3 in the third quarter, which generated $319 million in underwriting income as Allstate's effective risk management strategy mitigated significant catastrophes in the third quarter. As a result of the comprehensive reinsurance program we have in Florida, a large portion of the property losses related to Hurricane Irma were ceded and did not impact operating profit. Over the last 12 months, $1 billion of underwriting income has been generated by this product line, net of catastrophes.

The bottom half of the page provides detail on policies in force, which declined 1%. The renewal ratio of 87.5 was 0.4 points lower than the prior year quarter. New issued applications growth did accelerate to 5.3% in the quarter as 6 of our 10 largest states experienced increases. As auto insurance retention increases and new business increases, we expect to see a favorable impact on homeowners policies in force.

Slide 8 highlights results for Esurance. Esurance is focused on improving financial results and positioning the business to resume growth in total policies in force. The recorded combined ratio of 104.4 in the third quarter, shown on the left chart, was 5.4 points below the prior year quarter driven by lower expense ratios in auto and homeowners insurance. The 5.4-point expense ratio decrease reflects reduced homeowners advertising, improved customer service efficiency and a smaller impact from the [indiscernible] of intangible assets.

The auto underlying combined ratio is 99.8 in the third quarter, 2.2 points better than the third quarter of 2016 as shown below the graph on the left. Lower expenses, coupled with better frequency and severity trends, contributed to the improvement in underlying margins.

Esurance policies in force, highlighted on the right chart, declined slightly compared to the third quarter of 2016. Policy growth in homeowners is nearly offsetting the decline in auto policies. New issued applications declined as a result of lower advertising, while auto retention improved by 2.9 points as we have focused on improving customer service and targeted more standard and preferred-risk business.

Slide 9 shows similar information for Encompass. Encompass generated $29 million of underwriting income in the third quarter driven by underlying profitability improvement and lower catastrophes. As shown on the left chart, the recorded combined ratio was 89.2 in the third quarter. The decline in premium and policies in force in states with inadequate returns has impacted overall top line trends, and targeted growth plans have been initiated in states that have attractive profitability prospects.

And now I'll turn it over to Steve.

Steven E. Shebik
CFO & Executive VP

Thanks, John.

Let's go to Slide 10, which provides detail of SquareTrade. As you know, we acquired SquareTrade in January of this year to expand our product offering and distribution channel, particularly as it relates to cellphones, computers and televisions. Attractive acquisition economics are predicated on achieving 2 primary objectives: first, continued growth of the retail business to existing partners and new retail distribution; second, improving margins by leveraging fixed costs and reducing the utilization of third-party underwriting arrangements. The acquisition will create shareholder value by achieving these 2 goals. Additional value can be created by leveraging SquareTrade's platform for additional growth, such as the expansion in Europe.

SquareTrade made good progress on these key performance metrics as shown on bottom half of the page. Policies in force increased by $2.8 million from the second quarter to $34.1 million. Over the last 12 months, policies in force grew 32%.

The underwriting loss totaled $29 million in the third quarter, reflecting $23 million of amortization of intangible assets related to the acquisition. When you exclude the amortization of purchased intangibles and purchase accounting adjustments, the adjusted operating loss was $2 million for the quarter.

Slide 11 highlights our investment results. A lot is going right for investors in 2017, which, when combined with the proactive investment approach, results in a 12.7% increase in investment income from the prior year quarter. Investment income, shown in blue in the top chart, has contributed approximately 1% return each quarter with primary -- primarily stable earnings from our market-based portfolio and an increasing contribution from a performance-based portfolio.

The GAAP total returns on our diversified $83 billion portfolio have been fairly consistent over the first 3 quarters of the year, with the third quarter contributing 1.5%. Returns have benefited from purposeful asset allocation decisions, including our shift to performance-based investments.

Durability in our total returns generally rises from changes in portfolio value between quarters as reflected by the valuation component shown in gray. Substantially, all asset classes registered positive returns, which is reflected in an increase in our fixed income and equity portfolio value. Fixed income valuations increased primarily from tighter credit spreads. Equity valuations also increased on prospects of higher global economic growth.

The components of net investment income are shown in a lower-left graph. The portfolio is largely comprised of market-based investments. The carrying value of the market-based portfolio makes up more than 90% of the total portfolio and approximately 75% of total investment income in the quarter.

Net investment income for the third quarter was $843 million, $95 million higher than third quarter of 2016. This increase is driven primarily by performance-based investment income of $227 million; it also included a favorable contribution from our market-based portfolios.

Performance-based assets have higher long-term returns, which compensate investors for higher variability and lower liquidity. The funding for the -- these investments is from long-dated liabilities and capital, which enables us to stay invested despite short-term valuation volatility. As a result, on a risk-adjusted basis, these assets generate more shareholder value than fixed income investments.

Effective in January of 2018, equity securities and cost method limited partnership interest we measured at fair value, when the valuation changes, recorded a net income. This accounting change may increase the variability of our performance-based results in 2018 and thereafter.

Turning to Slide 12, Allstate Financial profitability increased, reflecting strong performance-based investment income and favorable mortality. Premiums and contract charges totaled $593 million in the third quarter, an increase of 3.9% compared to the prior year quarter. Operating income of $157 million increased 67% over the prior year quarter as shown on the bottom left graph.

Life insurance operating income was $74 million, a $23 million increase compared to the prior year quarter as shown in blue on the bottom of this slide. This is due to favorable mortality experience and higher additional life insurance premiums.

Allstate Benefits operating income was $28 million, a $3 million above the prior year quarter. The increase was primarily due to higher premium and contract charges, partially offset by higher contract benefits.

Annuities operating income of $55 million in the quarter was an increase of $37 million compared to the prior year quarter, reflecting the continued benefit of our performance-based investment strategy as well as a lower contract benefits.

Currently, regulatory-required capital levels are substantially higher for performance-based assets and fixed income investments. This suppresses reported returns in capital as it relates to the immediate annuity business. In our view, there needs to be a better alignment of capital requirements with economic outcomes. This will reduce the amount of capital utilized for immediate annuities and hence raise reported return on capital.

Slide 13 provides an overview of our capital strength and financial flexibility. As you can see from the box at the top, we had delivered excellent returns, increased book value and maintained a conservative financial position while increasing shareholders' ownership in the company and reduced the number of outstanding shares.

Operating income return on equity was 13.9% for the 12 months ended September 30, 2017. Included in this result is a pension settlement loss of $86 million pretax, which was recorded in a corporate segment in the third quarter. We returned $1.24 billion to common shareholders in the first 9 months of the year. This includes repurchasing 10 million shares of our common stock or 2.7% of those outstanding at the beginning of the year. We remain on track in executing the $2 billion share repurchase program that was approved in August.

Lastly, we discussed in our second quarter earnings call we will adopt a new reporting structure in the fourth quarter that will expand our reportable segments from 4 to 7. The new structure will provide enhanced transparency and allow for an evaluation of our businesses grouped by like attributes. Allstate Protection will continue to include the traditional Property-Liability businesses that address the 4 segments of the consumer market: Allstate, Esurance, Encompass and Answer Financial.

A new service businesses segment will include operations that have a larger portion of earnings and services but generally have less underwriting risk. This will include SquareTrade, Arity, Allstate Roadside and Allstate Dealer Services.

Allstate Financial will be split into 3 segments: Allstate Life, Allstate Benefits and Allstate Annuities, which have different growth and return characteristics.

This new segmentation will have an impact on goodwill impairment testing and the aggregation of Allstate venture reserves for sufficiency testing. We estimate a goodwill impairment of approximately $125 million will be recognized in the fourth quarter related to the goodwill allocated to the Allstate Annuities reporting unit. The discontinued lines and coverages in corporate other reporting segments will not be impacted. More information on this is available in our Form 10-Q we filed yesterday.
Now I'll ask Jonathan to open the line up for your questions.

Question and Answer

Operator

[Operator Instructions] Our first question comes from the line of Jay Gelb from Barclays.

Jay H. Gelb
Barclays PLC, Research Division

Can you discuss the shift toward growth in the Allstate brand auto business and whether the underlying underwriting margin can continue to improve in that scenario?

Thomas J. Wilson
Chairman & CEO

Well, Jay, if Matt who will cover the growth plans that were initiated earlier this year. As you think about where our situation is, I think it's important to look at the external environment. So in terms of what's happening externally, what happens to your underwriting margin, obviously, the external environment is a big component, which our competitors are doing. And as our read of the competitive situation is that our competitors are either taking or need to take increased prices higher than ours based on where we're at today, which should put us in a good competitive position. So we think we're well positioned to do that.

Matt, if you want to talk to what we're doing.

Matthew E. Winter
President and President of Allstate Insurance Company

Sure. Jay, it's Matt. Thanks for the question. So the growth plan is -- I'm going to oversimplify it, probably. But first, understand that it's in 2 large buckets. Remember, when we reported growth, we're not only talking about new business growth. We're talking about increased retention. Because as John mentioned in his earlier comments, retention can actually have a greater influence on overall item in force growth than new business. So we have 5 buckets of growth initiatives under the new business side and 3 under the retention side. On the new business side, it's pretty basic. We're kind of to do 5 separate things: Number one, increase distribution capacity, that's more exclusive agencies, more licensed sales professionals, especially in under-penetrated areas like the heartland and parts of the United States where we do not have appropriate level of market share. Number two, we want to make that distribution more productive and efficient, and that's through the use of technology, use of data and analytics, better lead generation and more sophisticated segmentation. The third is to get that distribution more engaged and investing in their businesses, and that's through some redesigned and enhanced compensation and recognition programs and additional support and coaching. Fourth, we want to provide them better-priced and higher-value products to sell, so that's using more sophisticated pricing techniques, better underwriting to improve their close rates. And fifth is to drive more approach to them, so with better marketing and more segmented marketing. So on the new business side, it's pretty basic, more points of presence, capable of quoting more and closing at higher close rates. On the retention side, there's basically 3 components: better onboarding, so that their first experience with Allstate after they make the purchase decision is a positive one; better advice and service throughout the course of their relationship, and that means things like annual reviews of their coverage, it means appropriate amounts of touch points with the customer to ensure that they're happy with their service; and finally, on retention, less rate shock, more stable rate environment, so less triggers for shopping. So we think the combination of all the work we're doing on the new business side and the retention side has started to show up in our numbers. That's why you're seeing the increased retention and new business rates. And we expect that to continue as we further execute on the growth form.

Thomas J. Wilson
Chairman & CEO

So Matt's comment is appropriate around 90% of the business of the Allstate brand. If you look at the pipeline of where the other brands are, the next one up would be Esurance. Don maybe you can make a comment on that. And Encompass is farther behind in the process, so we will include it [indiscernible] on that.

Don Civgin
President of Emerging Businesses - Allstate Insurance Company

Yes. So on Esurance, I'm actually really proud when you look at the numbers at the underlying combined ratio. The continued improvement over the last couple of years has been strong. In the third quarter, we lowered the underlying combined ratio again by 5.5 points or so over last year. That's a combination of the underlying loss ratio improvement, and a lot of it is expenses. A little over half is advertising, but the rest of it is throughout the system. That's -- the improvement has been good. We're also doing a couple of other things, I think, that are positioning the company, so that we can go back into kind of growth mode. One is we've continued to invest in improving our pricing sophistication, which has helped the loss ratio and positioned us better. We're also taking much better care of our customers, whether it's onboarding or the way we interact with them going forward, we -- our NPS is improving substantially. You don't see that, but you do see retention going up. And in the investor supplement, you can see a pretty dramatic improvement in retention year-over-year. What we don't like at this point is that the policy, the PIF is basically flat. I could argue with the 26% year-to-date decline in advertising. That's not horrible. But the reality is this is our growth vehicle. So I think what we've done now is really position the company to be at a much more profitable, much more attractive level from a profitability point of view. Now we're really expecting to pivot more back to growth. I don't expect us to give up the gains we've gotten on the profitability. But I think the work that we've done that's led us to this point will position us well. And I would expect next year we'll begin to grow the business again, maybe not the 20% or 25% like we were 3 or 4 years ago, but we're going to get back to growth.

Jay H. Gelb
Barclays PLC, Research Division

And my only other question was with regard to the outlook for Allstate's reinsurance protection in 2018. Clearly, the company benefited from the smart purchase of substantial reinsurance protection in the wake of Harvey and Irma, and just trying to get a sense of what your thoughts are going into next year.

Thomas J. Wilson
Chairman & CEO

Right. Jay, obviously, our risk management programs that we've put in place over the last decade served us well, right, because we still made $300-plus million of underwriting income in homeowners this quarter despite the high cats. The reinsurance really was related to Irma in Florida because we have brought down so low there. I think there are still a lot of alternative capital in the reinsurance market. We don't expect to see prices firm up a lot, but we won't know that until we get to next year.

Operator

Our next question comes from the line of Paul Newsome from Sandler O'Neill.

Jon Paul Newsome
Sandler O'Neill + Partners, L.P., Research Division

I have a somewhat related question on the growth potential. Assuming that your growth efforts work, and the reason I think not, how should we think about the tenure impact on the auto and on the home book prospectively?

Thomas J. Wilson
Chairman & CEO

Paul, I just want to make sure I get it right. Do you mean, tenure as in T-E-N-U-R-E or 10-year as in?

Jon Paul Newsome
Sandler O'Neill + Partners, L.P., Research Division

As in the aging of the book and how that changes profitability is...

Matthew E. Winter
President and President of Allstate Insurance Company

Paul, it's Matt. It's a real good question because, obviously, one of the impacts of our profit improvement plan that we executed over the last couple of years in response to the initial frequency spike was that we took segmented rates. And in many cases, not only did that drive out the worst-performing segments, but it lowered our overall new business growth and, therefore, lowered our new business penalty.
But -- it lowered the penalty, but it comes at a huge cost. As we grow, we expect to have that "new business penalty" pick up a little bit. We'll have a lower tenured group coming into the overall book. The difference is, though, we're now priced rate-adequate in all of the segments. We feel very good that we're appropriately priced, and we're moderating it. And we believe the quality of that new business will be quite high. And so we believe that while there will be a lower tenured group coming in and the associated new business penalty, we think it's very manageable, and we think that we're set up perfectly to absorb it and deal with it.

Jon Paul Newsome
Sandler O'Neill + Partners, L.P., Research Division

Great. I guess, my second question relates to the SquareTrade. Any update on moving some of that business from your partners' books to the Allstate's paper?

Steven E. Shebik
CFO & Executive VP

Yes. There were a couple of contracts domestically. The larger of those contracts was transferred to Allstate. So we're taking the underwriting risk. That was in the second quarter. I expect the other contract will transfer towards the end of this year, beginning next year.

Operator

Our next question comes from the line of Sarah DeWitt from JPMorgan.

Sarah Elizabeth DeWitt
JP Morgan Chase & Co, Research Division

Wanted to get your thoughts on the outlook for homeowners insurance pricing following the third quarter catastrophes.

Thomas J. Wilson
Chairman & CEO

Sarah, are you speaking about ours or the industry in total?

Sarah Elizabeth DeWitt
JP Morgan Chase & Co, Research Division

Both. Do you think pricing could go up following all the hurricanes?

Matthew E. Winter
President and President of Allstate Insurance Company

Sarah, it's Matt. It's a good question. I think what we discovered over this year with 2 back-to-back Cat 4 hurricanes and all the associated issues that we've had this year is that our product design and our risk management, our PML work, our reinsurance work, our risk concentration work and our consistent diligence on pricing served us well. So we feel quite good about it. As you saw, we did very well. We had good underwriting income in the quarter despite what was an exceptionally difficult time frame from -- for homeowners. So we don't feel like we have a need to react to what we have seen. We, of course, will continue to analyze it and to ensure that we understand the dynamics and severe weather and that cats and the cat load as appropriate. But right now, we feel like we're in a very good place. Our House & Home products served us very well. The design worked well. We now have about 90% of our new business in that product and about 1/3 of our total book. And we're very pleased with the performance of that during these weather events, not only the cats but the additional weather events that we've had this year. So for Allstate right now, it's pretty much steady as she goes and continue to analyze increased amounts of data as it comes in.

Sarah Elizabeth DeWitt
JP Morgan Chase & Co, Research Division

Okay, great. And then just on Allstate Financial, how should we be thinking about the run rate earnings in that business? In the last 2 quarters, they're running over $150 million of operating income. But prior to that, it was only a little over $100 million. So any help you could provide there would be helpful.

Thomas J. Wilson
Chairman & CEO

Hey, Sarah, it is a good question because it did -- Allstate Financial did have a good quarter. Mary Jane can talk about both the various components of life insurance and then annuity. So I would say the -- while the operating income was good in both of those businesses, we'd still like to do better in terms of return on the Annuities books, so that's still something we have to work on. But we're very pleased Mary Jane could talk about the actual results we had.

Mary Jane Bartolotta Fortin
President of Allstate Financial

Thank you. From an earnings perspective, we'll start with the Annuities. In terms of the Annuities, what I -- what you need to think about it is really the performance-based investments were very strong on performance in the quarter. They generated about a 15% return. So as we look out, we would expect that asset class to generate returns in more in the 10% to 12% range. So when you look at -- think about the annuity line of business, consider that performance-based asset class continuing to moderate down toward a 10% to 12% level. So the levels we have experienced in the last 2 quarters has been higher than we would expect. The quarter also in Annuities benefited from favorable lower contract benefits, favorable mortality. That can tend to fluctuate from period to period, but that did impact the quarter by about $10 million on a year-over-year basis. And in terms of the life insurance, we did experience favorable mortality in the quarter. We have been running better-than-expected. And this, too, mortality can tend to fluctuate from period to period, so you should expect to see the life business earnings come back down as mortality reverts back to an expected level. The Life business and the Benefits business, we run those to a 10% to 12% return target, so you should expect to see returns in that range as we move forward. And as Tom mentioned on the Annuities side of the house, we're continuing to manage that block for long-term economics, and you will see some variability in the results from period to period as that performance-based asset class can fluctuate from quarter-to-quarter.

Operator

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

Amit Kumar
The Buckingham Research Group Incorporated

Two questions, if I may. The first question relates to the discussion on external factors contributing your frequency improvement. If you go back to Slide 5 and look in the trend line, what should we use as a starting point if I was trying to exclude these external factors?

Thomas J. Wilson
Chairman & CEO

Amit, it was -- I think I got it all. It was a little light in terms of the voice coming through. So let me see, and then I'll turn it over to Matt. So the reason we talked about the external factors was not because we thought that, that was a primary driver. We do think that our profit improvement actions, which were broad-based and comprehensive, drove [that in], but it's really about the external environment. The question Jay had raised, which is when you're looking forward to growth, you have to look in the external environment. One is the competitors, which we talked about, where are they in pricing. But the other is where are you just in general frequency trend. And so if general frequency trends are moderating from what we saw in '15 and '16 in terms of percentage increases, that gives us more opportunity to grow without the new business policy that was brought up by Paul.

So Matt, maybe you could touch a little more specifically about the attribution.

Matthew E. Winter
President and President of Allstate Insurance Company

Sure. And let me just point out, Amit, that, that's always true with frequency. It's always a product of both internal and external factors. We always talk about the fact that when we had a spike in frequency, we had -- we attributed it to miles driven, which was a product of the unemployment rate as well as lower gas prices. We have weathered that influences, and you have -- where you are in your own cycle as far as the tenure of your book, what segments you've been growing in and things like that. So I think the way to think about it, if you're trying to figure out how is Allstate doing versus the competitors, look at some of the industry benchmarks. I'd encourage you to look at fast tracks. So the last fast track that came out was the second quarter, 12-month mover. That showed Allstate's year-over-year change in physical damage frequency at about 3 points lower than the industry. So if you think of the industry as a product of external and their own internal factors and you think of us, then we look at that and say, assuming the external factors are a constant, that shows the benefit of the work we're doing on our internal factors such as tenure and quality of the business.

Amit Kumar
The Buckingham Research Group Incorporated

That's helpful. The quick follow-up to that is, I guess, someone else was also asking this question on pricing. Given your commentary regarding, let's call it, the excess margin that was earned this year, do you think it gives you additional room to adjust pricing downwards to generate more growth in 2018?

Thomas J. Wilson
Chairman & CEO

Amit, just to make sure we get the words right, we don't view margin as excess or short or anything of. We thought we earned a good return on our auto business. We think the work we've done has been accurate, and it's fair to our customers, as opposed to excess. And -- but you wouldn't see in our history times when we lowered prices on purpose to reflect short-term swings in frequency.

Operator

Our next question comes from the line of Robert Glasspiegel from Janney.

Robert Ray Glasspiegel
Janney Montgomery Scott LLC, Research Division

Tom, can you either regive or give what your gross catastrophe losses were? What you seated to the reinsurers in the quarter?

Thomas J. Wilson
Chairman & CEO

Gross, we ceded $90 million to our reinsurers in Florida.

Robert Ray Glasspiegel
Janney Montgomery Scott LLC, Research Division

In Florida, nothing in Harvey?

Thomas J. Wilson
Chairman & CEO

Nothing in Harvey. Harvey was right at the cusp. We had $500 million retention. We get $500 million. There is nothing to cede to them.

Robert Ray Glasspiegel
Janney Montgomery Scott LLC, Research Division

So your reinsurers have done pretty well with you over -- and that's why you said you don't think your reinsurance cost will go up that much? Is that a fair characterization?

Thomas J. Wilson
Chairman & CEO

Hard to tell what happens to the reinsurance market. It was certainly, we're one of the largest purchasers, but we're not the biggest driver. As you know, in Harvey, there are a lot of commercial losses that -- variety of other things going on. At this point in the cycle, it's mostly people trying to use things to talk about what they want to happen as opposed to what will happen. We think our reinsurers and our programs have been well compensated. We think it makes sense for us because we carry less capital because of that, and we have less earnings volatility because of that. And so we like the program we have set up. And just, you know this, I'll reiterate it, that we have a very staggered and stretched out reinsurance program, goes 3, 5 years, some of these programs. So any change in pricing in any given year gets muted in terms of its impact in our reported financials.

Robert Ray Glasspiegel
Janney Montgomery Scott LLC, Research Division

Okay. And if I could squeeze one more in. And you -- these were great results of frequencies for the industry. Sounds like it's a little bit better than industry. In retrospect, did you over-sedate the patient in your auto strategy and maybe you should have grown a little bit faster? Or you're comfortable with the -- with where your sort of top line is?

Thomas J. Wilson
Chairman & CEO

Bob, I'm really pleased with the results. I think our team executed extremely well with great precision. I do remember, I think, in our call in the first quarter of '15, we thought we were growing too fast as we were seeking to slow the process. We always seek to please, just give us some time to get back to growth mode.

Operator

Our next question comes from the line of Brian Meredith from UBS.

Brian Robert Meredith
UBS Investment Bank, Research Division

A couple of quick ones here for you. First, I'm just curious, Tom and Matt, did the hurricanes have any beneficial effect on kind of your underlying results, underlying combined ratios, your frequency ex cat, typically? I mean, you've seen it in the past, where typically "there are some declining frequency" during or post the hurricane.

Thomas J. Wilson
Chairman & CEO

It's a question that we always ask ourselves; we look at all the numbers. I would say it's really hard to tell. The best way to get around it really is to look at longer than the frequency and severity numbers over longer than a quarter. So that's why we always talk about homeowners more, say, latest 12 months because we want you to understand that there are fluctuations. It's really hard to tell what happens with claiming behavior, whether somebody doesn't call us because they think we're too busy. We tend to find people do call when they have a problem, so it doesn't normally show up there, but it's really hard to tell.

Brian Robert Meredith

UBS Investment Bank, Research Division

Got you. And then another quick question for you, Tom and Steve. So your stock is trading at a real healthy price-to-book multiple right now, rightfully so given your terrific results. I guess, from a capital management perspective, when it gets to these levels, is there any kind of thought between sending capital back to shareholders via a special dividend instead of share buyback?

Thomas J. Wilson
Chairman & CEO

Let me make a comment on the valuation first, and Steve can talk about how we think about capital and deploying it in our existing businesses for new opportunities and then a return to shareholders. As it relates to the current valuation, I would point out that there are some companies that look like us that have substantially higher book value multiples. So like I wouldn't mind 3 times, and it's also true when you look at the broader market.

Steven E. Shebik
CFO & Executive VP

As you know, we talked about previously, we look at the capital we generate, and we look at how much we need to invest in the business to grow with, which we have talked about for a fair amount in this call. And then we look at opportunities we have in terms of growing it not only organically but inorganically to try and [indiscernible], and SquareTrade is an example of that. Then we look, we have to pay our dividends, obviously, and we think it's an important part. So what's left? We look and say, what do we do with that? And generally, we don't want to hold it for a long period of time. It depresses our returns, so we give it back to shareholders. We find a use to put back in the business.

Thomas J. Wilson
Chairman & CEO

And we had not found special dividends to be an attractive way to do that. We tend just to buy shares back. Yes, if the world changed and for some reason, whether it was tax policy or something else, that led us to do it another way, it's our objective to give it to shareholders in the way that best meets their needs.

Operator

Our next question comes from the line of Meyer Shields from KBW.

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

Tom, I'm trying to clarify just my understanding of the strategy in terms of the speed of incorporating things like benign frequency into pricing. Is there any imperative to do that maybe more frequently with smaller moves because you also talked about pricing stability?

Thomas J. Wilson
Chairman & CEO

Meyer, we're always looking at pricing at an extremely granular level. Matt can give some points about it. But I would say we think of our business like a machine, and it operates at an extremely granular and proactive way on both frequency and severity. Matt can talk about what they've been doing on frequency, specifically.

Matthew E. Winter
President and President of Allstate Insurance Company

Yes. Thanks for the question. Look, it's always our objective to keep pace with changes in frequency and severity and overall loss costs in a way that maintains our margins and is as least disruptive to our customers as possible. When you have a large spike in either frequency or severity, our belief is we have to maintain margins and get back to rate adequacy as quickly as possible. And so we will take larger rate amounts as necessarily and as justified when we have to maintain those margins. We're right now in a much different rate environment than we were in '14 and '15. It appears that we're able to take, what I would call, maintenance rates, inflationary normal, inflationary damage cost and severity increase rate adjustments, and that tends to be smaller, less disruptive and does less damage to our retentions. And that is our objective whenever we can.

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

Okay. It's the second question, also Tom, in you prepared comments, you talked about the main competitors to Allstate being State Farm, Nationwide, Farmers, is that true both on the business that you win and the business that goes to competitors?

Thomas J. Wilson
Chairman & CEO

I'm sorry, I missed the last point there, Meyer.

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

I'm sorry. When you talked about the most significant competitors to the Allstate brand and the exclusive agency distribution channel, are those the companies that both provide your wins and take some business from Allstate? Or the mix is opposed to, category is different?

Thomas J. Wilson
Chairman & CEO

Oh yes, good -- really good question. So when we look on the 4 square, we look at people's market share in that segment relative to their overall market share in the whole industry. And so in that lower left branded, local advice State Farm, Farmers, Nationwide and Allstate, we have a higher indexed market share than we -- our overall market share. And that is also true with respect to who we get business from and who we lose business to in that segment. And Matt's team tracks that. We track it by state, by risk class. We look at our quote rates by competitor. We look at our close rates by competitor. And yes, in fact, State Farm, as you would expect, in that lower left, is the other large significantly branded business, not that Nationwide and Farmers are not, but they're the biggest, obviously, in that sector. And there is no due impact what happens to us. If you look at their results, they -- not they need to -- they've been losing money in auto insurance. And so we think we're well positioned to grow in the business. It doesn't mean that GEICO, Progress and everybody isn't trying to get the same customers. I'm not trying to finally make strategic [indiscernible] on a street corner. But the customer value proposition and the advertising tends to drive increased allocation in those specific segments. But we compete with Progressive, GEICO for those customers as well. So I don't want to act like they're the only people, but we just over-index a little bit in that segment. And that's why we believe we have an ability to grow in that segment. It's not just GEICO and Progressive we have to beat, but it's Farmers, Nationwide, Progressive and the hundreds of other small regional carriers that are out there [indiscernible] we can get [indiscernible].

Operator

This does conclude the question-and-answer session of today's program. I'd like to hand the program back to Tom Wilson for any closing comments.

Thomas J. Wilson
Chairman & CEO

So let me just close with a couple of comments. First, we're going to stay focused on achieving balanced operating performance. And looking at our 5 operating priorities. We'll stay proactive, disciplined, make sure we create economic value for our shareholders.

So thank you all for participating, and 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.