S&P Capital IQ

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The Allstate Corporation NYSE:ALL

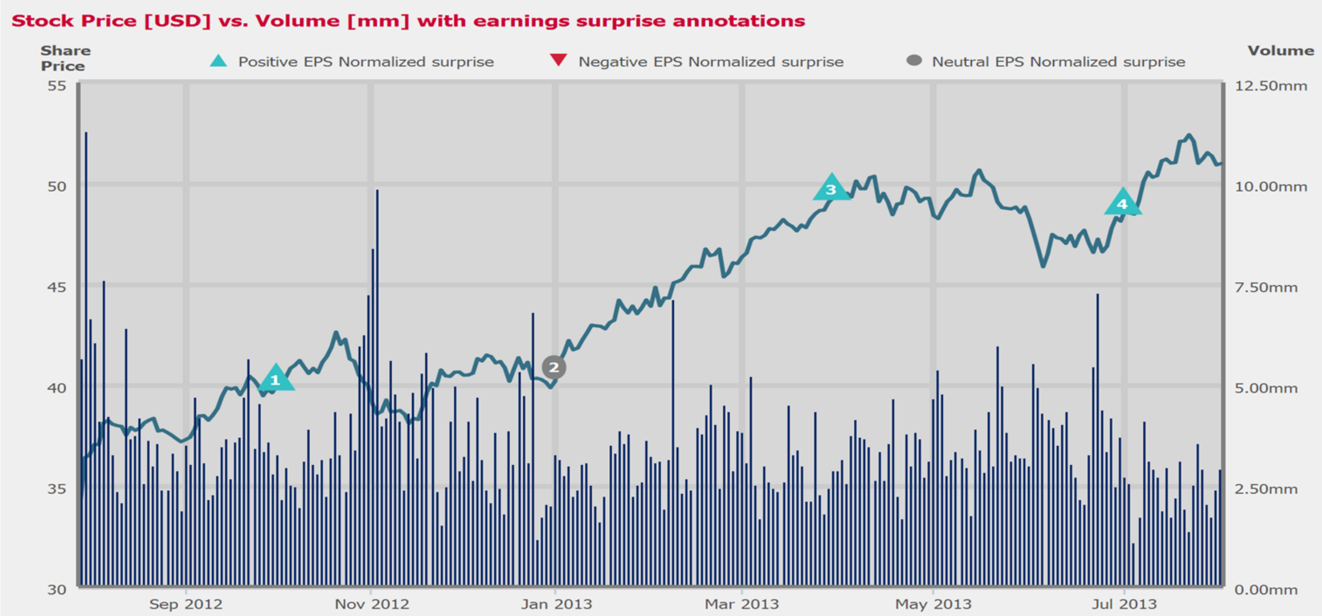
FQ3 2013 Earnings Call Transcripts

Thursday, October 31, 2013 1:00 PM GMT

S&P Capital IQ Estimates

	-FQ3 2013-			-FQ4 2013-	-FY 2013-	-FY 2014-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	1.38	1.53	▲10.87	1.36	5.32	5.19
Revenue (mm)	6899.12	6972.00	▲1.06	6967.20	27799.18	29038.07

Currency: USD
Consensus as of Oct-31-2013 12:28 PM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ3 2012	1.12	1.46	▲1 30.36 %
FQ4 2012	(0.06)	0.59	NM
FQ1 2013	1.29	1.35	▲2 4.65 %
FQ2 2013	0.98	1.12	▲3 14.29 %

Call Participants

EXECUTIVES

Donald J. Bailey
Former President of Emerging Businesses

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

Mark R. LaNeve
Former Director, Chief Mktg Officer of Allstate Insurance Co. and SVP of Allstate Insurance Co.

Matthew E. Winter
President and President of Allstate Insurance Company

Samuel H. Pilch
Former Group Vice President and Controller

Steven E. Shebik
CFO & Executive VP

Thomas J. Wilson
Chairman & CEO

ANALYSTS

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

Jay H. Gelb
Barclays PLC, Research Division

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

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

Michael Steven Nannizzi
Goldman Sachs Group Inc., Research Division

Michael Zaremski
Crédit Suisse AG, Research Division

Paul Newsome

Robert Ray Glasspiegel
Janney Montgomery Scott LLC, Research Division

Presentation

Operator

Good day, ladies and gentlemen, and welcome to The Allstate Third Quarter 2013 Earnings Conference Call. [Operator Instructions] As a reminder, this conference call is being recorded. I would now like to turn the conference over to your host, Mr. Steve Shebik, Chief Financial Officer. Sir, you may begin.

Steven E. Shebik
CFO & Executive VP

Thank you, Matt. Good morning, everyone. Thanks for joining us today for Allstate's Third Quarter 2013 Earnings Conference Call. After prepared remarks by Tom Wilson and me, we'll have a question-and-answer session. Last night, we issued our press release and investor supplement, filed our 10-Q for the third quarter 2013 and posted a slide presentation to be used in conjunction with our prepared remarks. These are all available on our website. This presentation may contain forward-looking statements regarding Allstate's operations. Allstate's results may differ materially from these statements, so please refer to our 10-K for 2012, our 10-Q for the third quarter and our most recent press release for information on potential risks. Also, this discussion will contain some non-GAAP measures for which there are reconciliations in our press release and on our website. We're recording this call, and a replay will be available following the conclusion of the call. We'll be available to answer any follow-up questions you may have after the call. Now I'll turn it over to Tom.

Thomas J. Wilson
Chairman & CEO

Well, good morning, and thanks for investing your time with us. I'll start by covering the third quarter results, as they relate to our strategy and then our 2013 priorities. Now Bob Block is not with us today. He's attending to a health issue. So Steve will cover both the business performance and capital sections of the presentation. Also today -- with us here today are Matt Winter, who, of course, leads Allstate Personal Lines; Don Civgin, who is responsible for Allstate Financial and Esurance; Judy Greffin, our Chief Investment Officer; Don Bailey, who leads the Emerging businesses; and then Sam Pilch, our Corporate Controller. Now if you look at the quarter in total, we generated very strong results. It really reflects the broad and comprehensive approach we've taken to creating shareholder value. Operating income was strong, and we made progress on all of our 2013 operating priorities.

Growth improved, and we made progress on balancing risk and return and deploying capital to enhance returns. Starting with Slide 2. It summarizes our third quarter results. Revenues increased to $8.5 billion, which is up 4.1%. That reflects a 5.3% growth in net written premium with contributions from all of the customer segments and businesses. Net income of $310 million declined from the prior year quarter, primarily due to the $475 million after-tax loss from the pending sale of Lincoln Benefit Life. Operating income of $713 million was essentially equal to the last year's third quarter, while operating income per diluted share increased as a result of our share repurchase program. Our book value per common share increased both with and without fixed income on realized gains and losses.

On Slide 3, we show the 4 distinct customer segments that drive our competitively differentiated approach to the market, and our results in each. The 3 brands where we underwrite risk, that's Allstate, Encompass and Esurance, all grew net written premium. Answer Financial also increased its nonproprietary premium. Now for The Allstate brand, which serves customers who prefer local advice, assistance and a branded experience, policies declined by 0.4% from the prior year quarter, as growth in standard auto was offset by continued reductions in homeowner policies.

Allstate brand's standard auto policies increased 1.1% versus 1 year ago and 0.6% versus last quarter, reflecting continued improved retention and strong new business growth. We've made substantial progress in improving returns in homeowners, and as a result, the decline in homeowners policies has lessened. Total homeowner policies declined by 3.2% from a year ago, and 0.3% versus last quarter. We're beginning to take steps to position this line, as a competitive -- so it becomes a competitive advantage for us as opposed to a drag on overall growth. Actions taken to position high-performing agencies for success, including more effective compensation programs, is also working, and agencies are expanding. The profitability improvement in this segment with a combined ratio of 86.4 and an underlying combined ratio of 85.4. The Esurance brand, which is in the lower right, serves the self-directed brand-sensitive customer, and continues to generate significant premium in unit growth as it successfully leverages the benefits of being part of Allstate. Increased advertising that's more effective, better pricing for preferred risk auto customers and improved claim practices are designed to acquire and retain profitable lifetime value customers.

The combined ratio remained high at 116.8, in part, reflecting the high levels of marketing spend, the expensing of acquisition intangibles and the impact of higher loss ratios on new business. The Esurance team is working to adjust pricing underwriting to ensure that this growth will generate long-term profitability. These actions caused growth to decelerate in the third quarter, if you look from month-to-month, and we expect growth to decline somewhat in 2014. The Encompass brand, which is in the upper left, serves consumers who want local advice but a choice of products and services. That continue to show positive growth of policies, up 7.2% compared to the prior year quarter.

Strategically, we remained focused on household penetration with our unique package product that represents about 75% of Encompass' volume. The combined ratio on the quarter was 93.6, an improvement of 6 points from the prior year quarter, with an underlying combined ratio 92.5. The improvement in the combined ratio reflects a favorable reserve reestimate.

On Slide 4, we show a progress report on our 5 2013 operating priorities. I've already covered the Grow Insurance Premiums priority for property-liability, and that's the first 5 sub bullets there. Allstate Financial's premiums and contract charges also increased by 3.7% over the third quarter of 2012. The growth in premiums and contract charges for underwritten products was 4.4%, with Allstate Benefits growing approximately 10% compared to the prior year quarter.

Our second priority is to maintain auto profitability. The Allstate brand had a standard auto combined ratio of 94.9, which was 3 points higher than last year's third quarter due to lower favorable reserve reestimates. When you look at the underlying combined ratio, it was 94.6, which is 0.9 points higher than the prior quarter. That increase reflects a modest increase in frequency and severity and a higher expense ratio, which is offset in part by higher average premiums. Esurance and Encompass had a combined ratio improvement in the quarter when compared to the prior year quarter, but more work is required to improve returns on these 2 brands. Our third priority is to focus on returns in homeowners and annuities. We continue to make progress on raising returns in homeowners with an Allstate brand homeowners combined ratio of 65.3, with an underlying combined ratio of 61.8, which is 4.4 points better than the prior quarter. With the underlying combined ratios tracking towards the low 60s for the last several quarters, we believe we are now positioned to focus on building a sustainable competitive advantage in homeowners. Annuity returns improved in the quarter, but the long-term outlook is still challenged by low interest rates. Given our favorable strong underlying results for the quarter, it's reasonable to ask if we'll end the year below our 2013 annual outlook of 88 to 90. We believe the annual outlooks are the appropriate way to manage expectations of profitability, so we're not providing a change to the range for just the fourth quarter. We will announce an outlook range for 2014 when we report the full results for this year.

Our fourth goal is to proactively manage investment. Net investment income benefited from higher income on investments and limited partnerships in the quarter. We continue to position the property-liability portfolio with a shorter duration to mitigate the impact of rising interest rates, and Steve will take you through some graphs that make that very clear. And while this action generates current capital gains and lowers our risk profile, it obviously reduces the portfolio yield and future operating income.

Total returns for the quarter was 1% on modestly higher net investment income and really minimal changes in the overall valuation of the portfolio. Now the fifth priority is to reduce our cost structure, so we can give customers greater value with a differentiated offering. During the quarter, we reduced the cost structure through simplification and process improvement initiatives. We also restructured our employee and retiree benefit programs to make benefits more consistent amongst employees and adjusted current market practices.

Our property-liability expense ratio increased in the third quarter compared to the same period last year, but has sequentially improved since the first quarter of this year. Investments are being made in technology and to expand Esurance's geographic and product footprint. Now let me turn it back to Steve.

Steven E. Shebik
CFO & Executive VP

Thanks, Tom. On Slide 5, we provide financial highlights for Property-Liability and Allstate Financial. Property-liability had earned premium of $7.0 billion, which grew 4.1% from the third quarter of 2012, with a combined ratio of 90.0. The underlying combined ratio for the quarter was 86.9, 0.9 points better than Q3 2012. And the year-to-date underlying combined ratio was 87.2, better than our full year outlook range.

Catastrophe losses were $128 million, $78 million below the third quarter of 2012, and the lowest third quarter losses since 2002. As a result, net income was $656 million in third quarter, 2.7% higher than the prior year quarter. The combined ratios on a recorded and underlying basis for each brand are shown on the right side of the exhibit. The Allstate brand continues to generate solid profitability, as the positive effects of rate changes and low catastrophe losses more than offset the modest increases in loss cost.

The Encompass recorded combined ratio for the quarter improved from the prior year quarter, reflecting favorable reserve reestimates. The Esurance combined ratio of 116.8 improved 1.7 points from the prior year quarter; however, it remained elevated, as Tom noted. Allstate Financial, on the bottom left, had a 3.7% increase in premiums and contract charges in the quarter compared to the third quarter last year, helped by underwritten products increasing 4.4%, including an approximately 10% increase for Allstate Benefits. The benefit spread declined in the quarter due to an increase in reserves related to our annual review of reserve assumptions, partially offset by improved mortality in life insurance. The investment spread decline reflects a $169 million pretax gain in the prior year associated with updating input used in the valuation of certain embedded derivatives. Operating income, which excludes this gain, improved 30.9% from the prior year quarter due to lower credit interest on spread-based liabilities and improved mortality in life insurance, partially offset by a higher charge associated with our annual comprehensive review of DAC and reserve assumptions. The net loss was $360 million in the quarter due to the loss on the pending disposition of Lincoln Benefit Life.

On Slide 6, we provide net written premium and policies in force trends by brand and in total. For total Property-Liability, in the upper left, net written premium increased 5.3% from the third quarter of 2012, and overall policies grew 0.8%. Our strategy to provide unique products and services to distinct consumer segments is working, as both net written premium and policies grew for each brand compared to last quarter.

Moving to the upper right chart. Total Allstate brand grew as standard auto net written premium increased 3.3% from prior year, while policies increased 1.1% compared to the third quarter of 2012, and 0.6% compared to last quarter. Allstate brand's homeowners net written premium grew 5.5%, while unit volume declined at a slower rate than last quarter. The results for both of these lines reflect favorable trends in retention and new business.

On the bottom 2 charts, you can see the growth trends for Encompass and Esurance. Both continue to grow compared to the prior year quarter, in both written premium and policies. While growth trends have improved, we've maintained overall margins.

On Slide 7, the charts on the left side of the slide show the earned premium and loss per policy trends, while the charts on the right-hand side show the combined ratio trends.

For standard auto, losses per policy increased at a rate just slightly higher than the earned premium per policy, as you can see in the upper left, where the blue line is above the red line. Essentially, moderate increases in frequencies and severities were offset by rate increases. The combined ratio for standard auto remained consistently profitable, as shown in the upper-right chart, where the red bar is generally around the 95 combined ratio.

For Allstate brand homeowners, shown in the bottom half of the slide, loss cost per policy decreased, while earned premium per policy increased; with the blue line substantially below the red premium line. These resulted in an improvement in underlying combined ratio of 4.4 points to 61.8. The recorded combined ratio for the quarter was 65.3, a 7.6-point improvement from the prior year quarter, reflecting the improved underlying margin and lower catastrophes. The combined ratio trends are shown in the lower right-hand chart, and you can see our underlying 12-month average is about 63, the lowest point in all quarters shown.

On Slide 8, third quarter investment results reflect actions we have taken to reduce interest rate risk in our Property-Liability portfolio, maintain alignment with Allstate Financial's changing liability profile and reposition our public equity portfolio. The carrying value of our portfolio totaled $80.5 billion compared to $97.3 billion at year end. The decline is primarily in our core debt portfolio, reflecting the $12.2 billion reclassification of Lincoln Benefit Life's investments to "held for sale" due to LBL's pending sale, as well as lower fixed income valuations driven by a significant rise in interest rates since the beginning of the year.

The equity and owned component of our portfolio continues to grow. We expect to earn higher but more variable returns over time on this part of our portfolio. On the top of Slide 8, you can see net investment income totaled $950 million in the third quarter and total portfolio yield is 4.5%, both below prior quarter but better than the third quarter of 2012. Low reinvestment yields and a smaller asset base driven by reductions in Allstate Financial's spread-based liability, resulted in lower income in our core debt portfolio. The decline was partially mitigated by $36 million in prepayment fees and litigation proceeds. Our equity and owned portfolio continued to benefit from strong limited partnership earnings, which increased by $84 million compared to the prior year quarter, and more than offset the decline in the core debt portfolio income.

At September 30, 2013, limited partnership valuation included approximately $400 million of cumulative appreciation that have been recognized in our income, but has not been distributed. This amount is carried on our balance sheet as an asset, but is subject to variability in the ultimate realization. If cash proceeds are less than its valuation, it will negatively impact future operating income.

Moving to total return. The total return for the quarter was 1.0%. Net investment income was a primary driver, as treasury rates were relatively stable for the quarter. And attribution of the change in net unrealized capital gains for the first 3 quarters of the year is provided on the bottom-right of the slide. The fixed income valuation decline driven by a significant increase in treasury rates was the overwhelming driver of a $2.7 billion decline in unrealized gains for the first half of the year.

For the third quarter, positive equity valuations and realized loss activity offset the impact of the additional modest declines in fixed income valuations, as the net unrealized position held relatively steady.

Slide 9 depicts trends in our Property-Liability in Allstate Financial portfolio, separately. You can see a declining earned yield trend on our Property-Liability core debt, in a graph at the top left, reflecting maturity reinvestments and our ongoing risk-reduction activity. Through our rate risk-reduction actions, we have positioned the portfolio to be less sensitive to an increase in interest rates, and have pulled forward our future income through the realization of gains and the sale of longer-term securities. In a scheduled maturity graph in the upper right, the 2 declining red bars at the longest maturities represent that only -- reflect that only 15% of our current portfolio is due after 7 years versus 32% at the end of last year. The current yield on intermediate corporates, which is our targeted reinvestment proxy, is approximately 1.75% to 2%. Given the shortfall relative to the portfolio yield, maturity and sales activities have and are expected to continue to result in a decline in net investment income for the core debt portfolio.

At the bottom of the page, you can see that Allstate Financial's net investments income has declined as a result of the managed reduction of the spread-based liabilities, a trend that will be accelerated with the sale of Lincoln Benefit Life. Over the past few years, Allstate Financial's investment cash flows have been used largely to fund liability outflows rather than being reinvested. So the portfolio yield has not declined as much as the Property-Liability portfolio. Further, our future investment income will continue to be impacted by the pace of the liability outflows and reinvestment activity. The exhibit provides a pro forma view of portfolio results exclusive of LBL-related assets.

As you can see in the -- on the bottom-left chart, in the last column in the table, the core debt portfolio yield remains essentially unchanged around 5%, but the investment income is approximately $140 million lower, excluding the LBL-related assets. The chart on the bottom right shows the ongoing decline in the Allstate Financial portfolio, as we continue to reduce spread-based liabilities.

Moving on to Slide 10, we provide a roadmap of items that impacted the results this quarter. Last quarter, we announced the sale of Lincoln Benefit Life, which is a business serving customers in the upper-left customer quadrant with life and annuity products who did not have a competitive advantage. Lincoln Benefit Life is treated as held-for-sale beginning this quarter, with its assets and liabilities collapsed into separate lines on the balance sheet. We estimated $475 million after tax loss on sale, as recorded in Loss on Disposition on our income statement. We expect this transaction to close early in the first quarter of 2014 subject to regulatory approval.

After closing, we'll have lower financial risk, and additional deployable capital of approximately $1 billion. This capital will be freed up in Allstate Life Insurance Company, and a number of steps will be necessary for us to move into the parent company, post closing.

As discussed last quarter, we made changes to our pension and postretirement benefits, which caused the liabilities to be remeasured in July. This resulted in a change in our liabilities; favorably impacted shareholder's equity by $658 million; a curtailment gain related to changes in our retiree life favorably impacted net income by $118 million; and a pension settlement charge included operating income of $49 million. We'll also perform an annual remeasurement of our pension liability during the fourth quarter and are likely to have additional settlement losses of a similar or greater magnitude at that time.

Our annual review of the discontinued lines of coverage reserves resulted in a negative after-tax impact totaling $86 million compared to a negative impact last year of $25 million. This year's review resulted in a pretax increase to asbestos reserves of $74 million, and of our metal reserves of $30 million, and other exposures at $30 million.

I've already mentioned our annual comprehensive review of DAC and reserve assumptions at Allstate Financial, which negatively impacted operating income by $44 million this year compared to a negative impact of $21 million last year. Slide 11 shows our capital position at September 30 compared to the same period a year ago. We remain in a strong capital position at the end of the third quarter. This quarter, we returned $608 million to shareholders. We repurchased 2.1% of our outstanding stock or 9.8 million shares, compared to $0.25 per share quarterly dividend. We have $589 million remaining on our share repurchase authorization.

As we continue to execute our capital management plan, our balance sheet has changed, as we have previously described. We issued $800 million of subordinated hybrid debt and $385 million of perpetual preferred stock in the third quarter, bringing our total preferred stock to $673 million. Our estimated statutory surplus at September 30, 2013, is $17.3 billion in total, with $13.9 billion estimated for the Property-Liability companies. Holding company level assets were $2.8 billion. Net income return on common shareholders equity was 9.0% and 12.0% on an operating income basis. Operating income ROE declined due to higher capital levels at September 30, 2013, and lower operating income for the trailing 12-month period, primarily reflecting higher catastrophes caused by Super Storm Sandy in the fourth quarter of 2012. Net income ROE declined primarily due to lower operating income and the loss in disposition of Lincoln Benefit Life.
Overall, a strong quarter in which we made good progress in the execution of our customer-focused strategy and 2013 priorities. Now, Matt, let's open it up for questions.

Question and Answer

Operator

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

Robert Ray Glasspiegel
Janney Montgomery Scott LLC, Research Division

It seems like -- first of all, let me wish Bob Block a speedy recovery, so we can beat him up and have fun with him again soon. On the agent count, are we in a position that you could be able to grow that over the next 3 to 5 years? Tom, what's your outlook there?

Thomas J. Wilson
Chairman & CEO

Bob, first, thanks for the comments about our own Bob. He's listening, so I'm sure he'll be happy to hear that you want to beat him up. The -- let me make a comment, and then I'll turn it over to Matt. First, when you look over a longer period of time, 3 to 4 years, we knew we were going into this slow growth segment with trying to fix homeowners. We knew they would impact auto, and we also knew that we needed to help our most successful agencies become more successful. And those that could not get there needed to find another way to earn a living and not take care of our customers. So we made a whole bunch of changes. Some -- and then, of course, we always have turnovers. So we went down from like over 11,000 to like 9,000, as you point out, of agency owners. And that helped build up the size of the average agency from about 1,800 policies to over 2,500, which gives them more skills and capabilities, which is -- gets to the other point that I'd like to make, is, it's really about the number of feet on the street we have. So it's the number of agents that -- agencies we have, as well as the number of people, licensed sales professionals, they have in their offices. And that number has continued to go up, in part, because we've built a system which is very supportive of them. Everything from new technology, rolled out to the compensation programs, to the way in which we help them grow their businesses. So Matt can talk about the specific plans he has to grow. But I think you're correct in that, we are positioned now to begin to grow distribution in The Allstate Agency channel.

Matthew E. Winter
President and President of Allstate Insurance Company

Bob, it's Matt. Thanks for the question. As Tom said, we look at total sales professionals, including exclusive agents, our licensed sales professionals, our exclusive financial specialists, The Allstate independent agents. So we're looking at the number of points of presence on the street capable of selling The Allstate products. But we're not just looking at it in terms of numbers. As Tom said, we're looking at it in terms of numbers, productivity of those existing points of presence and the geographic distribution to ensure that we have appropriate market penetration. One of the consequences of shutting down The Allstate direct operation and shifting all of The Allstate assets, The Allstate brand assets to an agency model, is that various geographies in the past were covered by the direct operation and did not have sufficient Allstate agencies on the street. That's part of the Heartland, that's part of -- pieces of New England. And so we have fairly aggressive initiatives underway, to put points of presence where they need to be, so we can appropriately serve customers throughout the United States. So you should expect to see not only numbers improve and productivity improved, but the geographic distribution change over time as we analyze it from a market potential and a market penetration perspective as well.

Robert Ray Glasspiegel
Janney Montgomery Scott LLC, Research Division

Thoughtful answers. Just a follow-up. You had year-over-year growth in PIF and Allstate brand auto, and certainly, insurance is showing good growth. So both of those units seem to be bucking the trend of the aggregators, which some of your competitors are starting to complain about. Did you see that at all as an issue in Encompass? Or are you a little just less immune to the aggregators' impact because of your current product mix?

Thomas J. Wilson
Chairman & CEO

Bob, this is Tom. I would say, if you're talking about aggregators like Answer Financial, it continues to grow. It, of course, has a relationship with Esurance, where it takes a lot of the quotes that Esurance does not close, and then gets those customers placed with somebody else so that we can still serve them. And as you saw, their premiums were up this quarter as well. As it relates to each individual market, we are seeing the competition change in each segment. So many people in the lower left with The Allstate agencies are starting to pursue similar strategies to us in terms of product differentiation and bundling. In the Esurance side, you're not seeing people pursue the bundling. And we're just getting started there, and starting to -- we just rolled out, in one state, Homeowners. But Esurance has not only the potential of a good low-cost model and an ever-increasing strength in its brand to be able to then broaden the product suite from there. And Encompass has a specific focus. So rather than just try to sell standalone auto policies, it's really trying to sell both an auto and a home policy together, which is our packaged policy. So we think that getting the right customer value propositions for each segment is the way to compete.

Operator

Our next question is from Adam Klauber of William Blair.

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

Just following up on some of the auto questions. Your new issued applications are up roughly 15% in The Allstate brand. Could you talk about it? And that's a big jump from what it was a couple of quarters ago. What's driven that big jump in applications? That's number one. But also number two, within those applications, are those more within your core preferred? Or is that moving more into the standard market for auto?

Thomas J. Wilson
Chairman & CEO

Adam, I'll get Matt to talk about new business. But let me just point out that the biggest driver of growth in this quarter, actually, or this year in auto, is retention. So new business is obviously important to us, but the retention of -- is moved up about 0.7 points. So I'll ask Matt to talk first about new business, but then he'll probably want to talk some about the broad-base improvements we have in retention as well, because that's -- I guess that's another factor driving your question or your comment.

Matthew E. Winter
President and President of Allstate Insurance Company

Adam, it's Matt. Thanks for your question. As Tom said, auto growth this quarter and auto growth generally, is driven in large part by increased new business and better retention. On the new business side, what we've seen is roughly 3 quarters of the lift came from improvements in our closed rate, and the remaining quarter is driven by quoting more customers. So if you look at the closed-rate component, I'd say the vast majority of that has to do with continued enhancement of our pricing methodology, our agency reengagement, and the increased home availability. All of those combined to improve our close rates. On the quote volume piece, it's certainly what we just talked about with Bob, it's increased points of presence and its reengagement of the agency force that's driving more quotes through the sales funnel. When you get to the renewal side, we saw widespread improvement in renewal rates. But the majority of the improvement on that side, on the retention side, in September -- through September, is a result of New York and Florida improvements. Now certainly, it's not only those 2, but those were the 2 biggest levers on the retention side. A number of other factors like increased homeowner availability, customer experience initiatives, we have a much better rate management in place, so there's less rate disruption. And all of that has contributed to the retention improvement as well.

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

So -- I'm not asking for prediction but as, particularly as your homeowner product becomes more competitive going forward, does that have the potential to continue to pick up your standard auto retention going farther?

Thomas J. Wilson
Chairman & CEO

Well, certainly without predicting, as I've said on a previous call, about 80% of our new house and home sales are coming with at least 1 auto. So it's a system, as we've said before. We talked about home availability impacting both the new business side and the retention side, since we're able to keep a stronger relationship with the customer. But it's also customer experience, rate management. It's the level of advice and service provided by The Allstate agency. And of course, it's just the sheer numbers of feet on the street capable of representing the Allstate brand and serving our customers.

Operator

Our next question is from Jay Gelb from Barclays.

Jay H. Gelb
Barclays PLC, Research Division

First, just wanted to circle back on the positive PIF growth year-over-year in The Allstate brand. It's the first time, I believe, in about 5 years. So the question I've been getting is the sustainability of that trend of positive growth going forward.

Thomas J. Wilson
Chairman & CEO

Jay, it's Tom. I think if you look back over the last, say, 8 quarters and do a trend analysis, you'll see that the negative impact on homeowners peaked about 1 year ago at about 6.5% down by quarter in terms of the number of policies we've done. And as we said this quarter, it's come down to 3.5%. And if you look at the trend analysis on price changes in homeowners, you'll see that, that's also come down. So that trend line should continue which, as Matt pointed out, is helpful to not disrupting our current customers. And then, in addition, as they rollout House & Home, that should drive the auto line up. So the auto line that you're pointing to has a similar trend line. And you can do the same kind of math. If you just look at it, it's continued to go. I think we should be able to -- and our goal is to pick up share in all of our brands, and we're clearly picking up share in Esurance and Encompass. The Allstate channel's not yet to the point where it's picking up share in its segment, but I believe that the broad-based system and approach that Matt's taking will do that.

Jay H. Gelb
Barclays PLC, Research Division

Okay. And then on lost cost trends within the Allstate brand standard auto, it is the second quarter of losses exceeding earned premium growth, and both frequency and severity were higher in 2Q. I'm just trying to get a sense of the -- what's driving that?

Thomas J. Wilson
Chairman & CEO

Matt can talk about profitability management specifically and what he's doing there. A couple of general comments I would make is that, first, frequency bounces around a lot as do paid severities in BI, in particular. So depending on which cases you're settling. And we feel good about the reserves we have up, which are a little different than paid. So we feel good that we've accurately recorded the profitability, and frequency is just within its normal range. But Matt can talk about what he does to adapt to that going forward. I would say we have, though, a organizational system, which over the last 10 years, if you look at our profitability in auto, we know how to adjust and adapt, if you look back at our performance. Matt, you can talk -- will talk about what he does with the specific trends you're talking about. And he may have some comments about specific places he's working on.

Mark R. LaNeve
Former Director, Chief Mktg Officer of Allstate Insurance Co. and SVP of Allstate Insurance Co.

Sure. So as Tom said, we've looked at it fairly carefully. We're confident it's not a quality of business or a systemic issue. It's normal volatility. It's within our 3-year historical ranges and it's within our expectations. We manage to the overall combined ratio targets, knowing that the individual components will move over time. So one of my favorite sayings and one of the ways we manage this business is, "You can't stop the waves, but you can learn to surf." And that's kind of how we think about it. The waves are the normal volatility in the business, it's movement of BI, it's PIF fraud, it's economic changes, it's competitor actions, it's weather changes. And we are set up not trying to fight those waves or not trying to prevent them from occurring, but to ride them. And so we use pricing, we use sophisticated pricing methodologies, we use rate actions, we use underwriting actions, we use process changes, and most importantly, we use our 14 market operating committees, and 15, including Canada, to give us early warning and detection of the movement of those waves so that we're able to react appropriately to them, quickly get out in front of them and be able to ride them. And my opinion having watched this team over the last several years is, we have a bunch of tremendous surfers out there who are very good at reading the waves and getting on top of them. And I think the team, overall, does a remarkably good job of managing that. So these ins and outs in volatility frequency and severity, while we always explore them and research them to make sure they're not systemic, they do not concern us.

Jay H. Gelb
Barclays PLC, Research Division

Okay. And then a separate one for Don. In terms of getting the freed-up capital from the sale of Lincoln Benefit Life out to the holding company for share buybacks, how quickly could that occur?

Thomas J. Wilson
Chairman & CEO

Jay, this is Tom. That's really a question for Steve, I think.

Steven E. Shebik
CFO & Executive VP

Okay. So first, we have to close the deal, which is we believe early first quarter of next year. We have dividend limitations, which we'll have to get state regulatory approval to actually move the cash up to The Allstate Insurance company, and again, from the Allstate Insurance company up to All Corp. There are other alternative ways we might be able to move the capital through a repurchase of some of the equity ownership of Allstate Life from -- Allstate Life by Allstate Insurance company, which could get us up another level. But we still have to pay dividend up to All Corp. So it all requires regulatory approval, is the bottom line. We're in a strong capital position, so we're hopeful that our -- we apply for that, that we'll get favorable results.

Operator

Our next question is from Mike Zaremski of Crédit Suisse.

Michael Zaremski
Crédit Suisse AG, Research Division

First question, Tom. In regards to the goal of reducing Allstate Protection's expense ratio over time, I was curious if the major initiatives to drive that decline are already in motion, because I know there's been a lot of expense initiatives. And related, is part of the reason for the initiative due to the desire to bring Allstate's cost down closer to competitors who are gaining market share?

Thomas J. Wilson
Chairman & CEO

Mike, a couple of things. First, I would say we're always trying to reduce expenses around here. So the challenge we've had in reduced -- and we've done that over the last 4 or 5 years. The challenge we had in terms of the expense ratio was that the top line was going down, so you had to reduce your expenses faster than your top line was going down, particularly when it related to the number of policies you have. So we weren't offsetting inflation in some of our other costs. So that was our first challenge. Second, what are we doing now? We're continuing that. We have a different approach to it, so we're really looking at more continuous improvement actions to continue to take costs out. Our cost though, it depends how you slice and dice it. We look at it by segment. And so when you look at the lower left, that's a different cost structure than the lower right. And when you -- so if you look at it, you have to really look at the cost relative to State Farm, Nationwide, Farmers, because those are the people providing the same kind of value proposition. So you can't say that the agency expense is too high, because the agency does a lot of work. And our customers love our agencies, and they're happy to pay for our agencies. Those customers in the lower right want to do it themselves. And so you have to make sure your expenses are -- right there are relative to GEICO and Progressive Direct. So we look at the expenses relative to the customer value proposition that we deliver to people. When you look -- so -- and we think we can do a better job in all of our segments, so there's lots of -- we already should be able to take cost out with the improvements in technology, data management and global sourcing. So that's part of why we're saying it's part of our effort, which is, we're supposed to deliver good value for our customers. When you look at it by component, and if you look at advertising expenses, we think we're very efficient and effective, whether that's our float rates that you heard are up or it's the close rates at Esurance. So we feel good about the advertising component. So when you look at technology, which is another large component of our expenses, we -- actually, I think we're in the top quartile in terms of best, in terms of cost per line of code delivered, because of the way we do it. That said, we think there are ways we can simplify our processes. We still have too many processes that are legacy-based and too much, what I just like to call, built-up wax. So you should expect our expense ratio to come down over time. I would like you to think about it relative to the customer value proposition that we're delivering, not just who's growing and who is not growing.

Michael Zaremski
Crédit Suisse AG, Research Division

Okay, that's very helpful and thorough. Last question is in regards to investment income levels. You guys gave great disclosures, thank you, but there's still a lot of moving parts. I was hoping to get some guidance. So on the 10-Q, it looks to be about $56 billion of assets maturing through 2014 between P&NC and Life. And if we -- probably at least a 100 basis point lower yield -- higher yield than current new money rates, I'd guess. And there's also a lot of life insurance spread-based liabilities moving off the balance sheet. So I guess, at the end of the day, I'm just trying to -- if you net out everything together, what's the dollar amount of investments we should be sizing up as needing to be reinvested at potentially lower new money rates 2014?

Thomas J. Wilson
Chairman & CEO

I'll get -- Judy will answer the question on that. First, I agree. It's difficult to project investment income with what's both going out in the markets, what we're doing with Lincoln benefit, and what we're doing from a risk and return standpoint. So that is why we try to have as much transparency as we can. The number sounds high to me in terms of what's rolling, and Judy will talk about that. But let me maybe just say, our philosophy on this is we're going to make the appropriate risk return tradeoff for our shareholders, not do something just to maintain operating income so that we make somebody's estimates for operating earnings, if it's a bad idea for our shareholders. A good example of that is the shortening that Steve showed you on the Property-Liability portfolio. We could have had higher and would have had higher operating income this year, had we not shortened that portfolio. We're not trying to trade interest rates, we just didn't think it was a good risk return tradeoff to be longer than 7 years. So we sold about as much of that as we could. So as you're thinking about our investment performance, you should obviously look at how much we deliver in operating earnings per share, because that's what you and we are all held accountable for. But also think about it in terms of our total return and say, do you think we're getting the right total return relative to the risk that we've taken? Judy, can you take on this $56 billion number?

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

Sure. So not sure where you're getting the $56 billion number. But if you look at our notes, we do outline the maturity profile of the overall portfolio on Page 10 of the notes. And in 1 year, it's about $2.5 billion. And in longer than 1, less than 5, it's closer to $22 billion. And plus Steve also outlined for the property and casualty company in the presentation, that also shows what's coming off in the property and casualty portfolio, which is significantly less than the $56 billion. When you think about what's going on in Allstate Financial, as Steve said, and what we've said in previous quarters, that's largely a cash-matched book. And LBL really doesn't change that, the sale of LBL. So as Steve said, we're going to lose about $12 billion in assets under management when LBL goes away, but that doesn't really change our maturity profile as much as -- I would think of it more as a cash-matched portion of the book is going away and the balance of the portfolio stays largely in line with where it should be. When you said 100 basis points, that's about right. Our portfolio yield at this point is a little over 3%, and our reinvest proxy as investment is intermediate corporate. So that's about between 1.75% and 2%, so it is about 100 basis points differential. But it's not anywhere close to the $56 billion that you're mentioning. Those hits [ph] have run off.

Operator

Our next question is from Paul Newsome of Sandler O'Neill.

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

I wanted to see -- maybe ask about Esurance and whether or not some of the changes you've made and some of the things that you've experienced the last couple of quarters have changed your thinking about scale in that business, and whether or not your view of sort of how big you need to get there has changed in order to be sort of scaled profitable?

Thomas J. Wilson
Chairman & CEO

Paul, this is Tom. Let me make sure I understand the question. Our view of scale, we think Esurance is of scale today, but we're more than willing to invest a fair amount of money in advertising, which we break out in the disclosures, which is more than it would support if you didn't want to grow it. But we -- actually, I think there's a great opportunity to grow the business because we have a unique value proposition, which we're continuing to build out. So maybe help me think through a little more on the scale piece.

Paul Newsome

Well, I guess advertising is part of that scale, right? That the all-in -- eventually, the all-in costs have to get to the point where we're profitable. Are we -- is your thinking there changed when we're going to get to the point where it's all-in profitable?

Thomas J. Wilson
Chairman & CEO

Yes, that's helpful. Thank you. I have a better sense of where you're trying to go with it. First, we think -- we look at it, and the way Don runs the business, and you can talk about it in a second here with Gary Tolman, is that we have to have profitable lifetime value by customer cohorts, so what we write in a particular year. Given that you have large upfront advertising expenses, obviously, the first year, you lose money. And then you make money after it, because your advertising expenses are not required, really, for retention. So you have a large loss. As it relates to the total P&L, what I've said to Don is, as long as you're writing lifetime value business, which gives us a good return on capital, I'm prepared to keep funding the growth because it's a good economic deal for our shareholders, even if the advertising costs are such that they more than offset the earnings you get from retention business. So I'm willing to write an overall loss at Esurance as long as we're growing economic value for the shareholders. We obviously could stop that any time we wanted, and it would -- the combined ratio would drop down into a profitable standpoint. Don, you might want to just talk about how you're managing and thinking about lifetime value.

Donald J. Bailey
Former President of Emerging Businesses

Yes. Paul, first of all, I do agree with Tom. I don't think it's a matter of balancing scale and profitability, it's more growth and profitability. And so with PIF up over 30% more than prior year, that gets called into question. So when you look at the combined ratio that they're running, underlying is about 111.5. Because of the accounting model, there are 3 things going on. First is the advertising gets expensed upfront, as Tom said. We run it, as Tom said, based on the lifetime value of the business we're writing. So we're running it for economics. We take into account the acquisition costs, that's running in line with what we expect. Retention is running in line with what we expect, if not a little better. So we feel good about that. The second issue is the loss ratio. And I'll be honest, the loss ratio, it continues to be a little bit higher than we'd like. Gary and the team are on it. It's a few states. We're taking the right actions on pricing. If you look at the supplement, you'll see we've been consistently taking pricing actions, where necessary, throughout the year. But -- so I feel comfortable we'll get that back in line. But that's the second reason the compounded ratio is high. I think the third one is just investment in expenses. I mean, we're building out states. We're building out product lines. As Tom said, we sold our first homeowners policy last week in a bundled fashion. We've got motorcycle, we've got renters, and that requires a lot of upfront work to get those filings done and get the product ready to go, including technology investments. So I feel good about that. I feel good about the advertising response. A little bit of work to do still on the loss ratio. But overall, all those things put together, so long as we're making money on an economic basis, we're going to continue to grow the business.

Thomas J. Wilson
Chairman & CEO

So Paul, let me -- it's Tom. Let me, maybe, make one other comment. If you look at the increase in premiums in average rate that we show in the supplement, you can see that in The Allstate brand, auto -- if you just add up the last 4 quarters, you can't really add them up, but it's easier math, but it's a little less than 2%. If you look at Esurance, it's a little less than 6%. And if you look at Encompass, it's a little less than 6%, too. So both of those latter 2 businesses, we believe, we still have work to do to improve profitability in the auto business. Not so much work that we want to shut growth off completely, but you may see growth in those 2 lines come down next year as we work harder to deal with the issue that Don talked about in terms of loss ratio. At the same time, you should see the trend, that Jay talked about, in The Allstate brand go the other way. And of course, remember that the Allstate brand, in terms of total items in force, is about 15x the size of those 2 individually and of course, 7x to 8x the combination of them. So we don't need as much growth. So if we give up x points of growth in Esurance and Encompass because we're trying to manage the loss ratio, we don't need nearly that percentage increase in the Allstate channel to get overall growth. And we're trying to grow not only in each channel, but we're trying to grow the overall company.

Paul Newsome

That was perfect. Second question. And I actually know the answer, but I'm going to ask you anyway. The new accounting, I've been asking everybody what they -- if they want to comment on the new GAAP accounting that's coming down the pipe.

Thomas J. Wilson
Chairman & CEO

Are you talking about insurance, contracts and IFRS?

Paul Newsome

Yes, sir. The new FASB proposal.

Thomas J. Wilson

Chairman & CEO

Sam has been actively involved in shaping that. I think I would comment that it's not the answer you just gave us, which is perfect. I'm going to write that down, Paul, that we gave you a perfect answer. But we don't think it's a perfect answer. Sam might have a view as to -- we've been very public about our statements on it.

Samuel H. Pilch
Former Group Vice President and Controller

Paul, Sam Pilch. The -- yes, we filed a comment letter with the FASB and the IASB last week. And our view that the proposed accounting standards are radically different than the current. In fact, there is very little carryforward, if any, from the current standards that are proposed. The framework of the standards is to contribute to solvency measurement and performance and have deviated from historical performance reporting for financial purposes. So we have strong views that are different than proposed, and we advocate improvements to the current model, but not of any great significance, very targeted. Did I respond to your question?

Paul Newsome

That's also perfect.

Operator

Our next question is from Josh Stirling from Sanford Bernstein.

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

Good quarter; new auto apps were up 20-ish, almost 20%, even though you raised pricing in standard auto by something like 3% last quarter. Let me say that's great, you're not seeing much of a trade-off there. But against this, folks like Progressive seem to be sort of selectively reducing pricing, and Travelers are talking about a big double-digit reduction to auto new business. And so I guess that tees up 2 important questions. The first is, how does more competitive pricing in the independent agency channel actually affect you in your exclusive channel? And second, I think driving a lot of this is people and companies talking a lot about price elasticity. And I'm wondering what you think your elasticity looks like in the exclusive channel, and how you think that compares to the independent?

Thomas J. Wilson
Chairman & CEO

Josh, I would go this way. First, we don't think it's all about price. If you're in the -- if you go back to our quadrant, if you're in the upper end of the -- upper side to those, it's clearly more price-sensitive, because those customers are sort of like, "Just give me a name I recognize." So they tend to be a little more price-sensitive. We've tried to design our value propositions to recognize price is important, but that value is equally important. We don't get as much leakage between independent agencies, pricing and the captive channel. When you look at where our business comes from or where it goes, there's not -- obviously, people who want local advice go to the same kind of person, but we don't see a huge amount of pressure. If somebody in the independent agency channel takes that price down, we don't see a big change there. The -- as it relates to overall pricing, I would say we're sort of in line this year with our -- if you look at the top 3 competitors, top 7 states, we look in line with those people; not a big difference. Progressive might be at the low end. GEICO and State Farm would be slightly higher. But in the range of -- hard for a customer to tell. If you're talking about 0.5 points, $1,000 a year, $900 a year, you're talking about $5, so it doesn't really matter from a price elasticity standpoint. As it relates to what other people do in the future, I think Matt described how we run our business. We do the same thing in Esurance and Encompass, which is highly specific, we watch our cost, look at our value proposition, make sure it's fair to our customers. So I wouldn't -- and as it relates to Travelers taking big decrease, I think theirs was also related to a different product, and Don Bailey is shaking, may have some comment. But I think you're starting to see more people move to product differentiations. So if you look over a longer period of time, competition first was on sophisticated pricing, then it moved to advertising, particularly in the branded channels. And now it's moving to product differentiation.

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

That's helpful, that's helpful. And if I can just ask just one more quick question. Severity last year, everybody was generally concerned about it. It led to a bunch of price increases. Your guys' metrics, I mean, are still going up, of course, but seem to be moderating a bit. And there was some commentary coming from other companies that sort of suggested maybe the severity spike that everybody feared hasn't materialized. And I'm wondering if you guys have any color around that, or whether maybe people are just reacting to noise?

Thomas J. Wilson
Chairman & CEO

I think I would go back to Matt's comment that to the extent we have cost pressures, and we think they're real, we increase our prices. If we think it's just noise, we don't. If you look at our overall pricing, it's been less than 2% over the last 12 months. So we're feeling okay about where we're at.

Operator

Our final question today is from Mike Nannizzi of Goldman Sachs.

Michael Steven Nannizzi
Goldman Sachs Group Inc., Research Division

Just on -- want to square the deployable capital. So it looks like about $2 billion of run rate LBL, $1 billion at some point in the future. I remember you talked about the preferred issue that you, sort of balance sheet rightsizing you did late last year, creating another certain amount of capital plus the hold co. of cash of about $1 billion. Just want to think about -- first off, how much on the preferred capital movement, capital generation is yet to come? And how should we think about the right amount of liquidity you need to hold on to, like, on a go-forward basis, once you clear all these stacks? And then just one follow-up.

Thomas J. Wilson
Chairman & CEO

I'll let Steve answer the preferred question.

Steven E. Shebik
CFO & Executive VP

So on the preferred side, we've issued somewhere over $600 million so far. We're planning to issue about $1.5 billion. So kind of as the market allows over the next several months. The proceeds of that will generally be used for general corporate purposes. But we do have $950 million of debt maturing next spring and summer, and we may need the cash to pay that down.

Michael Steven Nannizzi
Goldman Sachs Group Inc., Research Division

Okay. And then the timeline for the remainder of the liquidity? Like, how much cash should we think about you kind of hanging on to it, the holding company, on, I mean, a run rate?

Thomas J. Wilson
Chairman & CEO

Okay. This is Tom. So Mike, what we do is every year, we wait until we get the statutory. We try to look at our capital plan in sort of January, February, and then let shareholders know what we're going to do for the next 12 months. So we still have about $600 million left on our current share repurchase program, so we're out buying that back. And then in February, when we get done with sort of how the year turned out, where was the, where was statutory capital, and then we look forward, and say how do we feel about earnings, profitability of the business. And therefore, we then come up with a share repurchase dividend plan out of that, which is based on how much cash we think we need. Obviously, we don't think we need $2.8 billion at the holding company. So let me actually close kind of around that, which is to say if you just look at the quarter, a bunch of things that come together at the same time, and they all happen to show up in the P&L, which really reflects our broad-based approach to try and drive shareholder value. So we are -- we've been maintaining profitability in the auto business. We've dramatically improved profitability in the homeowners business. Obviously, this quarter with cash incredibly low, it really showed up. But we think it shifts it to a more sustainable position, which gives us that strength, Mike, as you're talking about, in terms of earnings power, in terms of giving us confidence to do it. At the same time, we've made some strategic moves to -- which give us increased capital called Lincoln -- the sale of Lincoln Benefit Life. At the same time, we're working to improve the strength of the balance sheet by issuing things like Preferred, really, at little cost to the shareholders in terms of current earnings. And at the same time, we're buying back a bunch of stock and paying what is a great cash on cash return to shareholders, which cash on cash is both dividends and then the shares we buy back. So it's a very strong side we're in [ph]. And we're going to be in a better position, I believe, at the end of this year on that. And we still have plenty of capacity to fund the growth that you're start -- are now starting to see. So we feel good about the way everything came together. You wouldn't expect it all to hit the P&L all in one quarter, but it did. And we feel like we've been successful in driving shareholder value, which relates into increasing the value of your shares. Thank you very much for investing your time to continue and learn more about our performance. And we'll talk to 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.