S&P Global
Market Intelligence

The Allstate Corporation NYSE:ALL

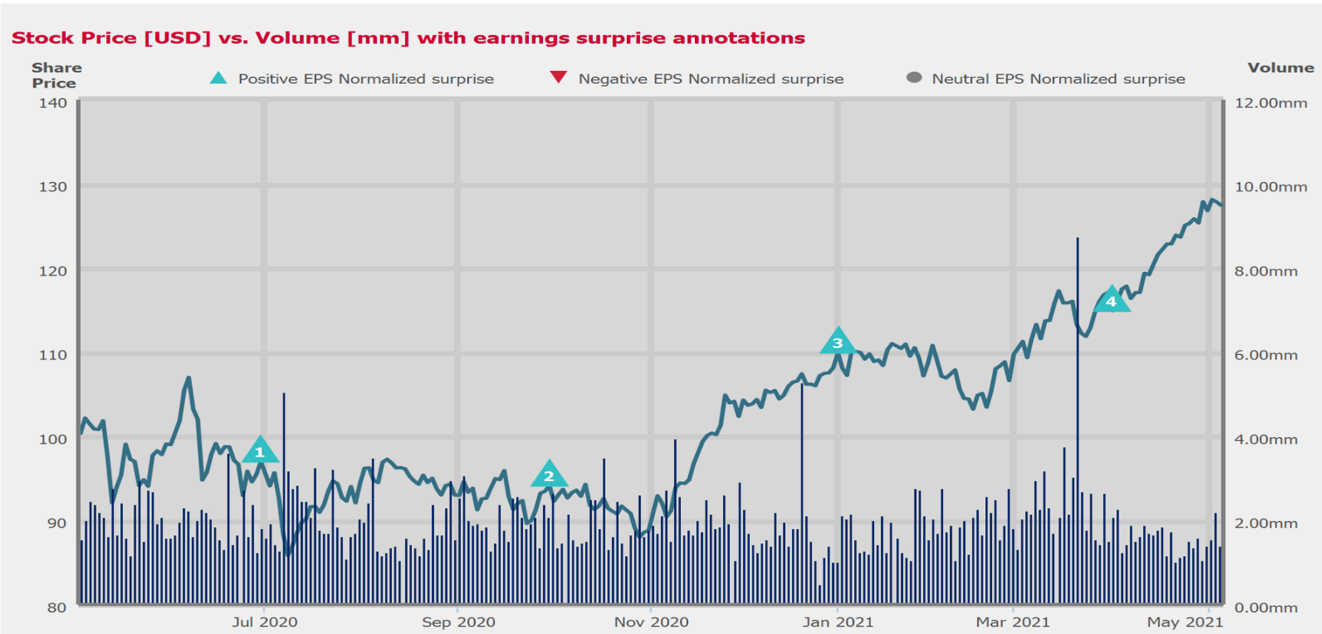
FQ1 2021 Earnings Call Transcripts

Thursday, May 06, 2021 1:00 PM GMT

S&P Global Market Intelligence Estimates

	-FQ1 2021-			-FQ2 2021-	-FY 2021-	-FY 2022-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	3.94	6.11	▲55.08	2.35	11.85	NA
Revenue (mm)	10551.00	10307.00	▼(2.31 %)	10622.00	42070.82	NA

Currency: USD
Consensus as of May-06-2021 2:37 AM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ2 2020	1.62	2.46	▲1 51.85 %
FQ3 2020	1.76	2.94	▲2 67.05 %
FQ4 2020	3.82	5.87	▲3 53.66 %
FQ1 2021	3.94	6.11	▲4 55.08 %

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EXECUTIVES

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President of Personal Property-Liability of AIC

Mario Rizzo
Executive VP & CFO

Mark Nogal
Head of Investor Relations

Thomas Joseph Wilson
Board Chair, President & CEO

ANALYSTS

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

David Kenneth Motemaden
Evercore ISI Institutional Equities, Research Division

Jamminder Singh Bhullar
JPMorgan Chase & Co, Research Division

Joshua David Shanker
BofA Securities, Research Division

Paul Newsome
Piper Sandler & Co., Research Division

Presentation

Operator

Thank you for standing by, and welcome to the Allstate First Quarter 2021 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, Mark Nogal, Head of Investor Relations. Please go ahead, sir.

Mark Nogal
Head of Investor Relations

Thank you, Jonathan. Good morning. Welcome to Allstate's First Quarter 2021 Earnings Conference Call. After the prepared remarks, we will have a question-and-answer session. Yesterday, following the market, we issued our news release, investor supplement and posted related materials on our website at allstateinvestors.com. Our management team is here to provide perspective on these results.

As noted on the first slide of the presentation, our discussion will contain non-GAAP measures for which there are reconciliations in the news release and investor supplement and forward-looking statements about Allstate's operations. Allstate's results may differ materially from these statements so please refer to our 10-K for 2020 and other public documents for information on potential risks.

And now I'll turn it over to Tom.

Thomas Joseph Wilson
Board Chair, President & CEO

Thanks, Mark. Good morning, everybody, as we appreciate you making the time to follow up on Allstate and see how we're doing.

Let's start on Slide 2. On the left, our strategy has 2 components, which is to increase personal property-liability market share; and then secondly, to expand protection services, which are shown in those 2 ovals. And we made substantial progress in executing that this quarter. Many of those things that we'll talk about on the right-hand side really a year or plus in the making, but you see it all coming together this quarter.

So we closed on the acquisition of National General in January, enhancing our competitive position in the independent agent distribution. We executed agreements to sell Allstate Life Insurance Company and Allstate Life Insurance Company of New York, 2 separate deals there. And that will redeploy capital out of the lower growth in return businesses and reduces our exposure to interest rate risk. We also made continued progress on getting higher growth in our personal property-liability business moving into Phase 3 of Transformative Growth.

Total revenues increased by 26.2% in the quarter, which is a stunning number. Policies in force increased by 20.6%. And of course, that's driven in large part by the National General acquisition. And we'll talk a little bit more about that in the call. Our long-term approach to creating shareholder value in both investing and using reinsurance also benefited results this quarter. We had substantial increase in performance-based income and reinsurance recoveries.

Allstate Protection Plans continues its rapid growth. We launched Home Depot earlier this quarter. We had strong operating results with adjusted net income of $1.9 billion or $6.11 a share. And that generated a return on equity over the last 12 months of 23.2%. And then shareholders also benefited with $765 million of dividends and share repurchases.

Let's turn to Slide 3 and go through the first quarter financial results. Our revenues of $12.5 billion in the quarter increased 26.2% from the prior year quarter, and it reflects both the National General acquisition, higher investment income and realized capital gains. Property-liability premiums earned and policies in force increased by 11.4% and 12.1%, respectively. Our performance-based income was $378 million versus a loss in the first quarter of 2020. We did have a net loss of $1.4 billion that we recorded in the quarter, which there was a $4 billion loss on the disposition from those announced sales to life insurance companies, and that was not fully offset by the strong operating performance. The strong operating performance target did create that adjusted net income of $1.9 billion, as you can see from the table on the bottom. And that's 55.7% higher than the prior year quarter as reduced auto claim frequency and higher net investment income more than offset increased catastrophe losses.

Let's go to Slide 4, dig in a little on National General, which is an excellent growth platform for us. We acquired the business for $4 billion in January, and that's to grow market share within the independent agent channel. And National General has appointments with over 42,000 independent agents. That expands our product portfolio as well. It includes nonstandard auto insurance where we had a very small presence, lender-placed homeowners insurance, accident and health insurance and 2 digital marketing platforms.

National General's agency-facing technology is effective, efficient and scalable. So we're a better owner for National General since it improves the independent agent business. It lowers cost, and it will generate incremental growth from here. We've become a top 5 independent agent carrier. And then the combination of Allstate's standard auto and homeowners insurance expertise with National General's expertise in nonstandard auto insurance will give us a really broad portfolio of products to provide through independent agents. Significant expense reductions are expected by consolidating Allstate's 2 independent agent businesses onto National General's technology and operating platform. And the cost to acquire these in-force policies, which is about 1 point of overall market share, at the net acquisition price is comparable to doing this organically.

Now we have 3 measures of success for this acquisition, you can see on the bottom of the table: accretion to earnings, achieve expense synergies and grow IA channel policies in force. We're only a quarter into it, but we had a really strong start on these goals. Glenn and the team, Peter, have been working on this really since 6 months -- we started the deal in July, 6 months before we bought it. So we came into this first quarter with a head of steam and the Allstate Protection segment added $1.3 billion in net written premiums, $138 million in underwriting income this quarter. Allstate Health and Benefits increased adjusted net income by $35 million.

We are integrating Encompass onto the National General platform and are on pace to achieve our expense synergies. We also expect to grow policies in force by broadening that product portfolio in the IA channel. And of course, that represents about 1/3 of the total personalized market. The IA channel policies in force are approximately 6x larger after this transaction. As we add standard auto and homeowner experience products in National General's offering later this year, that will drive even more growth.

Let me now turn it over to Mario to go through the first quarter results in more detail.

Mario Rizzo
Executive VP & CFO

Thanks, Tom, and good morning, everybody. Let's go to Slide 5 and delve a little deeper into property-liability growth. Property-liability policies in force grew by 12.1% compared to the prior year quarter. National General, which includes Encompass, contributed growth of 3.9 million policies. The Allstate brand grew policies by 0.5% due to growth in homeowners and other personal lines, as you can see by the table on the left. Allstate brand auto insurance was flat to the prior year as increased new business was offset by lower retention.

The chart on the lower right shows a breakdown of personal auto new issued applications compared to the prior year, which increased 64% in total, primarily due to the incremental 526,000 applications generated by National General. The middle section of the chart shows Allstate brand impacts by channel which, in total, generated a 5.4% increase in new business growth compared to the prior year. Modest increases from existing agents and a large increase in direct channel sales more than offset the volume that would normally have been generated by newly appointed agents as we pilot new agent models with higher growth and lower costs.

As a result, property-liability net written premium grew 13.7% in the first quarter compared to prior year driven by a 12.9% increase in auto insurance and a 20.3% increase in homeowners insurance. The auto insurance net written premium increase was driven by a 14.1% increase in policies in force due to National General and increased new issued applications across all brands. These favorable impacts were partially offset by lower average auto insurance premiums from approved rate decreases and lower retention, partially driven by the impact of special payment plans that were implemented during the pandemic.

If you flip to Slide 6, you see property-liability margins remain strong. The recorded combined ratio of 83.3 improved 1.5 points compared to the prior year quarter, primarily from a lower underlying loss ratio driven by reduced auto frequency and continued cost savings. The auto insurance recorded combined ratio of 80.5 with 8.8 points below the prior year, primarily due to lower accident frequency in the quarter. Allstate brand auto property damage gross frequency remained below prior year levels in 47 of 51 geographies, which includes the District of Columbia.

The chart on the lower left shows the impact of the pandemic on Allstate brand auto property damage gross frequency. As you can see, the onset of the pandemic and efforts to slow the spread of the virus had a large impact on frequency beginning at the end of the first quarter of last year and then extending into the second quarter when auto frequency was at its lows. This time frame coincided with AllstateÂ shelter-in-place payback. Following the second quarter of 2020, property damage frequency has trended below pre-pandemic levels by approximately 28%, as you can see by the third and fourth quarter variances to 2019, and first quarter 2021 frequency showed a comparable decline relative to 2019.

As you can see from the chart on the bottom right, we continue to make progress in reducing our cost structure, enabling us to improve the competitive position of auto insurance while maintaining strong returns. The property-liability expense ratio improved 2.5 points in the first quarter of 2021 compared to the prior year due to the absence of coronavirus-related expenses incurred in 2020, such as the shelter-in-place payback, as well as continued cost reductions. This was partially offset by a significant increase in advertising investment. The expense ratio, excluding coronavirus-related expenses, restructuring charges and the amortization of purchased intangibles associated with the acquisition of National General was 22.8, an improvement of 0.5 points compared to the prior year quarter.

In connection with the anticipated benefits associated with the future work environment, we expect to incur approximately $110 million in restructuring costs during 2021 with $33 million recognized in the first quarter, primarily related to real estate exit costs. These restructuring costs and their future benefits are incremental to the $290 million of aggregate restructuring costs related to Transformative Growth, which we announced in the third quarter of 2020 and of which we've recognized $256 million to date, including $17 million this quarter.

Let's move to Slide 7 to discuss our progress on building Transformative Growth's business models. So Transformative Growth is a multiyear initiative to build a low-cost digital insurer with broad distribution. This will be accomplished by expanding customer access, improving customer value, increasing marketing sophistication and investment and building new technology ecosystems. A longitudinal plan segments Transformative Growth into 5 phases, starting with the conceptual design and ending with the retirement of the old business model. We've completed Phase 1 and much of Phase 2.

In Phase 2, the auto insurance competitive position has been improved, leading to higher close rates. This was supported by cost reductions. Direct capabilities have been expanded and sales volumes are increasing. New branding has been launched and marketing investment has been increased. This, combined with industry-leading telematics capabilities, will increase growth. We believe Allstate is among the leaders in telematics and is the largest pay-per-mile provider through Milewise, which offers lower cost for customers who drive less. We've also expanded independent agent distribution through the National General acquisition.

Looking forward, we are now into Phase 3 and building the new operating model. We will support the transition of Allstate agents to higher growth and lower cost models. New agent models are also being tested to serve customers who want a local agent. Improving customer acquisition costs relative to lifetime value will lower costs. Expense reductions will support increased investment in growth and technology. The new customer experience and product management technology ecosystems also get deployed in this phase.

Now let's go to Slide 8, which highlights investment performance for the first quarter. Net investment income totaled $708 million in the quarter, which was $462 million above the prior year quarter, driven by higher performance-based income as shown in the chart on the left. Performance-based income totaled $378 million in the first quarter, as shown in gray, reflecting broad-based valuation increases in private equity investments and sales of underlying real estate investments. Market-based income, shown in blue, was $6 million below the prior year quarter. With lower interest rates, our reinvestment rates remain below the average interest-bearing portfolio yield, reducing income.

Our first quarter GAAP total portfolio return was minus 0.2%, as you can see on the bottom of the left chart, reflecting lower fixed income valuations. Over the last 12 months, the total return was 8.8%. As discussed previously, our performance-based strategy has a longer-term investment horizon with higher but more volatile return expectations. This volatility can be seen by the chart on the lower right. It highlights the 1-, 5- and 10-year performance-based internal rates of return. The 1-year trend has been volatile throughout the pandemic with the 2 most recent quarters significantly higher than the returns experienced during the middle of 2020. Conversely, the 5- and 10-year trends are stable and closer to our expected returns.

Moving to Slide 9. Allstate Protection Plans continues to grow revenue and profit. As you recall, we purchased Allstate Protection Plans for $1.4 billion in 2017 to broaden the protection solutions offered to customers. It provides low-cost protection with excellent service. Products are primarily sold through U.S. retailers and leverage the Allstate brand. Since acquisition, Allstate Protection Plans has experienced rapid top line growth and improved profitability. Revenues have grown at a compound annual rate of 48% over the last 3 years, as you can see on the bottom left, and were more than $1 billion over the latest 12 months.

Adjusted net income went from a loss of $22 million in 2017 to income of $148 million over the last 12 months. Additional growth will be achieved by further expanding appliance, furniture and mobile phone protection, expanding the geographic footprint outside the U.S. and creating new innovative services, such as 2-day appliance repair. This acquisition has been an incredible success for us.

Now let's move to Slide 10, which highlights Allstate's attractive returns and strong capital position. Allstate continued to generate attractive returns with adjusted net income return on equity of 23.2% for the last 12 months, which was 5.7 points higher than the prior year. Excellent capital management and strong cash flows have enabled Allstate to return cash to shareholders while simultaneously investing in growth. We provided significant cash returns to shareholders in the first quarter through a combination of $601 million in share repurchases and $164 million in common stock dividends. The current $3 billion share repurchase program is expected to be completed by the end of 2021.

Given our growth strategy and sustainable earnings potential, we announced a 50% increase in the quarterly common shareholder dividend to $0.81 paid to shareholders on April 1. The total cash return provided to shareholders was 7.8% of average market capitalization over the last 12 months.
With that context, let's open up the line for questions.

Question and Answer

Operator

[Operator Instructions] Our first question comes from the line of Josh Shanker from Bank of America.

Joshua David Shanker
BofA Securities, Research Division

So it looks like there's very good success in the allstate.com direct model. Can we talk a little about whether we've shuttered the purchasing through Esurance and the sort of flows we're seeing on the new policy apps on the allstate.com side?

Thomas Joseph Wilson
Board Chair, President & CEO

Glenn, do you want to take that?

Glenn Thomas Shapiro
President of Personal Property-Liability of AIC

Sure. Yes. So we have not completely shuttered Esurance. What we've done is we've redirected our marketing dollars from the Esurance brand to the Allstate brand. And in addition to that, we've invested more in the Allstate brand as well. Part of that was being able to move that marketing. So while Esurance has trailed down, we're still taking advantage of the goodwill that we've paid for over years of that brand and the fact that people recognize it and still find the Esurance out there, and they have good products for a portion of our market. So we're still selling some there. But the growth is absolutely being driven by the Allstate brand. As you saw in the supplement or the Q, we had 33% increase in direct sold business. So it's really taking off. And we've got more capacity going into that system because a direct system is -- I won't say only limited, but a main limiter would be your capacity, your sales capacity in there. So we're growing the contact center, improving web flows and really growing the Allstate brand in direct sold business.

Thomas Joseph Wilson
Board Chair, President & CEO

And Josh, just to add there for a second. So as you know, as part of Transformative Growth, we're also building a new technology ecosystem, a product management system and a customer experience system. As that gets rolled out, we will shut down the Esurance system, and then we'll stop selling products under the Esurance thing, but we have some time to do that.

Joshua David Shanker
BofA Securities, Research Division

And the 278,000 new policy apps at Allstate direct, are those apples-to-apples with the 200,000 or so that you sold 1 year ago? Or was that part of a joint direct captive sort of relationship where direct was a lead generator? Or are they completely apples-to-apples, those types of new applications?

Thomas Joseph Wilson
Board Chair, President & CEO

Glenn, do you want to take that?

Glenn Thomas Shapiro
President of Personal Property-Liability of AIC

Sure. Yes. It would be an apples-to-apples. It's basically just think about customers that come to us by either clicking or calling directly into an 800 number as opposed to the customers that come to us through an agent. So it would be an apples-to-apples comparison.

Joshua David Shanker
BofA Securities, Research Division

And can we talk about National General, Encompass and Allstate brand through independent agents? Is Encompass going to be called National General, even though the National General and Encompass products are kind of a different target customer? And what would be wrong with calling the product Allstate?

Thomas Joseph Wilson
Board Chair, President & CEO

Well, let me take the branding question, then Glenn can fill in how we're doing the transition because it's different for Encompass than it is for the Allstate independent agents. So first, from a branding standpoint, we've decided that the Allstate brand and personal property-liability will be on business that we control both the sales and the service on it. So that's both the Allstate agents and then direct, whether that's web or call center. For the independent agent business, we've rebranded National General, so it's National General and Allstate Company. And we launched it, I think, the beginning of January. So that you get the relationship with Allstate but that -- everybody understands that it's separate than that which you would see from an Allstate agent. We do not do that with the Allstate brand in the circle of protection.

So for example, we sell under the Allstate name at Walmart, we sell under the Allstate name in Home Depot, at Target, which gives us both increased exposure to customers, enables us to further leverage that capability and, quite honestly, has helped us dramatically expand Allstate Protection products because of the power of their brand. So slightly different strategy from a branding standpoint inside the personal property-liability markets and outside, but we try to leverage it everywhere we can but provide -- make sure that, that brand stands for certain things in different areas.

Glenn, do you want to talk about your plans to both integrate Encompass and Allstate independent agents into National General? And then answer Josh's question on branding at the same time.

Glenn Thomas Shapiro
President of Personal Property-Liability of AIC

Yes. So thanks, Josh, because I think -- it's an interesting question because I think if you take, from a legacy standpoint, National General and what it was best at and known for and Encompass and what it's best at and known for, it would be different as you suggested. But as Tom just pointed out, National General and Allstate Company, that's going to be a different story. We're launching middle-market products. So think about basically the Allstate product capability in the middle market, auto and home and other personal lines on the National General platform and branded as National General and Allstate Company, starting in the second half of this year and then really fast expansion. So it'll be to all 50 states within 18 months of the start of that, so before the end of next year.

So really, National General and Allstate Company is going to be a company that is serving from nonstandard up through mass affluent and everything in between. It really is another national player in the independent agent space. And we've gotten a phenomenal reaction from independent agents, and they are genuinely excited to have another significant player and with the capabilities of Allstate and National General combined in that market. And so we're positioned really well to grow with a lot of greenfield ahead of us in the independent agent space.

Joshua David Shanker
BofA Securities, Research Division

And to be clear, the Encompass name will disappear.

Glenn Thomas Shapiro
President of Personal Property-Liability of AIC

It will be a part of National General and Allstate Company, correct.

Thomas Joseph Wilson
Board Chair, President & CEO

Whether we roll the policies to a new policy or leave the policy outstanding under the Encompass name and basically put National General stuff on top, it will just depend on the cost of it. And Encompass goes first and the Allstate independent agent, which is Allstate-branded products sold through independent agents in rural spaces where it was not economic to have a captive agent. Mostly. There's a few places where it didn't work that way, but mostly. That will transition over time as well.

Operator

Our next question comes from the line of Jimmy Bhullar from JPMorgan.

Jamminder Singh Bhullar
JPMorgan Chase & Co, Research Division

So first, I guess for Glenn or Mario, but a question on just the auto business. How do you see the interplay between frequency and pricing? And it seems like everybody's had very good margins in personal auto over the last several quarters. At what point do you see sort of pricing catch up to that? And in that environment, do you think if the market stays competitive, are you still in a position to grow your PIF count?

Thomas Joseph Wilson
Board Chair, President & CEO

Let me provide an overview. And then, Glenn, if you want to jump on to this one. So first, I'm going to go up a little bit. First, it's about how do we think about increasing market share. And we use 2 words together: profitable growth. We put them together because that's what we want. We do not believe that growth with no profit is good for shareholders. So the objective, of course, is maximize shareholder value. Our expected outcomes for our team are that they will balance between growth and profitability. Our strategy, of course, as Mario talked about, in the second phase of Transformative Growth is get a more competitive auto insurance product. And we supported that, of course, and we're being successful by reducing our costs. So the first thing would be we control our cost. And we can make sure that if we reduce prices to get more competitive, we still maintain our margins.

Obviously, we want to be smarter, whether that be how we price or how we acquire business and our marketing. We're also using telematics. And then as we go forward with Transformative Growth, it will be by being faster with better technology and having new products affordable, simple and connected that are sold through that broad range of distribution that Glenn was just talking about from direct to Allstate agents.

So Glenn, do you want to jump in on the specifics?

Glenn Thomas Shapiro
President of Personal Property-Liability of AIC

Yes. So first, I'll talk about frequency a little bit and then -- and go to competitive position. So from a frequency standpoint, everybody gets benefited from some lower frequency. But we've also looked at a deeper level at it than just sort of miles driven and the number of accidents coming out because there are differences by books and you see differences in competitors as to how much tailwind that's providing. So we look at the fact that commuter driven or take it from rush hour, losses are down about 3 points more than overall losses. And we look at rural driving, it's down about 4 or 5 points less than urban driving. And so we look at these at a pretty deep level, and we're fortunate to work with Arity and have a lot of data on this with 10 years plus of telematics. We get pretty granular into how we're looking at it and understanding the frequency picture. So we've got a tailwind with that.

So which takes me in a competitive position because we've been moving our competitive position pretty aggressively. Like you see a minus 1.5 on average premium, and that might feel or seem slight, but there's a lot underneath that. We've moved new business pricing. We've moved telematic pricing. We've reduced the cost of our Milewise program that's grown really nicely. And all of that is inside of there. So our competitive position on the price changes we've made and that are still going into market have really improved. And our close rates are up. We're starting to see those really positive signs of momentum across multiple states.

And then you put on top of that the fact that some of our competitors have already taken price increases. You know some of those out there. We've heard others say that they're going to start taking bites at the apple in terms of price increases. And you look at our position, and obviously, we're in a position right now we continue to invest in growth. We can still put money into marketing. We could still put money into competitive price position because of where we're positioned, which really puts us in a great spot to grow going forward.

Jamminder Singh Bhullar
JPMorgan Chase & Co, Research Division

And then just any comments on your views on PIF growth and to the extent you're able to quantify or give a range on how -- I'm assuming it should trend higher later this year and into next year as you're implementing some of these initiatives in direct and independent agency but to whatever extent you can quantify or give us an idea on what you expect PIF to be.

Thomas Joseph Wilson
Board Chair, President & CEO

We don't give forecast on PIF growth or frequency or case tasks, these things you can't predict. Let me talk about growth a little bit because it is really an important question that many analysts have. And of course, it drives huge value in the market today. And so we would start and say, first, actuals matter. And we had a great quarter. I mean over 25% revenue growth. Our PIF growth was in the low teens. And we're headed towards increasing our market share pretty significantly in personal lines this year, which is consistent with our strategy, I guess, what we set out to do. You have some naysayers who say, "Well, you bought it with the acquisition of National General." And that's, of course, true, but you always have to invest to get market share.

In this case, it is real growth. And we look at it and said, "If we had taken the net price that we paid for National General and thrown it into marketing or higher commissions or some kind of spiff, it likely would have given us less growth than we got and certainly not the kind of profitability we're getting from it." But we did buy it. But we did the same thing with Allstate Protection Plans, right? We bought SquareTrade. We repositioned it with our brand. And that acquired growth then turned into an organic growth platform. We expect the same thing to happen with National General. The difference is we paid a slightly higher premium for SquareTrade than we did for National General.

As it relates to the Allstate brand, we have multiple ways to grow, right? We've got the Allstate agents, and we're helping them transition to a new model. We have the direct business, which we've launched. And it's sold, by the way, at a different price than through an agent because we believe customers should pay for what they get. And if you get an agent and get that help, you should be willing to pay for that. And so overall, we feel like the Allstate brand is positioned for long-term growth as well. And so we feel like we've got an overall plan to move forward. It's got Transformative Growth in it. It's got real growth this quarter. And we're building platforms that will continue that growth going forward.

Operator

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

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

My first question will be on reinsurance. Tom, I was hoping you could just give us an overview of how reinsurance helped the company this quarter. And then I know you did file your reinsurance update piece and maybe talk about what's changing going forward. I did note that the costs in the first quarter are about 14% higher versus a year ago. Is that the type of cost or increase we should expect for the full year?

Thomas Joseph Wilson
Board Chair, President & CEO

Greg, let me start with the strategic perspective on it, and either Mario or Glenn, if you want to talk about the first quarter. So I'm going to go back a long way. But in 2004 and '05, we had huge catastrophe losses. We weren't earning any money on homeowners business. We've made some money one year and we would lose money the next year. When you looked at it over time, like it's not a really good business. So we looked at getting out. And we said, "You know what, if we were out, we'd want to be in because our customers do want it. So maybe it's just this catastrophe risk we really don't want." So we created a very comprehensive catastrophe reinsurance program to basically divest certain portions of the risk we took on. And that's evolved over time.

We have a very sophisticated multiyear program. It's by state. It's different by event. It's got the aggregate in it. And we bear that cost each and every quarter, obviously, that comes through. Sometimes, it pays off. And what you saw this quarter was the aggregate kicked in. And so from losses -- some of the losses, which were last year, showed up as reducing our catastrophe losses this quarter, which were up pretty significantly. And that helped smooth it out. And we've looked at that from what kind of return on capital do we give up to the reinsurers, and we're quite comfortable giving up the return that they get to avoid the volatility that comes from it. And so it's helped us reposition the homeowners business so that now it's a very consistent source of profitability for us.

As I was saying to the prior question, we don't believe in growth with -- like running homeowners above 100 is not a good plan. And you're destroying value at that point with growth. And we don't believe in that. So we've used reinsurance to help reposition the business. We did a whole bunch of other stuff, including changing the product and changing the way we price and how we underwrite it, how we do our segmentation down to specific risk codes, how we pay for roof. So there's a whole bunch of stuff we've changed underneath that over the last decade, but it's a really good business. In reinsurance, using the reinsurers helped us get there. So what you saw this quarter was a benefit, which is more than -- it was earned in this quarter, but it was paid for in the prior quarter. So some people want to exclude it from this year's quarter, I totally get that. I'm like, "That's fine." But then you should not be counting all the costs from the other time.

Mario or Glenn, do you want to talk about the cost of reinsurance in the program going forward?

Mario Rizzo
Executive VP & CFO

Sure. I can jump in on that, Tom. And just to give you a little color, Greg, on the benefits in the quarter, we recovered about $955 million in the quarter on a net basis. Part of that was from our per occurrence nationwide program where we retain the first $500 million of an event, and then we have coverage in our current program up to $5 billion. And then as Tom mentioned, we also have an aggregate cover which is about $1 billion, which spans a 12-month period. We also had recoveries under that. So combined, it was about $955 million. That's net of reinstatement premiums in the quarter. And it was principally on the freeze event in Texas. So the freeze event on a net basis cost us $586 million in the quarter. Once you start peeling back the prior year component of that reinsurance recovery, which is about $150 million, you get to a gross loss in Texas north of $1.3 billion. So we benefited pretty significantly in the quarter from our reinsurance program.

As you mentioned, we posted on our website the -- we placed most of the nationwide program this quarter. And we still have a component of the nationwide program to do. And then remember, we have a separate Florida program. The cost year-over-year, because we've included National General in this year's program, is going to be slightly higher than it was a year ago when you add up what we were spending on reinsurance and what National General was spending on reinsurance. But in terms of what you saw in the first quarter, you got to remember that's still last year's program that was placed May 1. And what we saw last year was -- the increase we experienced was mainly in the Florida program, and you're seeing that kind of cycle through in the first quarter. We will start incurring the cost of this year's program when it incepts, which is on June 1.

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

That was a thorough answer. I appreciate it. I'd like to pivot to the expense ratio on Page 6 of your presentation slide deck. You're continuing every quarter to show improvement in almost every quarter and show improvement in your expense ratio. And I guess when we think about the sustainability -- or more importantly, is this a trend that we should continue to expect forever? Obviously, I don't think the expense ratio would go to 0, but the improvement is noteworthy. And then just as an aside, I did notice that the expense ratio was up in the Allstate Protection home business, so I'm curious if there was something unusual on that.

Thomas Joseph Wilson
Board Chair, President & CEO

So overall, Greg, you're right, our strategy to get more competitive in auto insurance pricing, which is Phase 2 of Transformative Growth, included taking down costs. And as you know, we did a large reduction in force last year of about 3,800 people. You're starting to see that come through this year. At the same time, our advertising was way up. And so we tried to balance between those 2. I don't think you could expect it to come down 0.5 point every quarter from now until infinitum. You should know that our strategy is to both keep reducing costs every place we can so that we can have a more affordable product for our customers and, therefore, a better price, we get more of them but not invest in growth because with the kind of return on capital we're getting in these businesses, we should definitely be seeking more growth.

Mario, do you want to talk more about this current quarter and what the ins and outs were?

Mario Rizzo
Executive VP & CFO

Yes. Thanks, Greg. So I guess, as Tom mentioned, we're going to continue to focus on reducing our cost structure. And like we've said really all along, our focus on reducing our cost structure is not a margin expansion focus. It's a growth focus. And it's a growth focus because reducing our costs enables us to invest more in growth. And you saw it this quarter where we invested more in marketing. And the component of our underwriting expense ratio related to marketing actually increased by 0.9 point, yet it was more than offset by the operating cost reductions that Tom referenced from last year. So the real ins and outs were more investment in advertising, more than offset by cost reductions and net-net, a 0.5 point improvement in kind of the underlying expense ratio in the quarter. And we're going to continue to focus on moving that number down.

The other thing I'd mention on expenses, and it's not obvious in our numbers, is part of our focus on cost reduction has been on getting more efficient in claim handling. And we've improved the efficiency and our loss adjustment expense, which comes through the loss ratio. But again, we consider it as a core part of our cost reduction efforts to improve the cost structure, create capacity to invest and be able to grow more and continue to deliver excellent returns. So I think what you saw in the quarter was really a kind of proof of how that strategy is playing out. In terms of the homeowner expense ratio specifically, Greg, I'd have to go back and take a look at what components of it, whether it came through distribution costs or underwriting costs, whether it was like inspections and so on. So let me take that one off-line, and I'll get back to you on that one.

Operator

Our next question comes from the line of Paul Newsome from Piper Sandler.

Paul Newsome
Piper Sandler & Co., Research Division

Congratulations on the quarter. I was hoping you could expand a little bit more about what it means to transition the existing career agents to a different model. We get e-mails from agents all the time. Usually, they're worried about this or that. Is this a transition that's really towards more of an independent agent type structure with your agents? Are we talking something that's completely out of the book? Or is it sort of to be determined?

Thomas Joseph Wilson
Board Chair, President & CEO

Let me provide a little view, and then Glenn can tell you some of the specifics of what we're doing. But Paul, the first thing I would say is, no, we're not going to do the nationwide deal and turn them all into independent agents. We don't think that makes sense from a customer standpoint. Our customers come to us because they love the Allstate brand. We have a really strong brand, long relationships. So we're not planning on turning them into something else. And obviously, the fast pace of change has all of us on edge, whether you're a retailer or anybody, with what's going on in the world. And the good news for our agents is that still a majority of consumers want an insurance professional help them buy insurance. And our agents are really good at it.

That said, people are more comfortable with self-service, simple items, and technology enables a computer to do some of the work that used to be handled by people and still, in some cases, handled on local offices. So we have to transition their model and go where the customer is going.

And so that includes -- maybe we don't have to use as much real estate as we use today. We certainly do not need to do as much service work in agent offices. So we have a little over 10,000 Allstate agents. There's probably 26,000, 27,000 people working in those agents. Some of those people are doing service work. And we think we can do that either centrally at a lower cost and be more effective for our customers or just get the computer to do it and nobody does it at all. So we have to figure out how do we transition those people in those offices to doing service work, to doing sales work or, if they can't transition those licensed sales professionals, have the agents build up staff they can move into.

So last year, one of the things that Glenn and team did was they raised a new business commissions to incent and give people the opportunity to invest more and sell more things to more people and get more people selling for them. And to offset that and continue to make sure we're meeting our customers' cost needs, we slightly reduced renewal commissions to reflect that. So if you're an agent and you're focused on new sales, that's a good thing. You're excited about it. You're often ready to go. If you've been focused more on service and not on growth, then you're not going to be as excited about that change because it changes your business model.

So we have to help them transition from where they are to the place where the customers want us to go, which is they want help, but they want to do it in a technologically efficient, low cost way. And we think that there's a good way to do it. Glenn can give you some examples of what we're doing with our existing agents. We've already talked about what we're doing direct to serve our customers. And then we're also trying some new models that Glenn can talk about that do the same thing, which is use people to help people buy insurance in a local space today at lower cost.

Glenn, do you want to give some more specifics on that?

Glenn Thomas Shapiro
President of Personal Property-Liability of AIC

Yes, absolutely. And Paul, Tom hit a lot of the really important points here, but a couple bear repeating. So I know I'm being repetitive, but it's really important. So it's a hard no on the IA piece. So I'll just reiterate, as Tom said. We are dedicated to our exclusive agent model completely, and we believe that there is not only a meaningful place but a huge place for our exclusive agents to grow in the market because, as Tom said, most consumers still want to work with an agent.

So in the presentation materials, it talked about higher growth, lower cost models. So I'll just hit a couple of things. Lower cost, we've been really reticent in the past to allow agents to consolidate locations or to even go, in some cases, without real estate or reduce their real estate footprint. We've been very focused on a model that is, "How many signs do you have up across the countryside?" And we're going to really lean in to allowing agents to reduce costs in the way they run their business. And Tom talked a bit about the service. We started that in 2019, and we built it up a bit and everything, but we really have to get to a centralized and more efficient and effective way of serving customers than separately across 10,000 different locations. And we can take a lot of cost out of the system and reduce the cost for the agents so that they can focus on growth.

From a higher growth standpoint, it's about leaning in on the marketing that they do, that we can help them do more effectively and efficiently as a large enterprise, the lead management that they do, compensating them more for new business, as Tom mentioned also. That's the existing agents and how we want to transition that to higher growth, lower cost. The new models, for example, and we have several hundred of these already in place actually, are -- we're learning from our Canadian operation actually. In Canada, we have AllstateÂ agents who operate sort of independently from one another. It's not an agent with multiple staff. They're independent workers and producers. And they work on sort of a balance between being in communities and driving leads themselves and getting leads from the company. And it's been very successful. We're growing very fast in Canada.

So we leveraging that model and looking at models with no real estate, in local markets that are part of the community and are able to take leads and also generate their own leads in that community and grow. So it's early in the process, but in the second half of the year, we're looking to ramp those up significantly.

Paul Newsome
Piper Sandler & Co., Research Division

I guess, relatedly, could you talk a little bit about any early looks on the pilot programs for new agent recruitment and if there's some different things that will be happening here in the near future?

Thomas Joseph Wilson
Board Chair, President & CEO

Glenn, do you want to take that?

Glenn Thomas Shapiro
President of Personal Property-Liability of AIC

Yes. So we're focused on those new models I just mentioned in terms of our recruitment right now. And so we have been -- I think we have several hundred already, and we have a lot more in the pipeline. So we're looking to grow with those new models. What we're really focused on with the existing agent group, while we're recruiting some into the compensation program that we have as opposed to what we call enhanced compensation program, which was a higher cost model before, we're recruiting some into that as more of what you'd refer to as a traditional exclusive agent. But the heavier emphasis on our recruiting is on those new models where, with our existing agents, we're really focused on investing to get more of those agents growing and wanting to grow. The good news is they are growing right now. We have increased new business production with our existing established agents. So when you see the total -- somebody referenced earlier of slightly down on the overall agency force, that is driven by sort of the lack of new appointments. The existing agents, new business is up year-over-year.

Thomas Joseph Wilson
Board Chair, President & CEO

And Glenn, let me just add to that last point, Paul, which is, when you see that little red bar on our graph, that was an intentional choice on our part, not a flaw in the system. So it's not like we decided that, you know what, we were hiring these new agents. We require them to have their own office. We require them to have support staff. To make that work when you have no customers, we're paying 30% upfront commissions, which then stayed high for -- not at 30% but stayed higher than customers should have to pay for them for about 5 years. And we said, you know what, this is not the model of the future. We could have kept that going while we develop these new models. And the system would look like, it would have been generating more growth than it is today.

But we say, you know what, economically, that's just not the smart thing to do, like we're not using shareholders' money right. And that's where we get into, which is the conversation we were talking about before, profitable growth. You got to have profitable long-term growth. And so you have some bumps, but that's not about a flaw on the system, that's about an intentional choice.

Operator

Our next question comes from the line of David Motemaden from Evercore.

David Kenneth Motemaden
Evercore ISI Institutional Equities, Research Division

I guess I wanted to just touch on retention. I was surprised it fell a little bit here again, also especially given some of the rate actions that you guys have taken. I guess could you maybe just talk about how much of an impact the lapsing of any billing leniency may have had on the retention and what your expectations are for retention going forward? Like, should we see a snapback here in the second quarter? Yes, I guess that's just my question on retention.

Thomas Joseph Wilson
Board Chair, President & CEO

David, let me provide an overview, and Glenn, you can take the impact of the pandemic billing stuff. First, I would say, retention is really hard to do attribution on. People leave for all different reasons. And sometimes, it's for price. Sometimes it's because they move. Sometimes it's they bought a new car. And so it's difficult to get it down to precision to in a point. What you do know is if your Net Promoter Score is good and you're doing a better job for customers, they should stay around longer. And if you're competitive in price and you're changing your price not only for new business, which we've done, but also for your existing customers, which we've done, so they have a better price, and that should also keep them. But there's lots of different variations. So it's really hard to predict it.

Glenn, do you want to talk about how you're feeling about retention this quarter? And again, we have a hard time -- nobody really knows how to predict retention.

Glenn Thomas Shapiro
President of Personal Property-Liability of AIC

Yes, absolutely. So retention is a lagging metric, first of all, I'll start there. That wherever -- whenever a customer decides to cancel, move, shift, we record it and report it at the point of what would have been the renewal. So there's a bit of a lag to that. So while we stopped the special payment plans during last year, there's still some of that trickling in. So as Tom said, attribution is difficult on this. But there's a portion of it that's related to that, no question.

Secondly, though, look, it is a highly competitive market right now. Shopping is up. Advertising is up. And there's some impact from that. It's interesting when you look at National General, as an example, if you saw in some of our disclosures, like National General's new business, it's really eye-popping because National General writes a lot more new business to grow because they have a shorter cycle time. As our business shifts and we look at overall protection business, and we're writing in more markets and we're writing direct and not just through exclusive agents, that number will move around a little bit on retention, but our focus is to create a lot of new business. That's what Transformative Growth is about. We're going to create a lot of new business so that the undulations of retention don't mute our overall growth.

David Kenneth Motemaden
Evercore ISI Institutional Equities, Research Division

Got it. That's helpful. And then maybe just on the new business side. Obviously, great growth, especially on the direct side in new apps. I guess I'm wondering maybe if you could just -- you had kind of mentioned it in your script but wanted just a bit more details on the Milewise offering and how that did this quarter, how big that is as a percentage of the entire book. And was that really the driver behind the direct growth that we saw in the quarter?

Thomas Joseph Wilson
Board Chair, President & CEO

Glenn, you can take where we are with Milewise in a number of states and the stuff you got on pricing. I would say, though, when you just step all the way back, we're about building a digital insurer. And sometimes that gets lost as to how big and how successful we are at it given the size and scale of our company in total. And sometimes people look at people who only do that and assume that they're about to take over the market. However, we're happy to compete. We feel like we're really doing well in here. We were early in telematics. We think we're a leader in telematics. And this is an example of a product where we were out early. We're aggressively amortizing it, and it's resonating.

Glenn, do you want to talk about what you've done to help it grow?

Glenn Thomas Shapiro
President of Personal Property-Liability of AIC

Yes, absolutely. And to the question of is it driving the direct growth, I would say no. Direct growth is -- a majority of that is not Milewise. It's an interesting thing to look at, as Tom said, when you look at it inside a company like Allstate, Milewise will look relatively small. It's up this year something close to -- in autos, policies, I think, are 4 and change times what they were, autos are 6 and change times what they were a year prior. So significant growth. If this was a stand-alone start-up sitting outside of a large insurance company like Allstate, it is the largest in the industry, pay-by-mile program, and it would look really big and really fast-growing and really attractive.

Inside of Allstate, it is helping our growth, but it is not driving our growth, is the way I'd say that. We're looking to expand over time on Milewise. Right now, it's available to about 50% of consumers across the country, and we have more states lined up for that. It does require the OBD port, which I think everybody knows there are chip shortages out there. We have not run into a problem where we have to slow down our Milewise at this point. But we are actively managing our supply chain on it because it is a popular product, and we're managing our state expansion and looking at that so that we don't run into supply chain issues.

Thomas Joseph Wilson
Board Chair, President & CEO

Thank you for the questions. I think we're out of time here. It's top of the hour, and we try to be respectful of your time. Obviously, we appreciate you coming to spend time with us and hear about us. We had an excellent quarter. The work, and you saw from that first slide the amount of expertise and effort that went into delivering all that for the quarter, wasn't just this quarter. It's what we do over time. But we feel good about where we're at. So we've had great operating results as well.

So thank you for your participation, and we'll see 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.