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The Allstate Corporation NYSE:ALL

FQ2 2010 Earnings Call Transcripts

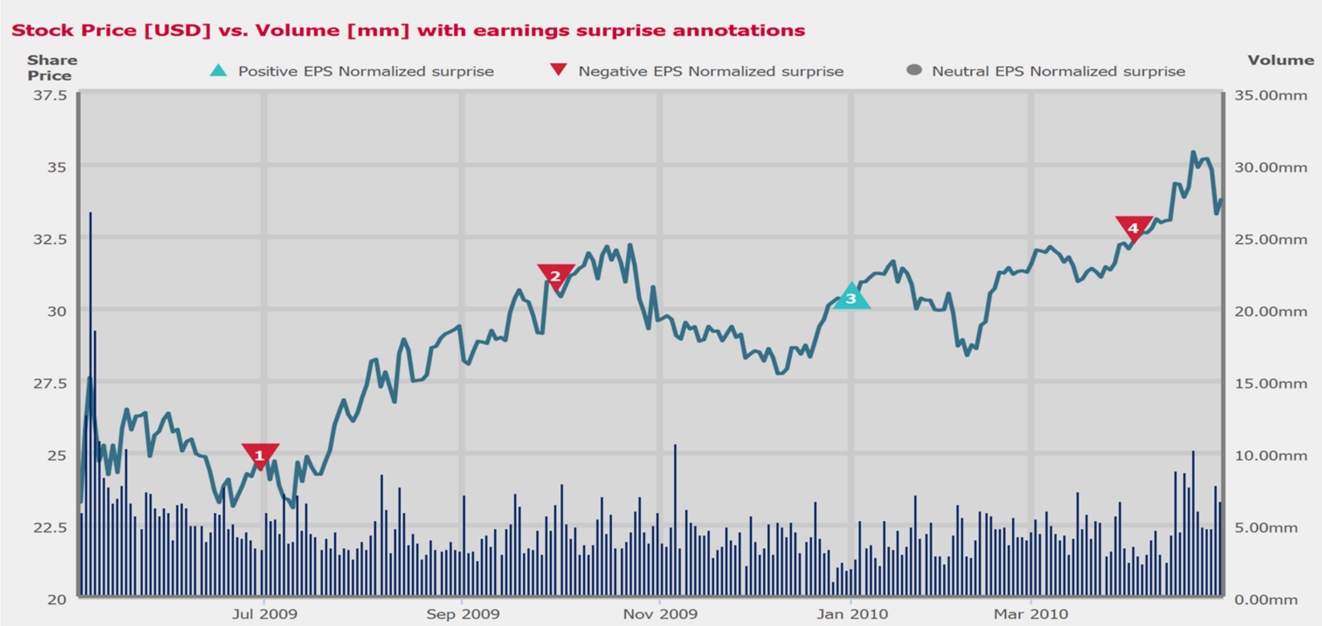
Thursday, August 05, 2010 1:00 PM GMT

S&P Capital IQ Estimates

	-FQ2 2010-			-FQ3 2010-	-FY 2010-	-FY 2011-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	0.72	0.81	▲12.50	0.80	3.32	4.16
Revenue (mm)	6512.11	6513.00	▲0.01	6702.33	27209.39	27418.01

Currency: USD

Consensus as of Aug-05-2010 1:03 PM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ2 2009	1.11	0.55	▼1 (50.45 %)
FQ3 2009	1.01	0.99	▼2 (1.98 %)
FQ4 2009	1.01	1.09	▲3 7.92 %
FQ1 2010	0.88	0.69	▼4 (21.59 %)

Call Participants

EXECUTIVES

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Former President of Allstate Protection - Allstate Insurance Company

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Presentation

Operator

Good day, ladies and gentlemen, and welcome to The Allstate Corporation Second Quarter 2010 Earnings Conference Call. [Operator Instructions] I would now like to turn the conference over to your host, Mr. Robert Block, Vice President, Investor Relations. Mr. Block, you may begin.

Robert Block

Thanks, Matt. Good morning, everyone, and thanks for joining us today for Allstate's Second Quarter Earnings Conference Call. This morning, Tom Wilson, Don Civgin and I will give some commentary in our results, and then we'll open it up for your questions. Assisting us in the Q&A session will be Judy Greffin, our Chief Investment Officer; Joe Lacher, President of Allstate Protection; Sam Pilch, Controller; and Matt Winter, President of Allstate Financial.

During the Q&A session we ask that you limit yourself to a question and a follow-up so that we can hear from as many of you as time allows. After the market closed yesterday, we provided our earnings press release, investor supplement and filed our 10-Q for the second quarter 2010. This morning, we also posted a presentation that we will be using today. All of these documents can be found on our website.

As noted on Slide 1 of the presentation, this discussion may contain forward-looking statements regarding Allstate's operations and actual results may differ materially. So refer to our Form 10-K for 2009, Form 10-Q for the second quarter and our most recent press release for information on potential risks.

Also, this discussion may contain some non-GAAP measures for which there are reconciliations in our press release and on our website. This call is being recorded and replay will be available shortly following the completion of the call. Christine Ieuter and I will be available to answer any additional questions you may have after this call ends.

Now let's get underway with Tom Wilson. Tom?

Thomas J. Wilson
Chairman & CEO

Good morning. We appreciate your continuing interest in Allstate. I'll begin with an overview of our results for the quarter. Bob will then discuss the details of the business unit results, and Don will cover our investment performance and balance sheet position. Then we'll get to your questions.

Our results for the second quarter are continuation of the positive momentum we established over the last year and a half despite the ever present volatility of weather in the financial markets. We generated $441 million of operating income or $0.81 per share, a sizable increase over last year's results, reflecting lower catastrophe losses as you can see on Slide 2. You'll remember that last year, we had record second quarter catastrophe losses.

In Allstate Protection, the combined ratio was 96.8, 3.2 points below the second quarter of 2009. The underlying combined ratio of 88.1 remains in line with our annual guidance of 88 to 90. Allstate Financial continue to take positive steps towards its goal of raising returns while repositioning the business.

Operating income was $125 million for the quarter. Investments generated strong returns, reflecting our risk mitigation and return optimization strategies. Net investment income flattened sequentially as portfolio yields stabilized. Valuations improved as declining interest rates more than offset wider credit spreads.

We produced $145 million in net income, a decline from last year's second quarter results due primarily to realized capital losses from our risk mitigation programs, which were more than offset with unrealized gains in the portfolio. We ended the quarter with $400 million net unrealized gain on the investment portfolio versus unrealized losses of $849 million three months ago and a $7.3 billion unrealized loss one year ago.

As a result of all of our efforts this quarter, our book value per share increased 3% from March 2010, almost 8% from the beginning of the year and 19% from Q2 2009. We remained focus on our priorities for 2010, and our operating results show continued progress in executing our strategies.

Our Auto business continues to generate excellent returns. While many of our standard Auto growth initiatives are working, they're not generating enough volume yet to increase overall policies enforced. Our new business trends are improving as we continue to refine our product and price offerings to our targeted customer segments. We feel particularly good about our cross-line sales efforts as Bob will discuss.

Offsetting these positives is a reduction in the size of Encompass and our California Auto business, as well as lower growth in Florida. Homeowners' profitability remains a challenge as catastrophe losses remained above average this quarter, though not as high as last year. We have made progressed and remained focused on improving returns in this line of business. Consequently, we will continue to see price increases, tightened underwriting standards and work to build more sophisticated risk management tools.

As you know, our strategies to improve the returns in Allstate Financial include reducing the spread-based business by exiting some distribution channels, focusing on the Allstate customer base and expanding our work side business. We made good progress in all of these areas.

Looking forward, we must stay focused on our goal to generate long-term profitable growth. We will achieve this by retaining more of our existing customers while continuing to increase new business. Our focus on improving customer loyalty is designed to do that, which is to drive improvements in retention and referrals. Our customer loyalty index results, however, slipped slightly this quarter as did those of the entire industry. Focusing on the customer, however, remains the key strategy in our efforts to grow profitably. Therefore, we will continue to introduce new products, new prices and new marketing support to help us win at the local level.

With that, let me turn it back over to Bob for a more in-depth look at the operating results.

Robert Block

Thanks, Tom. On Slide 3, we show the premium and underwriting income trends for Property-Liability. For the quarter, we experienced modest top line growth while maintaining our underlying margins within the range of our annual outlook.

Total net premium written increased slightly to $6.64 billion from the second quarter 2009. The increases in Allstate brand Auto and Homeowners net premium written were partly offset by declines in our Encompass brand. Allstate brand Standard Auto net premium written grew 1.9% in the quarter. Increases in the average premium driven by rate actions taken over the last few quarters more than offset the decline in overall unit volume.

New business volume increased 0.4% quarter-over-quarter, and was up 14.3% if you exclude Florida and California, as profit improvement actions in those two markets mask the positive results of growth initiatives targeted at our customer segments, which are gaining traction in the local market level. For example, our efforts to cross sell autos to our monoline property customers is progressing nicely. Both the close rate and the quality of the business is better than average. We are exploring more ways to improve the effectiveness of our cross-sell processes.

Auto retention remained level at 89%, after increasing slightly in the first quarter. So while new business volume increased, there was not enough of an increase to overcome the business loss at renewal. Thus, policies in force fell 1.7% from June 2009 levels and 0.3% from March 2010.

Allstate brand Homeowners net written premium of $1,565,000,000 grew 2.2% quarter-over-quarter. This was driven primarily by an increase in average premium of 6.1% as rate actions work into the book of business. We expect to continue to see great changes where necessary to improve the returns over time.

The combined ratio for the quarter was 96.8 all in, an improvement from the second quarter 2009 of 3.2 points. The underlying combined ratio, which excludes catastrophe losses and prior-year reserve re-estimates, remains within the range we established for the year at 88.1.

Just a few words on catastrophe losses for the quarter. In the second quarter, we experienced 30 events estimated at $758 million or 11.6 points, almost matching the record quarter we had last year. Partially offsetting the current quarter's losses were favorable reserve re-estimates of $83 million for prior years and $39 million for catastrophe losses that occurred in the first quarter of 2010.

So in total, we had $636 million or 9.8 points of catastrophe losses in the quarter, an improvement of 2.7 points from the second quarter 2009. In addition to the $83 million of prior year reserve re-estimates for catastrophe losses, we had another $67 million of favorable reserve re-estimates. These adjustments were primarily due to favorable severity trends in auto physical damage.

On Slide 4, we get a look at auto loss cost trends, which in total were within our expectations. Both bodily injury and property damage reported frequencies increased over the second quarter 2009, 4.2% and 1.9%, respectively as shown on the charts on the left side of the page. Offsetting these increases were decreases in paid severities for both coverages of 1% to 1.5%, displayed in the upper right hand corner.

These results, when coupled with the loss costs results of the other Auto coverages and an increase in earned premium from rate increases taken over the last several quarters, produce the combined ratio slightly better than the prior year's quarter and one that is consistent with our experience over the last year and a half.

Slide 5 has similar loss costs information for Homeowners, where profit improvement actions continue as catastrophe loss activity remained above average offsetting a moderation in non-catastrophe loss costs trends. In the top two charts, we show our frequency and paid severity results, excluding catastrophe losses. Frequency continues to run ahead of prior year, while paid severity trends remained in negative territory relative to 2009.

In the lower left hand corner, we show Homeowners' catastrophe losses as a percentage of Homeowners earned premium. Catastrophe losses in the second quarter 2010 equate to about 35 points of Homeowners' earned premium versus an average since 1992 of around 29 points.

And finally, in the lower right, the combined ratio came in at 104.4 for the Allstate brand, an improvement of almost 12 points from last year's second quarter. The loss ratio, excluding catastrophe losses, was 47.9 compared to 49.3 for the second quarter 2009, 1.4 points better. Bringing this line of business to acceptable levels of profitability remains a priority.

Shifting to Allstate Financial. Slide 6 provides a snapshot of the second quarter's results, which indicates solid progress being made. Premium and deposits, totaling just over $1 billion, declined substantially from the second quarter 2009 as we shift the focus to underwritten products and away from spread-based business. Underwritten products, interest-sensitive life, traditional life and accident and health, grew 12% over prior year while annuity fell about 60%.

Operating income for the quarter was $125 million or $60 million better than prior year. This increase was driven primarily by lower DAC [deferred acquisition costs] amortization and improved investment spread, offset somewhat by lower benefit spread. There were some one-off items included in these results, but they netted out to a favorable after-tax effect on operating income of about $10 million to $15 million.

For the quarter, Allstate Financial had a net loss of $107 million as we had $226 million of after-tax in DAC realized capital losses, or $353 million on a pre-tax basis. Taking a closer look at those pretax realized losses, $179 million related to derivatives, primarily designed to protect against rising interest rates, so there was an offsetting economic benefit with higher portfolio valuations. The $200 million of impairment and change in intent write-downs were $29 million less than the second quarter 2009. And sales at a gain of $18 million were $145 million less than last year.

Now I'll turn it over to Don.

Don Civgin
President of Emerging Businesses - Allstate Insurance Company

Thanks, Bob. First, I will cover our investment performance for the quarter, and I'll finish with a quick recap on our capital position. As we have in recent quarters, we remained focused on continuing to effectively manage risk and return in the portfolio, and our proactive approach served us well again this quarter.

On Slide 7, you can see the allocation by asset class for the Investment portfolio, which totaled $99.9 billion. Fixed income securities remained the largest portion of the portfolio at 82%. We remain along corporate credit as we have in previous quarters. Consistent with our outlook, we reduced our allocation to municipal bonds by $1.6 billion and commercial real estate by $966 million in the quarter. And we benefited by lowering the allocation to equities in the first quarter as the market declined and maintained that underweight position throughout the second quarter.

Slide 8 provides trends for investment income and realized capital gains and losses for the last six quarters. Focusing on the top section of the slide, in total, net investment income fell 5.3% from prior year, but was almost leveled with Q1 2010. We remain in a defensive position relative to the interest outlook, with reinvestment proceeds being placed in shorter duration instruments and derivatives being used to manage the overall duration of the portfolio.

Shifting to the bottom of the slide, realized capital losses in the quarter amounted to $451 million pre-tax compared with $328 million gain in Q2 2009. Total write-downs from other-than-temporary impairments were comparable to prior year at $306 million, with credit-related impairments trending down by $52 million compared to Q2 2009. The gain from sales was $118 million less at $145 million.

The big swing category this quarter was on derivatives. Instruments used primarily to protect the portfolio valuation from the negative effects of rising interest rates and equity market declines. For this quarter, we had $310 million in losses versus a gain of $419 million in last year's second quarter. While we recorded a loss this quarter, the economic offset of these transactions was positive as the valuation of the portfolio improved as interest rates declined.

This improvement in valuation is shown on Slide 9. We moved from unrealized loss position at March 31 of $849 million to a gain of $400 million at the end of the second quarter. In total, fixed income securities improved by $1.7 billion, with credit spreads widening during the quarter. This increased valuation is attributable to declining interest rates, which more than offset our realized losses on derivatives. Equities fell $483 million from March 2010, after-tax and DAC or unrealized position improved from a small loss to a gain position of $328 million.

Finally, on Slide 10. The combined impact of our income and the improvement in unrealized capital gains resulted in an improvement in capital to $18 billion, driving book value per share of 3% from March 2010 and 19% from June 2009. Assets at the holding company remained at $3.1 billion, and while our estimated statutory surplus declined slightly to $14.9 billion, we did take a dividend of $200 million from the insurance company up to the holding company.

All in all, it was a solid quarter. We continue to proactively manage our portfolio and our focus on executing on our strategic priorities. With that, I'll turn it back to Tom.

Thomas J. Wilson
Chairman & CEO

Let me do a quick recap before we go to questions. We delivered another profitable quarter despite the weather and volatile investment markets, the result being that we built capital and increased book value per share. Underlying combined ratio outlook for 2010 remains at 88 to 90.
Auto continues to produce strong returns. Both Homeowners and Allstate Financial showed continued improvement this quarter. Investments posted solid returns as we continue to proactively manage our portfolio, and we continue to take actions designed to grow our business profitably. So let's open it up for questions, Matt.

Question and Answer

Operator

[Operator Instructions] Our first question is from Keith Walsh from Citi.

Keith F. Walsh
Citigroup Inc, Research Division

First question around Auto. We're seeing a few carriers out there offering one-year policies to boost retention. Maybe if you can just talk about the impact, if any, this is having on the market?

Thomas J. Wilson
Chairman & CEO

Keith, this is Tom. I'll give you my view and then Joe may have a view. I don't see it really having any impact in the market right now.

Joseph P. Lacher
Former President of Allstate Protection - Allstate Insurance Company

Yes, similar thought, Keith. It's an opportunity. It's the same trade-off we all deal with all the time, and we're not seeing it drive enormous shifts.

Keith F. Walsh
Citigroup Inc, Research Division

And then the second question on the Homeowner side. How far along are you guys in optimizing your geographic risk? And I guess I have a personal interest in this as you guys dropped me last year in Queens, New York. Your agent told me there was hurricane risk there so...

Thomas J. Wilson
Chairman & CEO

Well, as you know, we've gotten a lot -- I'll give you a longer-term perspective, Keith in where we've gone from and Joe might want to talk about where we're headed to, because your question is sort of a macro question and then obviously, a regional and local question on geographic concentration of risk. As you know, we've been working hard to reduce our catastrophe losses in particular since 2006. We're down about 1 million policies in Homeowners as we've exited things like earthquake insurance, high-risk zones, including New York. Of course, there's the 1938 hurricane that went across Long Island, which has happened because dramatic flooding in New York and lots of severe damage. So we are getting smaller around the Coast, and we'll continue to get smaller around the Coast until such time as somebody comes up with a way to predict and price for hurricane risk. Joe might want to talk some about the work he is doing on improving Homeowners at a more micro level than the macro answer I just gave you.

Joseph P. Lacher
Former President of Allstate Protection - Allstate Insurance Company

Keith, it's a good question, and one we're working on. I think there's several fronts we've got to deal with on this issue. One, Tom was talking about was clearly peak risks on big cats, hurricane and earthquake. Another layer is just the returns we've got in those areas, and the third is how do we deal with, what a lot of times we'll call non-model cats, meaning things other than hurricanes and earthquakes. Returns, they are -- sometimes that's a function of adjusting the coverages. Sometimes it's a function of rate. And then just profitability in the underlying book overall. We've got big pockets of the country where we feel terrific about things right now. We've got other pockets that are one or two renewal cycles away from where we need them to be, and we've got other pockets that are further away. We're banging away at all of those items and making significant progress. I think you can see improvements in the underlying combined ratio in Homeowners. You can see impacts on the written rate that we're taking relative to loss costs trends. Then we're going to keep pounding away. We believe this is a business where you can make an appropriate return on the core piece of it. We've got more angst about the aggregate cat exposures, but we think that there are ways to improve the position, and we're going to keep pounding our way at those. It's just slower and more arduous process than we or I think anybody in the industry would like, but it's an achievable one. And by the way, if you want to talk about your auto policy, I'm available afterwards.

Operator

Our next question is from Bob Glasspiegel from Langen McAlenney.

Robert Ray Glasspiegel
Janney Montgomery Scott LLC, Research Division

Just a question on your comment in your press release, actions to improve Encompass profitability negatively impacted results. Were you talking about top line or bottom line, and maybe you could put us up to speed on what the actions within Encompass that you're taking there.

Joseph P. Lacher
Former President of Allstate Protection - Allstate Insurance Company

Bob, we had some programs inside of Encompass over the last couple of years, and we've been working on remediating them, which broaden Encompass' appetite out of its core area of bundled or package, auto and home for a higher-end segment of the market. And we went into a much more standard and near standard monoline segment of the auto marketplace. We expanded distribution there, and we got ourselves a little out ahead of our skis and got some profitability problems there. As we've been working on that to fix it, a lot of what you're seeing is an impact in our comments were around top line. We've got to get some of that roll some of that business off or remediated or move it from a pricing perspective. We've got to take some actions with some of those more monoline auto distributors and that's got top line pressure on that business. We're trying to be as laser focused as we can on that, but sometimes as we're shooting at those problem areas, it's rippling a little bit into what I would say is our core wheelhouse and we're trying to mitigate that issue. But it's very much an issue around the profitability that we've got to deal with before we can get the core healthy and growing again.

Robert Ray Glasspiegel
Janney Montgomery Scott LLC, Research Division

You'd made a reference about cat risk management actions paying off, I think, one of the metrics that you're looking at in the quarter that made you happy that you made some progress.

Thomas J. Wilson
Chairman & CEO

Bob, I don't think we meant to imply that we thought we had Homeowners fixed and that on a non-model cat basis we're making money, because you look at the combined ratio that's above 100, it doesn't even give you return at all, much less and adequate return on your capital. And that business, given its volatility, requires a lot of capital. So we have a lot of work to do. I think Joe was just pointing out, if you look at the trends and the delta, the combined ratio is down from where it was last year. Not where we want it to be, but it's down. I think that's the progress he's talking about.

Joseph P. Lacher
Former President of Allstate Protection - Allstate Insurance Company

Yes, so x cat loss ratio had over a point of improvement. We obviously had improvement in total, but that's some difference in aggregate cat volume. And I think as we look at the P&L stats that we track, we're seeing continued improvement there. So yes, it wasn't an attempt to suggest that we were at victory. I think, Bob, your question was what are we seeing in the quarter that were showing improvement as opposed to if we'd achieve victory.

Operator

Our next question is from Vinay Misquith from Crédit Suisse.

Vinay Gerard Misquith
Crédit Suisse AG, Research Division

The first question is, could you provide an update on the actions you're taking to improve retention and sales, and what impact that you see it may have on the profitability? Would higher discounts negatively impact profitability? And then associated with that, we've seen two comparators growing sales, of course, one quite significantly. But could you help us understand their growth versus your growth? And is this just a question of price in the end?

Thomas J. Wilson
Chairman & CEO

Let me maybe take a little shot at it, and we'll just tag team it here. In terms of retention, as we said, retention was flat this quarter. Customer loyalty, whether it's statistically significant or not, was down a couple of tenths the way we measure it. So the things we are -- but it bounces around from quarter-to-quarter. The things we try to do to drive retention and referrals are obviously treating people well, having good level of interaction. The way when we measure our interaction, we're actually doing better now than we've done in the past. The way we are -- that are making that real is if people do not do a good job for our customers, and we have them measured down to individual agencies and individual claim adjusters then they no longer have the opportunity to be part of our team. So in addition to that, we have a number of positive things we've done like put it into the 401(k), so that our 36,000 employees, part of their retirement is based on getting customer loyalty up. And then we have a number of other, I'll call them, operational programs in terms of how to explain the premium changes, all the things we do every day and the millions of calls we get to make sure we do a better job there. The high discounts that you're referencing really aren't driven as much towards retention. We don't have a retention-based pricing model as you would see states fund does. Those are around the cross-line sales. And so Joe may want to make a separate comment about how that is a twofor in terms of driving retention. And then I don't think we can comment on other people's growth. I think you can look at what we have. We're up 14-plus percent if you exclude a couple of places. That said, you can't exclude a couple of places in total because we're supposed to grow in total. We think we're making conscious decisions to do what's right overall. But I can't speak for why other people are growing. Joe, maybe you want to talk some about the discounts and the other things you have in mind.

Joseph P. Lacher
Former President of Allstate Protection - Allstate Insurance Company

Yes, a couple of different points on it, Vinay. Your overriding question at the end was just about price. I don't think, and our data suggests and a lot of customer insight suggest, that price is important. But people don't make buying decisions solely on price. If you're fundamentally out of whack on pricing, that's an issue. But if you're in the game, there's other things that folks think about. So we're focusing on a full breadth of those. Sometimes that's product breadth, sometimes that's ease of access, sometimes it's the customer service that Tom was talking about. It's a lot of things, and we do well and are working on improving a lot of those. The strength in Your Choice Auto, the ability to have a more effective homeowners product and be able to bundle that, the ability to let discounts from multi-line customers interact drives increased retention and drives increased customer satisfaction. And then in some cases, there are some interplay that we find in loss ratio, relative to those items. As you take your question on discounts, if you look at one individual item, sure. If we sell the same customer and we didn't have a discount before and we do have a discount now, that obviously reduces profitability. The issue is isolating that one item without looking at everything else that sort of works underneath it. And I guess the best I can give you without providing competitive intel is we're not moving off of our combined ratio outlook, the 88 to 90. So what we're doing sits inside of that range, so that may help you get a sense of what that's worth.

Thomas J. Wilson
Chairman & CEO

Vinay, there's one other comment you might want on growth. You didn't ask about advertising. But I think when you look at growth, you also need to look at advertising. And oftentimes the Street looks at distribution channels and relates that to growth as opposed to the entire way you go to market, which includes your distribution channel but also includes the amount of advertising you do. Obviously, some channels like direct require more advertising and can support more advertising because of their economic structure. But also larger sizes can support a fair amount of advertising. So you see us continue to do more advertising. We've changed our advertising in this quarter. It is, I won't say a war, but it's pretty close to escalating. We continue to step up. And you'll see our advertising last year, we did a lot of price of shop and save. We did that because we felt we were being viewed as too high priced relative to others because of our silence and not because of where we actually were. So last year, we did a lot of shop and saving, say $500 or $350 by switching to Allstate. This year, you'll see us shifting more to value, which is the new component we've added to our advertising program, which may adds is dollar for dollar, and nobody protects you better than Allstate. That has a price message embedded in it. But it's really, to Joe's point, it's about price and the value you get from it. You'll see our ads also target -- this set of ads targets a younger group, whereas the continuation of our Dennis Haysbert initiative is targeted to the broader brand positioning.

Vinay Gerard Misquith
Crédit Suisse AG, Research Division

My second question was on the capital. This was the first quarter we saw our dividend being paid up to the holding company. Does that indicate management is more comfortable with the capital of the operating subsidiaries? And in looking at the capital versus the FAs, would premium to surplus be a fair metric? And would you be holding more capital now versus the past since you've gone through a rough period over the last couple of years?

Thomas J. Wilson
Chairman & CEO

Well, Don will take that, but I'm not sure, Vinay, if that's really one question or three?

Don Civgin
President of Emerging Businesses - Allstate Insurance Company

Vinay, first of all, I think the fact that we took a dividend from the insurance company up to the holding company of $200 million is an indication that we are getting more comfortable. So I would never say never, but it's nice to return back to, kind of, the tradition of the insurance companies providing capital for the parent company. So yes, I think it does indicate an increasing level of comfort. As it relates to the level of capital we want to hold, I think we are still comfortable, very comfortable with the level we have at the parent. And I would still argue that this is an environment where having a dollar too much is less painful than having a dollar too little. So we'll continue to re-assess that number over time, but we're quite comfortable with the level today.

Operator

Our next question comes from Matthew Heimermann from JPMorgan.

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

Could you just expand on the conversation or just expand on your comments with respect to California and Florida versus the rest of the country? And in particular, I'd be curious if maybe you can talk about differences in PIF trend as well as maybe differences in the rate filings between the rest of the world and those two states?

Thomas J. Wilson
Chairman & CEO

Yes, I'll do that. And I'm going to, sort of, balance, trying to help you with that and competitive intel, so I'm not going to give you everything you're looking for, I'll apologize on the front end. California and Florida had some pretty high new business levels for us last year and have lower new business levels this year for slightly different reasons. California, we'd backed off somewhat just because that's historically a marketplace that can be challenging from a profitability perspective. We feel okay about where our numbers are. They're now -- and we're trying not to let it get into an overheated spot, so some of the growth there has just slowed somewhat, the new businesses slowed. Florida, we've got a little bit of a different spot. We're seeing some profitability challenges there, we're responding to those challenges. They're driven with some underlying PIP and BI trends that we think are heavily environmental, and we're working on combating those trends, but it is a spot where it causes some profitability angst and we're responding to that, which also causes, perhaps a bigger decrease in new business and it's more substantive.

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

And then with respect -- I mean, are the retentions dropping in those states too?

Thomas J. Wilson
Chairman & CEO

The retentions are holding all right in those spot. I'm going to try not to give you too much precision on them. It's a bigger issue around new business. I'd expect in Florida, where we're going to take more aggressive actions, we may see that move a little bit.

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

And then if we just wanted to think about -- and I don't know stat you're comfortable giving on this, but I'd just be curious if you look at the country, maybe how many states are you seeing positive? PIF growth versus states, where maybe it's more of a status quo and then states where it's dropping? I know the size of state will vary, but I'd just be curious target number.

Thomas J. Wilson
Chairman & CEO

Let me try to give you this picture, which is a little bit different than what you're asking for. x Florida and California, I think we saw a new business up over 10% across the rest of the country. So when you track the relative levels of new business, you can see that those are driving the new business trends we're seeing. Other than California and Florida, the aggregate's up 10%.

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

Is it fair -- is the retention in the rest of the country higher than Florida and California?

Thomas J. Wilson
Chairman & CEO

I'm trying to think through it. I don't believe it's meaningfully different.

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

And then if I could sneak two-numbers questions, hopefully, that are quick. One is just the underwriting tax rate in the quarter looked -- the tax rate on P&C underwriting looked high? And then also, just curious with the underfunded pension, whether you have any cash contribution requirements in 2010 and 2011?

Thomas J. Wilson
Chairman & CEO

Maybe you can follow up with Bob on the underwriting the tax rate you're talking about. I don't understand why that...

Robert Block

Exact -- it's the investment in the tax.

Thomas J. Wilson
Chairman & CEO

More taxable income in investment? As you know, we've been showing...

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

I was just looking at the underwriting only, but I'll follow-up, that's fine.

Thomas J. Wilson
Chairman & CEO

We'll get back to you on that one.

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

And then the pension?

Thomas J. Wilson
Chairman & CEO

The pension fund, we continue to put cash into the pension fund whenever we needed to keep it properly funded. We put cash in last year. I'm sure we will definitely put in cash this year, and just to make sure, part of it depends on investment results. But it's not a major driver of operating income of one way or the other in terms of how much cash we put in.

Operator

Our next question comes from Meyer Shields from Stifel, Nicolaus.

Meyer Shields
Stifel, Nicolaus & Company, Incorporated, Research Division

I want to start with a question on Allstate Financial, it had a good quarter. But as I understand it, two of the core strategic initiatives are to increase sales to the Allstate channel and to focus much more on underwriting spread or vantage spread than investment spread, and neither of those seem to be showing up in the quarterly results. So I was hoping that, again, Matt, talk about that a little?

Matthew E. Winter
President and President of Allstate Insurance Company

This is Matt, Meyer. Well, actually I think they did show up in the quarterly results. The underwritten products, which is as Bob said, interest-sensitive life, traditional life and accident and health actually grew 12% over a prior year. The drop that you saw in premium and deposits was on the annuity side, which fell about 60%. So I think we did see the exact growth, that we refer to our strategic prong -- two primarily strategic prongs are, as you said, to increase underwritten products and de-emphasize spread-based products, number one. And from a distribution channel perspective, to focus on the Allstate agencies and the Worksite division. And both of those are the areas we saw growth in, and the de-emphasis of the spread-based products, as Tom mentioned in his remarks, as you know we reported last quarter, that we exited the outside bank and broker-dealer channel, which was almost exclusively a spread-based product channel for us that had the result of immediately decreasing the amount of spread-based business that was being put on the books. So maybe you can tell me if there's something else that you're looking at that would imply something differently.

Meyer Shields
Stifel, Nicolaus & Company, Incorporated, Research Division

I guess, what I was looking at, in terms of the distribution is that premiums and deposits were down almost 10% in Allstate agencies, but flat in independent agents? And the profit in the quarter came -- seems to come more from interest spreads than benefit spreads.

Thomas J. Wilson
Chairman & CEO

The second piece is going to be a transition, right? I mean, the second piece is, we had a large portion of our profitability has always been generated from spread-based. So just by the fact that we're reducing the size of the balance sheet there, it will take a while to come down, Meyer. So you can look at the size of the balance sheet and that should come down. I don't think you should expect -- the accounting in that business is lot like Mr. Coffee. You pour it all in at the top and it kind of comes out really slowly. So changing the mix of business takes a while for it to come out a different way. Matt, I don't know if you have any other insights into the...

Matthew E. Winter
President and President of Allstate Insurance Company

Well, I think I now see what you're looking at. You're looking at the part of the breakdown on premium deposit by distribution channel, where you show the drop in Allstate agencies from 542 last quarter to 523. But that is a conglomerate that includes spread-based products, and so the drop there was in the spread-based products and the pick up was in the underwritten products.

Thomas J. Wilson
Chairman & CEO

And if I remember it correctly, I think we had a big bank promotion last year. So I think we did a lot through the bank in the agency channels.

Matthew E. Winter
President and President of Allstate Insurance Company

That's true,, but the comparison I just talked about was from prior quarters, from first quarter this year. So it continues to show the decline in the spread-based products.

Meyer Shields
Stifel, Nicolaus & Company, Incorporated, Research Division

And if I can throw one to Joe, did you have sense in terms of why you've had consistent success in the Allstate distribution channel for auto. Why that information hasn't been as helpful with Encompass as we might otherwise expect?

Joseph P. Lacher
Former President of Allstate Protection - Allstate Insurance Company

I think we made a miscalculation a couple of years ago on how we used some of that data and in the differences in the behavior within the independent agency channel. When you're dealing with an independent agency channel, you can get subjected much more quickly to adverse selection because you're getting a CSR, customer service rep, inside of the independent agency effectively, sometimes spreadsheeting you. And you don't see that the same way in a captive or exclusive agency channel. We put some products and some pricing programs in, and then we expanded our distribution to a lot of auto specialists that got closer to being bucket shops, which were outside of our Encompass staff's normal agency management expertise. And that group tends to exploit that weakness more rapidly than other folks. The combination of those two things put pressure on us, and we just didn't see it as quick as we should have.

Operator

Our next question is from Ian Gutterman from Adage Capital.

Ian Gutterman

Adage Capital Management, L.P.

I just wanted to follow-up on the capital position. I guess, first, the stat capital is lower than it was at the start of the year. Can you talk about why you're comfortable with that because your leverage ratios are just still higher on the stat basis than they were pre-crisis. And then related to that, can you just walk through the changes in the quarter, why even after the dividend, it looks like we were down about $300 million, even though you have positive earnings in both segments?

Don Civgin
President of Emerging Businesses - Allstate Insurance Company

I think the answer to the question on the -- Firstly, you answered to some extent, the first question with the second, which is the dividend coming up. We've been continually building capital in Allstate Insurance Company for the last couple of years. And so the fact that it was a little bit higher doesn't particularly concern me. We'd let it get a little bit high. I think we're comfortable with the levels it's at and felt it was appropriate to get back to the point of taking dividends out on a more regular basis. So that's why we took the $200 million out. We still remain fully capitalized at the Allstate Insurance Company level.

Ian Gutterman
Adage Capital Management, L.P.

But just to follow-up, Don, you were down $500 million in capital sequentially and only $200 million was the dividend. So that's what I was trying to clarify. Why did the other $300 million go down?

Don Civgin
President of Emerging Businesses - Allstate Insurance Company

Because you're looking at the fees, including Allstate Life. That 14.9 is inclusive of what's down at Allstate Life.

Joseph P. Lacher
Former President of Allstate Protection - Allstate Insurance Company

And there was a loss there.

Don Civgin
President of Emerging Businesses - Allstate Insurance Company

Yes, so that's not just Allstate Insurance. It's not just Protection's results.

Ian Gutterman
Adage Capital Management, L.P.

So basic Protection was, the pure Protection was flattish and Allstate Life was down?

Don Civgin
President of Emerging Businesses - Allstate Insurance Company

That's probably about right, yes.

Ian Gutterman
Adage Capital Management, L.P.

And that was because the realized loss on it -- essentially most of the realized losses or other Life companies on a net basis. Life didn't make money, is that right?

Don Civgin
President of Emerging Businesses - Allstate Insurance Company

That's right.

Operator

Our next question comes from Alison Jacobowitz from Bank of America.

Alison Marnie Jacobowitz
BofA Merrill Lynch, Research Division

To the extent you can -- given all the detailed comments you gave, I was wondering if you could talk some about how you're feeling about the total company premium growth, Property and Casualty, obviously, for the second half of the year, given where you are in the Florida, California cycle and the fact that we saw some growth this quarter? And then also to the extent that you can comment, how you're thinking about or have your thoughts changed at all about share repurchase and where you are in that process?

Thomas J. Wilson
Chairman & CEO

Allison, it's Tom. In terms of the overall growth in premiums through the second half, we don't give forecast. We don't do the detailed guidance. All we give is a combined ratio ex-cats and reserve releases. So I think I would give you just the generic answer, which is, we expect to grow the business, we're working hard to grow the business. We don't want to grow the business and throw profitability out the door. And so it's a balancing act and it changes from quarter-to-quarter. Our long-term goal though is, obviously, to grow market share in the Property Casualty business and we've talked about all the ways in which we're trying to do that. In terms of share repurchase, Don said it well, which is we're comfortable where we're at. We're longer capital today than we were at the beginning of the year, which has been one of our objectives for the year. We've always had to track record of giving that money back to shareholders when we think the company no longer needs it. So I think over the last 10 or 12 years, we've generated about $28 billion of capital, about $24 billion of that has gone back to the shareholders in the form of dividends and share repurchases. We have no reason to change our strikes on that one. If we have a good use for the money, we'll put it to use. If we don't, we'll give it back. But at this point, any economic climate, where we are this year, we feel like it's better to be long capital than to be right at the edge given that no one's really yet certain where this whole economy will move.

Operator

Our next question is from Dan Johnson from Citadel.

Daniel B. Johnson
Citadel LLC

On the investment portfolio, can you talk a little bit about what we're seeing in new money yields on the -- let's just focus on the P&C portfolio? And what sort of instruments are we investing in and how is duration changing for new investments relative to the average, please?

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

It's Judy Greffin. In terms of what we're investing in, so as you know, we have reduced our exposure in munis, commercial real estate and to some extent, in equity. And the reinvest has largely been in corporates and government securities. And the yields on the reinvests are generally lower because of the rate environment we're in, generally lower than the overall yield on the portfolio, yet not significantly lower at this point. And I guess, the second part of your question was or the third part of your question, so we're -- for the yields, we're generally lower and then we're putting the money in corporate and government. The duration on the portfolio on the Property and Casualty side, we're trying to keep it right around four years.

Daniel B. Johnson
Citadel LLC

And so when you say that the new money yields are much lower, I want to say off the top of my head, the fixed income average was at around 3.5% after tax?

Judith Pepple Greffin

Former Chief Investment Officer of Allstate Insurance Co. and EVP of Allstate Insurance Co.

On the reinvest?

Daniel B. Johnson
Citadel LLC

No, the average portfolio yield. I'm just pulling up the supplement again.

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

It's around there, yes.

Daniel B. Johnson
Citadel LLC

And are we able to put new money to work for your duration above 3%?

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

No, not generally above 3% at four [ph] duration, but it's around there.

Thomas J. Wilson
Chairman & CEO

Dan, we've also been putting some more money in high yield. So you got look at it, it's not all garbage, right? I mean, obviously, that will be easy to do. I think when you look at investment income as well, you have to look at the mix and you would see that we've gotten more fully invested as we've moved out of the period last year where we stayed with liquidity improving and the overall portfolio, such that we now have of the $100 billion, about $35 billion is available on a quarter. So it's still highly liquid, and it's gotten more liquid as the markets have opened up. And as that's happened, we've taken some other investments, which were highly liquid and move those into higher-yielding securities. So there's a lot of stuff going on under the hood there.

Daniel B. Johnson
Citadel LLC

Is the cash balance included in the taxable fixed-income yield or is that excluded?

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

Cash balance would be excluded from the taxable fixed-income yield, that's my understanding.

Operator

Our next question is from Michael Nannizzi from Oppenheimer.

Michael Steven Nannizzi
Oppenheimer & Co. Inc., Research Division

Just a question on the portfolio. So your sales during the quarter, do you sell mostly geos, revenue bonds or both?

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

So you're asking about the muni portfolio?

Michael Steven Nannizzi
Oppenheimer & Co. Inc., Research Division

Correct.

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

And within the muni portfolio, we are targeting certain areas to sell, but we have sold some general obligation bonds that generally what we're looking at is selling out of things like appropriation debt, healthcare, more along the revenue bond, non-essential service revenue.

Michael Steven Nannizzi
Oppenheimer & Co. Inc., Research Division

So those are the bonds you're selling currently?

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

Those are the bonds that we're selling in the muni portfolio for most parts. I mean, we're selling quite a bit, so you're going to get a broad path of the portfolio as well, but the things that we're focused on where we'd like to reduced are those.

Michael Steven Nannizzi
Oppenheimer & Co. Inc., Research Division

And then how do you think about your ideal exposure to this asset class? Is it as a percentage of the portfolio? Is it relative to GAAP equity and how much weight do you give the tax advantage from these bonds?

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

I think it's a little bit of all of the above, relative to the asset base, as well as relative to GAAP equity, and that's the way we look at, pretty much, the whole portfolio. So munis wouldn't be any different than the rest of the portfolio. Yet, as I think Tom said and I've said in the past, when we decided that we were going to reduce the balance in the muni portfolio, it was largely because we felt that it was just too large component of the Property and Casualty portfolio.

Michael Steven Nannizzi
Oppenheimer & Co. Inc., Research Division

And can you talk a little bit about the GoodForLife program? And I know there have been a few announcements recently and just, kind of, give us an update on how that's progressing relative to your plan and how we should think about that program?

Matthew E. Winter
President and President of Allstate Insurance Company

It's Matt Winter. First as you recall, we just launched the pilot program for GoodForLife in July. So we're in the initial stages of testing the product, testing our distribution. As you know, it's a brand new product, it's a bundled product, it's completely electronic application, it's simplified issue. It's done on a signature pad and so it's a pretty new process and a pretty new product and a pretty new technology. We're actually using a Allstate workplace division admin platform for it. So we have a very deliberate phased-in rollout process, and so we're still in the pilot program. We don't even go to the next regions until September and then we begin the rest of the national rollout between September and January of next year. So far though, we've worked out some of the kinks in the process and the kinks in the technology. The feedback from both the customers and from the distributors has been very good. So we're pleased with the initial feedback, and we're adopting some of the process changes that we learned during the pilot program to make the national launch better. So this is not a short-term quick hit. This is part of a fairly long-term multipronged effort to demystify our insurance offerings for the middle-class consumer and to further engage our agency owners in the sale of Allstate Financial products. So I wouldn't expect any dramatic quick hit. I would expect this to be part of a sustained effort to transform Allstate Financial within the greater enterprise.

Michael Steven Nannizzi
Oppenheimer & Co. Inc., Research Division

On the commissions side, can you just talk about how that works relative to your other life products or your current exclusive agency personalized products?

Matthew E. Winter
President and President of Allstate Insurance Company

Well, one of the things that is different about this is we try to mimic auto commissions in it. We thought that would help in the acceptance rate and the receptivity on the part of the agency owners. So it's a 10% levelized commission for the life of the product, 10% of premiums as paid. So unlike the traditional commission, this looks and feels more like the auto, and helps them build value in their agencies. So one of the things we wanted to help them understand is that Allstate Financial can truly help them build the value of the book in the same way their auto insurance helps them build that sustainable value.

Thomas J. Wilson
Chairman & CEO

Michael, let me use it as an example to how the customer focus makes a difference in terms of what you're doing. This is about thinking about customers as cash flow managers rather than risk managers. So if you look at most middle-income people, they don't think about how much money should I put to Life, how much to disability, how much to critical care, how much should I save for retirement and how do I balance all those things off. The product that Matt and his team have designed does it for them. So it says, "Look, how much money do you have a month?" It's got some simple packages so the demystification you talked about. So if you don't die, then you get half of your money back at 65. It's not a complicated formula. It's not here's what the investment portfolio does, here's the asset selection you got to make. It's really simple, it's really fast. It reflects the fact that they don't want to spend a ton of time on something where they're not putting that much money to work. So this is about really designing it from a customer back as opposed to from our risk perspective forward. So I think it's an -- and you'll see that in other things we do, other new products, a little bit what Your Choice Auto was about, some other new products we have coming up in Allstate Protection will be similar kinds of things, which is just make it simple, base it on how they think about the world, not how we think about the world.

Michael Steven Nannizzi
Oppenheimer & Co. Inc., Research Division

I mean, you referenced the economy in your opening comments, Tom. How does that factor into the rollout? And have you seen, kind of, the impact of that in, kind of, during in the test area of this new product?

Thomas J. Wilson
Chairman & CEO

I don't really think it impacts the rollout much. The rollout's going to be when Matt's ready to hit the accelerator and we're ready to go. And he and Joe feel like this system will put a lot of that product through it. But the economy has made people much more risk averse, much more willing to save money and think about the future as opposed to just current consumption. So we think from a overall macro perspective, this focusing on their needs, their focus on cash and to think longer term, will be in the sweet spot, but it doesn't really impact the rollout. The rollout will be based on doing it right.

Operator

Our final question is from Cliff Gallant of KBW.

Clifford Henry Gallant
Keefe, Bruyette, & Woods, Inc., Research Division

Question on just loss trends in the Auto Physical side, you saw some favorable developments this quarter and the paid severity trends also looked negative. I'm just curious as to what is driving the deflationary trends, you think, at this point, and to what degree are you pricing that into your products?

Don Civgin
President of Emerging Businesses - Allstate Insurance Company

I missed part of your question, which specific ones are you asking about, Cliff?

Clifford Henry Gallant
Keefe, Bruyette, & Woods, Inc., Research Division

Just auto physical damage.

Thomas J. Wilson
Chairman & CEO

We continue to drive our claim processes to be as effective as we can around that. I think we're finding that those processes are working effectively. We had some rollout of some new claim processes over the course in the last 18 months, for a little while, as we brought that new claim system online, that may have slowed us down a shade. And now we're back into our stride, so you may see a piece of that running through there. There maybe a little bit of it that's economy-related in terms of what we're seeing in underlying costs that maybe reversing some inflationary trends we saw last year. It's modest numbers overall, so we're watching them. Generally, the aggregate loss trends, when you combine frequency and severity, are in line with what we were expecting. So they're in line with what our pricing had anticipated. So I don't see a lot of change as a result of those.

Clifford Henry Gallant
Keefe, Bruyette, & Woods, Inc., Research Division

In terms of relating that to your pricing, when I look at your slide show or your financial supplement on Page 16 when you talked about the historical rate of impacted rates. In the Allstate brand, standard auto, it looks like under a state specific percent change, the trend has been that it seems like you're seeing less change over the last, each of last four quarters. Is that an indication that you're just relatively happy with the level of pricing right now for your Allstate brand standard auto?

Thomas J. Wilson
Chairman & CEO

That will be a reasonable way to look at it. We also -- when we look at what we did over the last 15 months, and we talked about this a little before, if you dial back to the early part of last year, there were big challenges in the economy. We've seen even more challenges in homeowners than we had right now. There was a lot of pressure from a lot of different functions. The capital conversations as a company we were having with you where ones where you were concerned that we, did we have enough, not that we have too much. So we took a conservative view of our pricing there and I said, "You know what, we're going to make sure our Auto business is performing." We anticipated some adverse loss trends potentially coming around the economy, so we made sure we were quick on that. I think we're seeing some other competitors catch up with some of those observations and trailing where we were a little bit. But our goal was to make sure that business performed well in the environment with all that other uncertainty, and its done that. The loss trends weren't perhaps as pessimistic as we anticipated. And when you look at it over the course of maybe a total view of two years, we're in line with where we'd expect to be, but we may have timing and may have been a little accelerated.

Robert Block

Well, thank you all for your questions. Let me just close here. Second quarter just reflected continued progress on the strategies we've undertaken that drive shareholder value. So we've achieved this performance by being good at what we do and taking decisive action. Our plan is to continue to improve shareholder value by raising returns, lowering volatility and growing our business. So thank you all for investing in Allstate, and 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.