S&P Global
Market Intelligence

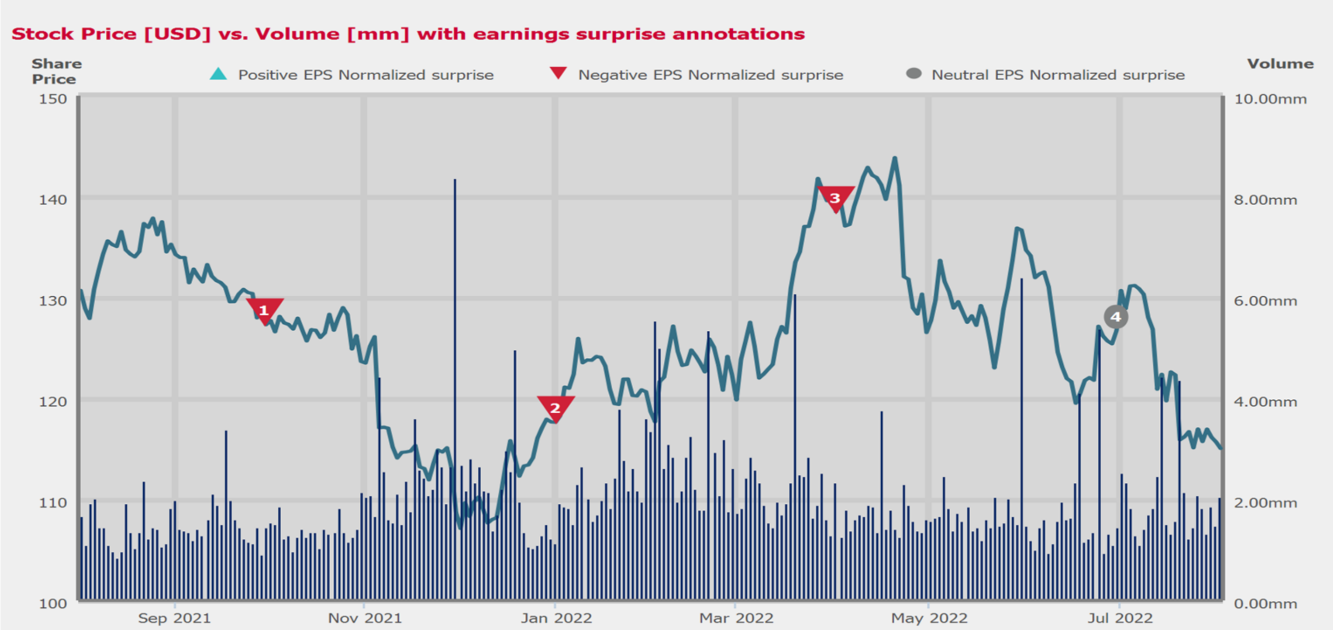
The Allstate Corporation NYSE:ALL
FQ2 2022 Earnings Call Transcripts

Thursday, August 04, 2022 1:00 PM GMT

S&P Global Market Intelligence Estimates

	-FQ2 2022-			-FQ3 2022-	-FY 2022-	-FY 2023-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	(1.10)	(0.76)	NM	0.77	4.91	NA
Revenue (mm)	11368.00	11362.00	(0.05 %)	11512.00	44593.54	NA

Currency: USD
Consensus as of Aug-04-2022 3:55 AM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ3 2021	1.74	0.73	(58.05 %)
FQ4 2021	2.77	2.75	(0.72 %)
FQ1 2022	2.95	2.58	(12.54 %)
FQ2 2022	(1.10)	(0.76)	NM

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EXECUTIVES

Glenn Thomas Shapiro
President of Property-Liability of Allstate Insurance Company

Mario Rizzo
Executive VP & CFO

Mark Nogal
Head of Investor Relations

Thomas Joseph Wilson
Chairman of the Board, President & CEO

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Andrew Scott Kligerman
Crédit Suisse AG, Research Division

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

David Kenneth Motemaden
Evercore ISI Institutional Equities, Research Division

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BofA Securities, Research Division

Paul Newsome
Piper Sandler & Co., Research Division

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Presentation

Operator

Thank you for standing by, and welcome to the Allstate Second Quarter 2022 Earnings Conference Call. [Operator Instructions] As a reminder, today's program may be 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 Second Quarter 2022 Earnings Conference Call. After prepared remarks, we will have a question-and-answer session.

Yesterday, following the close of the market, we issued our news release and investor supplement, filed our 10-Q and posted today's presentation 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 2021 and other public documents for information on potential risks. Additionally, we will be hosting our next special topic investor call on September 1, focusing on Allstate's investment strategy.

Now I'll turn it over to Tom.

Thomas Joseph Wilson
Chairman of the Board, President & CEO

Well, good morning. Thank you for investing your time with Allstate today. Let's start on Slide 2.

So Allstate's strategy to increase shareholder value has 2 components: increase personal property-liability market share and expand Protection services, which are shown in the 2 ovals on the left. We're building a low-cost digital insurer with broad distribution we transformed the growth. We're also diversifying our business by expanding protection offers and by leveraging the Allstate brand, customer base capabilities and expanding distribution.

On the panel on the right, in the second quarter, we made progress executing this strategy, while we continue to implement a comprehensive strategy to improve profitability. That includes broadly raising auto and home insurance rates. In the second half of 2022, we plan to file for rate increases in excess of the increases implemented in the first half of this year, which were 6.1% of Allstate brand countrywide premiums. We're also reducing expenses on advertising and growth investments. Underwriting guidelines have been and will be changed to reduce new business volume, where we're not earning adequate returns. And we're also executing claims operating actions to manage loss cost in a high inflationary environment. These actions will likely have a negative impact on policy growth.

And now while the current environment requires a huge focus on margin improvement, we continue to advance our transformative growth strategy where profitability -- when profitability levels are acceptable we'll have a business model to capture market share.

The Protection Services businesses are generating profitable growth, although earnings declined slightly this quarter as we invest in that growth. Given the negative impact of inflation on the auto insurance business, as you know, beginning late last year, we reduced the bond portfolio duration to lower exposure to higher interest rates, which helped mitigate the reduction in bond valuations by approximately $1.3 billion in the first half of 2022. Our strong capital position enabled us to maintain high cash returns to shareholders in this environment.

Moving to Slide 3, let's review second quarter performance in more detail. Total revenues decreased 3.4% in the prior year quarter, despite property liability premiums earned increasing 8.6%, which reflected higher average premiums and policy growth. Higher loss costs in the current report year and upward loss reserve development of $411 million in the prior report years resulted in a property liability recorded combined ratio of 107.9 in the second quarter.

Net investment income of $562 million was 42% below the prior year quarter since performance-based income was exceptional in the prior year. Net losses on investments and derivatives were $733 million in the quarter as lower valuations and equity investments and losses on fixed income sales, which were only partially offset by the derivative gains associated with the bond portfolio duration shortening. The combination of these factors led to a net loss of $1.4 billion in the second quarter and an adjusted net loss of $209 million or $0.76 per diluted share.

The adjusted net income return on equity was 6.9% over the last 12 months, which is obviously unacceptable from our standpoint. It's substantially below the levels we achieved at this time last year, but we remain committed to achieving our long-term returns on equity of between 14% and 17%.

Now let me turn it over to Glenn to talk -- walk through our property liability results in more detail.

Glenn Thomas Shapiro
President of Property-Liability of Allstate Insurance Company

Thank you, Tom. Let's start by reviewing underwriting profitability on Slide 4. The underwriting results reflect the high level of inflation, which is increasing severity leading to an underlying combined ratio of 93.4 for the second quarter and a recorded combined ratio of 107.9, which is shown in the chart on the left.

The chart on the right compares last year's recorded combined ratio of 95.7 to this year's second quarter. A higher auto insurance underlying loss ratio drove 8.6 of the 12.2 point increase as claims severity has been increasing faster than earned rate increases.

The other large negative impact was from prior year reserve strengthening this quarter, which I'll cover in a few minutes. The one positive impact on there was the 1.7 points from expense reductions.

Let's move to Slide 5 and talk about profitability and rising loss costs in more detail. As you know, we have a target combined ratio for auto insurance in the mid-90s. And you can see on the chart, which shows the combined ratio by year and then the first 2 quarters of this year, that we have a long history of meeting or exceeding those targets, which is supported by our pricing sophistication, underwriting, claims expertise and expense management.

Now in there, you'll see 2020 was an outlier because we had much better than target results than due to some of the early pandemic frequency impacts. And as we move from that environment to the high inflationary environment we're in today, incurred claims severities increased the underlying auto combined ratio of 102.1 for the quarter and 100.5 year-to-date.

Auto non-catastrophe prior year reserve strengthening in the second quarter totaled $275 million, which is primarily physical damage and injury coverages. The most significant impact, though, on the combined ratio was report year incurred severity for collision, property damage and bodily injury claims, which increased by 16%, 12% and 9%, respectively, over the average of the full year 2021 incurred. Because the costs were rising rapidly during 2021, the quarter-to-quarter increase comparison is even greater. And frequency also went up about 5 to 7 points, but it's still well below pre-pandemic levels.

So let's go to Slide 6, and we'll go deeper into the prior year physical damage for reserve development. The chart on the left shows used car values. They began to rise in 2020. And if you go back looking from the beginning of 2019 to current, used car prices have gone up more than 60% and continue to stay at an elevated level.

At the same time, OEM parts and labor rates have increased during the first half of this year, which causes severity increases for coverages like collision and property damage. Now we anticipated that those trends and the delays that are taking cars a long time to be repaired right now would increase the amount of claim payments we made on 2021 losses after the end of the year, even though these are relatively short-duration claims.

The chart on the right shows gross paid losses for physical damage coverages for the 6 months after the end of the calendar year. Now our expectation for paid losses for 2021 claims from months 13 to 18 was that it would be about $1.25 billion, which you can see from the chart is about 40% above the prior year. You can see that from the dash line on the far right bar compared to the bars to the left of it.

But at the end of the second quarter, the actual paid losses were $1.48 billion, which exceeded even our higher estimate by $230 million and is a large driver of the prior year reserve increases. All other non-catastrophe prior year development, primarily from injury, commercial auto and homeowners, totaled $268 million in the quarter.

Let's go to Slide 7 and discuss how higher auto insurance rates have been and will be implemented to improve profitability. Since the beginning of the year, we've implemented broad rate increases across the country, as shown on the map, at 9 states where we had increases over 10%, and auto rates have been increased in 48 locations, inclusive of Canadian provinces. Those rate increases are expected to increase Allstate brand annualized written premium by 6.1%.

Now we have not been able to get adequate rate in New York or any increase in rate in California. New York represents about 9% of our auto premium. And the implemented rate there was, we leveraged the annual flex filings process there. And it gave us less than 5% rate in our current indicated indication there is significantly higher than that to get to an adequate return.

Similarly, in California, which represents about 12% of our auto premium, we recently filed in the second quarter, a 6.9% increase, which again is significantly below the overall rate need there. In states markets, risk segments or channels where we cannot achieve an adequate price for the risk, we're implementing more restrictive underwriting actions and reducing new business as needed until adequate levels of rate are approved.

Let's move to Slide 8, and we'll look at how these rate increases are impacting and will impact the combined ratio for auto insurance. What you see here illustrates our path to target profitability, along with the magnitude of actions we've already taken and what's required prospectively.

Starting on the left. Through the first 6 months of the year, our auto insurance recorded combined ratio is 105, and that's shown in the blue bar. To start with, we normalized that by removing the impact of prior year reserve increases and going to a 5-year average on catastrophe losses, that improves the combined ratio by 2.5 points represented by the first green bar.

The second green bar reflects the estimated impact of rate actions already implemented when fully earned into premium. So these are already implemented actions that are in market and renewing on policies. They total an additional $1.7 billion of effective premium across Allstate and national general brands. Those will be earned over the coming quarters and fully earned by the end of 2023.

Now of course, loss costs will continue to increase, whether it's inflationary impacts on severity or higher frequency, which would increase the combined ratio from what I just described there. So prospective rate increases must exceed the loss cost increases that come to achieve our target returns.

Now everything I just described, combined with our non-rate actions such as reducing new business and expenses, gives us a track where we expect to achieve our target combined ratio in the mid-90s in auto insurance. Now the timing of that will be largely dependent on the relative increases and pace of these increases in premium and loss costs.

So on Page 9, we'll take a look again at our industry-leading homeowners business. As you know, a significant portion of our customers, bundle home and auto insurance, and that improves the retention and the overall economics of both products. We have a differentiated ecosystem in homeowners. That includes a differentiated product, underwriting, reinsurance, claim capabilities, and we discussed a lot of those capabilities in our last special topic call.

Our long-term underwriting results show the strength of the system. Our 5-year average reported combined ratio is 91.9, as shown in the chart on the left. And that produced $3.3 billion of underwriting profit since 2017, while the industry lost over $20 billion in that same period.

Now our second quarter combined ratio and most second quarter combined ratios have historically been higher than full year results, primarily due to catastrophes. And second quarter this year was at 106.9, which reflected again higher catastrophes and 1.7 points of unfavorable non-catastrophe prior year reserve estimates.

Our year-to-date recorded combined ratio for home is 95.8. Now homeowners insurance is certainly not immune to the inflationary environment we're in, and we continue to see increases in labor and material costs. To combat that, our product has sophisticated pricing features that respond to changes in replacement values, and we've taken rate.

If you see on the chart on the right that shows some of the key Allstate brand homeowners operating statistics, we've grown net written premium by 15.2% from the prior year. And that's on a policy base that we grew of 1.2% in the second quarter, where our Allstate agents remain in a really good position to broaden customer relationships.

So as you've heard me say several times and certainly in our last special topic call, we're really well positioned at homeowners to not only maintain the competitive advantage we have, but to grow that line of business.

And with that, I'd like to turn it over to Mario.

Mario Rizzo
Executive VP & CFO

Thanks, Glenn. As Tom mentioned, while we are improving profitability, we also continue to invest in the core components of the transformative growth strategy to increase market share in the personal property-liability business.

Slide 10 is the flywheel of growth that we have discussed on earlier calls. Transformative growth is a multiyear initiative designed to increase personal property-liability market share by building a low-cost digital insurer with broad distribution.

I won't get into all the pieces today, but I want to highlight 2 specific items: first, we remain committed to achieving our adjusted expense ratio goal of 23 by year-end 2024, which represents a 6-point improvement compared to year-end 2018; secondly, in the quarter, we launched beta versions of a new fully digital auto insurance product and sales experience made possible with new technology for relationship initiation and product delivery.

Building these foundational elements will enable us to scale growth when adequate insurance pricing is a tank.

At the same time, the Protection Services businesses, in the lower strategic oval, are growing and increasing shareholder value, as shown on Slide 11.

Revenues, excluding the impact of net gains and losses on investments and derivatives, increased 8.3% to $629 million in the quarter, primarily driven by Allstate Protection Plans. Adjusted net income of $43 million for the second quarter of 2022 decreased $13 million compared to the prior year quarter as ongoing investments and growth are being made to position these businesses for future success.

Policies in force did decrease by 1.6%, reflecting expiring Protection Plan warranties and lower retail sales compared to the favorable environment in the prior year quarter.

Moving to Slide 12. Allstate Health and Benefits is also growing. It is also growing an attractive set of businesses that protect millions of policyholders. The acquisition of National General in 2021 added both group and individual health products to our portfolio, as you can see on the left.

Revenues of $574 million in the second quarter of 2022 increased to 4.6% for the prior year quarter, driven primarily by growth in group and individual health businesses. Adjusted net income of $65 million increased $3 million from the prior year quarter, driven by increased revenue, which was partially offset by a higher benefit ratio, primarily in individual health.

Now let's shift to investments on Slide 13 to review investment performance and the portfolio risk and return position we have taken given higher inflation and the possibility of a recession. Net investment income totaled $562 million in the quarter, which is $412 million below the prior year quarter, as shown in the chart on the left.

Market-based income, shown in blue, was $13 million above the prior year quarter, reflecting an increase in the fixed income portfolio yields, which are now benefiting from investing in yields that are higher than the overall portfolio's current yield. Performance-based income of $236 million, shown in dark blue, was $413 million below with an exceptional quarter in 2021. The performance-based internal rate of return over the last 12 months was 24.6%, which remains above our long-term return expectations. The performance-based portfolio includes private equity as well as a mix of other asset types such as real estate and infrastructure, which diversify our performance in this segment.

In the second quarter, real estate investments had strong performance, including gains on asset sales, while private equity results were lower. As a reminder, our performance-based results are reported based on a 1 quarter lag, so second quarter results reflect March 31 sponsored financial statements, and future returns will reflect market and economic conditions from the prior quarter.

The total portfolio return was negative 2.8% for the quarter and negative 5.6% year-to-date due to higher interest rates and credit spreads, lowering the market value of bonds and a decline in public equity valuations. While these market conditions negatively impacted the market value of the portfolio, it continues to generate operating income. And because of proactive portfolio actions, the results are better than the broad indices with the S&P 500 Index 20% lower and the Bloomberg U.S. Aggregate Bond Index 10% lower.

The chart on the right illustrates the shift in risk positioning we have executed to protect portfolio value and position us to take advantage of opportunities as conditions evolve. We reduced interest rate risk towards the end of 2021 and into the first quarter through the sale of longer-duration bonds and the use of derivatives. The portfolio duration is shorter than our long-term targets, which has mitigated the negative impact of higher market rates by approximately $1.3 billion this year.

With recession concerns rising, the exposure to recession risk-sensitive assets was also reduced through sales of high-yield bonds, bank loans and public equity. These sales were largely executed prior to the most significant credit spread widening and equity market decline for the end of the quarter, further preserving portfolio value.

Now let's move to Slide 14 to discuss Allstate's strong cash returns to shareholders of $1.9 billion in the first 2 quarters. Over the last year, shares outstanding have been reduced by 8.7%, providing more upside per share as profitability has improved. In addition, there is another $1.8 billion remaining on the current $5 billion share repurchase authorization.

Adjusted net income return on equity of 6.9% was below the prior year period, primarily due to lower underwriting income. Achieving our target combined ratios for both auto and homeowners insurance will bring adjusted net income returns on equity back to our long-term target range of 14% to 17%.
With that context, let's open up the line for questions.

Question and Answer

Operator

[Operator Instructions] And our first question comes from the line of Greg Peters from Raymond James.

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

I would like to go back to Slide 8 for my first question. And I guess the 2 areas that caught my attention as you were running through them, Glenn, were the future loss costs arrow and the rate and other actions. And then in the box, you say you're pursuing larger rate increases in the second half of 2022 relative to the first half. So maybe you can give us some additional detail around what you guys are thinking on those 2 areas in that chart?

Thomas Joseph Wilson
Chairman of the Board, President & CEO

Greg, this is Tom. I'll do a bit of overviewing. Glenn, you can jump right in. First, Greg, as you know, we don't give perspective -- earnings estimates in order to give perspective line-by-line. We would expect future loss costs to go up, like we don't -- and we're booking to have them go up in the future.

And we also, as we mentioned, expect to take increase in rates.

With that, Glenn, do you want to provide some more perspective on both the trends you're seeing historically in loss cost and then what you're -- where we're thinking about -- how you're thinking about rate increases.

Glenn Thomas Shapiro
President of Property-Liability of Allstate Insurance Company

Sure. Greg, on the loss cost piece of it, I know there's been some opinion out there that maybe the worst is behind us and the inflation will slow or just listening to other calls out there. We're not sure of that, and we certainly want to have the rate outpace the loss trends.

One thing I'll say is when you look at our frequency trend, I think this is a unique time in history where typically frequency is harder to predict than severity. And I think the opposite is true right now. Our frequency has been really, really steady. You look at it from the low points of the pandemic up to where it is now, it is just steadily crept back up but has leveled out in that creep, and we have good data and expectation that it remains below the pre-pandemic levels, but continues to rise slightly as it has.

And on the other side, severity, it's a big wild card out there, I think, in all industries right now as to how long and how severe inflation runs with the actions of the Fed and anything else out there, we're taking the conservative viewpoint that we need a lot more rate in order to offset that.

So I mentioned in the prepared remarks, a couple of places where we're having trouble on it, and we're working through it. But broadly, I will tell you, it's gone very well in that the regulators we work with, good relationships across the country, and we're getting some meaningful rates going through the pipeline right now, and they understand.

I mean the math is on our side, and we need to get those rates in to offset those future rate trends because as the slide depicts, if you froze time and loss costs didn't move, we would earn our way right to the mid-90s combined ratio over the coming quarters, but that isn't the case. We need additional rate to offset those loss trends.

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

Got it. You slipped in the reference to Slide 7 in your answer, Glenn, which was going to be my other area of focus, which is you talk about reducing new business in states without appropriate rates. In the slide, I think you -- well, you do call out California, New York, are there other states where you're having some problems getting the rate approved that you need? Or are just those the 2 principal states?

Thomas Joseph Wilson

Chairman of the Board, President & CEO

Greg, I'll let Glenn give you the specifics there. But it isn't just to like negotiate. And I'm reading into your statement. I know you're not really saying that, but it's also to just maintain our loss cost. Like we just -- even if we get a rate increase, there may be certain cells or certain segments of the state that are less -- where we have less profitability than we want. So it's also about managing profitability.

Glenn, why don't you give some specifics on that?

Glenn Thomas Shapiro
President of Property-Liability of Allstate Insurance Company

Yes. And I'll just build on that because it's exactly right. It really is -- it's segments within states, it's markets within states, and it's even channels. I mean look at the fact that right now, National General is performing quite well, both from a growth and a profit standpoint. And so we can position based on where we can be profitable, whether it's channel, market, segment of risk, and that's kind of how we're thinking about new business.

We -- to put it very simply, we don't want to write new business that we're not profitable on. And it's not as simple as looking at, you can see in our disclosures, the number of states where we're above 100 or above 96. And because it's -- that's the rearview mirror.

The prospective view is where we've already gotten rates. And in some of the states that we feel good about the price we're putting on for new business and we'll grow in those.

To answer your specific question, New Jersey would be another place that we're working hard on and need to get more rate. But the vast majority of states across the country, we've been working through, and we're in good shape in.

Operator

And our next question comes from the line of Andrew Kligerman from Credit Suisse.

Thomas Joseph Wilson
Chairman of the Board, President & CEO

Jonathan, we didn't hear him. I don't know if you did or I don't know, Andrew, if you're on mute or not, but we didn't hear him.

Operator

You couldn't hear him?

Thomas Joseph Wilson
Chairman of the Board, President & CEO

Now we can hear you. Now we can't.

Mark Nogal
Head of Investor Relations

Jonathan, I think we move to the next question. We can' hear...

Thomas Joseph Wilson
Chairman of the Board, President & CEO

Andrew, maybe you want to question to Mark, and he can ask it for you, if you want. But let's move on.

Operator

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

David Kenneth Motemaden
Evercore ISI Institutional Equities, Research Division

I guess I'm just looking through what rates you're submitting, and that slowed down. And I'm specifically talking about auto insurance rate increase filings. It looks like the amount of the rate increase that you guys submitted during the second quarter slowed materially versus the first quarter. I'm just wondering why that was?

Thomas Joseph Wilson
Chairman of the Board, President & CEO

David, I'll make a comment and then Glenn can -- if there's anything you want to add, you might jump in. First, we are fully committed to increasing rates necessary to get our combined ratio down to the target levels that Glenn talked about, that obviously bounces around by quarter.

And what you saw is what we got implemented in the second quarter, in the early part of your question, you said submitting as in forward-looking, that's not what we're submitting. What you saw in that release is just what got implemented. We're obviously in conversations with regulators when you have these kind of increases continuously.

So there are some states where Glenn's team chooses to go down and meet with the regulators, explain the numbers and then submit it and so we feel good about where we're headed there.

Glenn, anything you want to add to that?

Glenn Thomas Shapiro
President of Property-Liability of Allstate Insurance Company

Yes. I would just add, it really is about timing and about which states go through. So like if you look at the amount we filed per state, we really haven't backed off at all, David, it is the states that went through in that cycle. It just -- they aren't as large. And so the countrywide impact when you do a medium or smaller state population-wise is lesser than the big states.

We have some very large states going through the pipeline right now. And I think you'll see that timing level itself out, and it's why we're able to say to you that we are seeking more rate in the second half of the year than the first half of the year. We have some very large states with meaningful rate increases going through.

David Kenneth Motemaden
Evercore ISI Institutional Equities, Research Division

Got it. Yes. I was referring to -- I obviously can see the implemented rate. I was referring to submitted, which I guess is something that's -- they're not approved or disapproved yet. It's just more kind of a leading indicator that I track, and it just looked like you guys had slowed a little bit in the second quarter versus the first quarter.

But it does sound like that is more timing related as well. Maybe for just another question, I was just looking through the businesses in auto specifically, and I noticed that the Allstate brand combined ratio was 9 points above the NatGen combined ratio for the quarter and has been trending -- it's been higher for the last few quarters.

Could you just -- yes, that's kind of counterintuitive to me just given the differences in those books of business. So could you just maybe talk about what's going on between those 2?

Thomas Joseph Wilson
Chairman of the Board, President & CEO

David, it's an astute question, and let me -- but let me take it up a level and then get Glenn to jump into NatGen versus the Allstate brand. Because many of you have also written and asked about like how do you stand versus competitors and stuff on that?

So let me just take it up and deal with that, and then we'll go into the specifics.

So like you, we always look at different comparisons, whether it's internal or external, to get a sense for our performance. That said, when it's external, it tends to be more directional versus our variance analysis because of the differences in strategies and particularly it gives you got different strategies, different risk profiles, different state mix.

It's better if you look at the long-term results rather than quarterly numbers, particularly when you're using percentage changes on a quarter-by-quarter.

That said, the numbers are the numbers, and you need to understand them and evaluate them. First thing I would say is when you look at -- most of you have asked about Progressive, they're a really strong competitors, so we have great respect to them. As it relates to auto insurance over a long period of time, Allstate, Progressive and GEICO have all had attractive returns.

And we're all dealing with the impact of what I would say, a wide swings in frequency and severity for auto claims, in particular that's driven by the pandemic and then the related inflationary impacts on tower repairs and prices. They did report, that is Progressive, a better combined ratio than us this quarter as they began raising prices earlier in 2021.

But again, we don't know why, like we're not them. But they did have different trends in frequency both last year and this year. So and of course, claims statistics are different for everybody and sometimes people change them how they count them over time. But the numbers I see are that in 2020, we both had frequency declines from 2019, that was reflecting the impact of shutting down the economy. So we were down -- in collision, we were down 26%, and they were down, I think, about 23%, 24%.

Last year, their collision frequency increased by 26%, whereas ours increased by only 18%. So you would expect them to raise prices more than we raise them. This year, they're down in frequency, and we're up. So you would expect our combined ratio to be higher than theirs.

It's hard to say why these short-term trends are different. But Glenn will talk, it may be that they have a relatively small share of the customer statement that they call the Robinson. And so the comparison to NatGen will be helpful for you to see how that's different. It could be state mix. It could be a whole bunch of other things. So I can't intuit exactly the results.

And so Glenn will go through that risk mix and show you how that impacts the different results.

As it relates to the strength of the business model, though, and your strategy, I think it's also worthwhile looking at other lines. And as we talked about on our last call, Allstate is an industry leader in homeowners with very attractive combined ratios. The reported combined ratio this quarter, again, is higher, as Glenn talked about, than it typically is in the second quarter.

On a longer-term basis, though, we've obviously done quite well.

To put that in perspective, if we had 112.5 combined ratio on our homeowners business, last year, our underwriting income would have been about $1.6 billion lower than it actually was, and that's particularly hard on a business that requires twice as much capital as auto insurance.

As it relates to commitment to profitability, speed, precision, we dramatically reshaped that business, which we took you through. So our business models tend to be good and precise, we tend to look at both lines of business and see how we're doing.

With that, Glenn, do you want to talk about NatGen versus the Allstate rate?

Glenn Thomas Shapiro
President of Property-Liability of Allstate Insurance Company

Yes, I will. Well, David, you're getting a good detailed answer there from Tom and after me, you like hit the daily double here because it is a really good question and an important one.

I want to take you back and kind of look at it over the 18 months that we've owned NatGen and since the closing of that deal, and it's a good time frame to use because 18 months is the time it takes to earn out the full annualized premium changes also.

So you go back to first quarter 2021, and this would be true, by the way, not only of comparison of Allstate brand and NatGen but Allstate to other competitors, like Tom was talking about. Allstate was running a combined ratio about 10 points lower. And the reason for that was the frequency was lower, frequency on more nonstandard or near nonstandard business came back much quicker as people needed to use their cars to make a living, and there was just a difference between different books of business.

And so as a result, the good news was for the Allstate brand was that is a really low combined ratio. It's around 80. The bad news is in the current state would be to say that, well, when you're running at that level, you need to take rates now. I mean you can't sustain and even in some places, require you to refile your rates, you can't sustain that level that far below target combined ratios.

And National General, on the other hand, was still taking a maintenance level of rates up over that period of time. So now flash forward to today, their frequency down while all states is up. And then you've got a higher average earned premium going through.

And I mentioned before the $1.7 billion of premium that we have already in the system, not only filed but approved and already like renewing on policies that hasn't been earned yet, we've actually only earned 15% of the premium that's been raised through this cycle. So we get 85% of it out there still left to be earned, whereas National General is earning off of a base, plus they didn't have the hole to fill, so to speak, of the negative rates that, again, we appropriately took because when you're running an 80 combined ratio, but you got to fill that up to get back to par and then go up from there. So there's a difference in the average earned premium that's a few points to the differences, one.

Two, there's a few points difference on the frequency levels right now. Three, and this is a really important one when you're looking across companies is the risks are different and the policies are different. So as you think about the inflationary factors and how they're hitting different policies, National General, even inside their own book, it's really fascinating.

If you look at their full coverage policies versus their liability-only policies, they're running about 10 points different on trend in their combined ratio. Because if you think about a liability-only policy, you don't have collision, which is the highest inflationary trend of any coverage right now, one. Two, you tend to have very low liability limits, so on things like, let's say, property damage. If you have a state minimum of $10,000 of property-liability coverage and you hit somebody's car and you total it, whether it's before the inflation factors that were hitting us or after, you're probably just going to pay that $10,000. And the inflation, there's a computation to that inflation. Whereas when you typically have $100,000 limits, you're bearing the full weight of the change in the value of vehicles.

So looking at all these components, we see just a lot of different ways, and I didn't even get into state mix, which is another one, a lot of different ways that the trends move differently. The nice thing is having acquired NatGen, and it's performing really well, it's growing nicely, it's profitable, is that it's really acting right now as a bit of a diversification on that auto trend and gives us a place where we are able and willing to grow.

Operator

[Operator Instructions] Our next question comes from the line of Andrew Kligerman from Credit Suisse.

Andrew Scott Kligerman
Crédit Suisse AG, Research Division

Can you hear me this time?

Thomas Joseph Wilson
Chairman of the Board, President & CEO

We can.

Andrew Scott Kligerman
Crédit Suisse AG, Research Division

I'm sorry about that before. First question is around non-rate actions. Could you give a little color on some of the more material non-rate actions that you could take and the potential magnitude we might be able to see in the back half of the year on loss ratio? How much potential improvement could that offer?

Thomas Joseph Wilson
Chairman of the Board, President & CEO

Glenn can give you the items. I think we probably won't be able to give you an attribution on what that will do for this year's combined ratio.

Glenn, what do you -- do you want to take that?

Glenn Thomas Shapiro

President of Property-Liability of Allstate Insurance Company

Yes. So I'll give you a few like you've got underwriting actions where we segment the business and we segment our pricing to where, as Tom said earlier, it isn't just about, geez, we're going to not write new business in this market, let's say, it's, well, we're profitable in these segments and not those other ones. So we're going to change the segmentation of our pricing, would be one.

Another would be, we changed the down payment on policies and expect that there's a change in the flow of business at times with that. Certainly, the targeting of marketing is a really big one that I think can be underplayed, but we're pretty sophisticated in how we go to market.

So when and where are we putting up banner ads when people are searching for auto insurance, which risk categories, which markets? And flat out, we've taken a lot of marketing dollars out right now. We're just reducing the marketing that we're doing: one, it will improve expense; two, it will lower the new business flow and allow us to more quickly get back to profitability; and then the last one I'll say is the sales incentives that are out there with our agents about how we're incentivizing people to grow and in which places.

So when you put all of that together and you look at how you're going to market, you're really limiting in some places, the ability to grow your business with your intent of being not growing in nonprofitable segments.

Andrew Scott Kligerman
Crédit Suisse AG, Research Division

Got it. That's helpful. And I should assume then that, that would be a very material impact on loss ratio as we go into the back half of the year?

Thomas Joseph Wilson
Chairman of the Board, President & CEO

I don't think you should assume very material. I mean, the first, it's subject to anybody's -- underwriting actions, Andrew, won't get us to where we need to go. We need to raise prices, cut our expenses. Those are the big drivers. This is helpful.

And I'd like to say to our team, look, anybody can give it away, so like there's no sense writing business and knowing you're going to lose money out whatever. So this is more about managing long-term profitability than what it would do for the combined ratio in the second half of the year.

Andrew Scott Kligerman
Crédit Suisse AG, Research Division

Got it. And then just looking backwards a little bit and a lot of your competitors that their rate increases have been all over the place, and I think you got what about 2.5% across the whole book last quarter. What was the thinking going into that? Why not a lot more rate? Was it precluded by the fact that 20% of the book is in California and New York, and it's a lot more difficult? But maybe just rewinding back a little bit, why not pushing for a lot more rate 4 or 5 months ago?

Thomas Joseph Wilson
Chairman of the Board, President & CEO

Well, I address part of that with the comparison of Progressive, but let me just address that first, the philosophical concept. We are raising prices as fast as we can, everywhere we can. So we're up 6.1% in 6 months of this year, which is -- would have been equal to maybe even our highest year in a long period of time. So we're -- and we expect to get at least that much in the second half. So there wasn't any thinking of let's dial down to 2.5%. It's let's get everything we can, everywhere we can.

It obviously does depend on -- if you don't get anything in California, as Glenn said, that's 12% of your stuff of your total book, so that you got to pick it up by getting the right price in other places or just getting smaller in those places. So it doesn't impact your profitability as much.

As it relates to our competitors, I think, again, everyone's got their own story. We have our own story inside National General is different than the Allstate brand is -- it's related to Progressive. Their frequency was up about 10 -- almost 10 points more than ours in 2021. So you would expect them to raise their prices faster and higher than we did because at the beginning of the year, we were still earning a very attractive combined ratio.

So I think everyone has their own story. What I would leave you with is that like we're completely committed to getting a combined ratio consistent with where we've been in the past. We've been able to run our business for a long time in the mid-90s, and even when the industry has been a lot higher than that and we see no change in the competitive situation, the regulatory environment or our capabilities that lead us to conclude that, that's not possible.

Operator

And our next question comes from the line of Tracy Benguigui from Barclays.

Tracy Dolin-Benguigui
Barclays Bank PLC, Research Division

I want to touch on your higher physical damage loss development, Slide 6. Just wondering, in your transformative growth initiative, I presume you cut clean staff. Do you feel like you're adequate staff in claims where you can close claims in a timely fashion? Maybe you could talk about how you're trying to speed up close rates?

Thomas Joseph Wilson
Chairman of the Board, President & CEO

Let me -- Glenn, if you'll talk about what we're doing in claims from an operating standpoint to deal with a higher inflationary environment, leveraging our relationships and getting purchase contracts, and then Mario can talk about the difference between property damage, which is amounts that we have to pay to other people for accidents that our customers help create to how we look at collision. And Tracy, the change in the prior year reserve stuff was really on that first category. And so Mario can talk about how that flows through the system.

Glenn Thomas Shapiro
President of Property-Liability of Allstate Insurance Company

So yes. So I'll start with -- let me just emphatically say we are not behind on claims staff, and we are not behind on claims. Our pending looks good. And we're in good shape there. The expenses that we took out of the claims process, the team has done a really terrific job of automating processes, creating good self-service capabilities, using a lot of virtual estimating capability. With the slowdown we talked about in the system is really external, and everybody is dealing with this part of it. And this would be uniform across the industry.

So, for example, shop capacity is way down. The staffing level in body shops across the repair industry is down to the point where there's been a 33% decline in the number of hours worked per car per day. So you think about a car sitting in a shop and historically is 4 hours a day, it got work done, now it's 3 hours a day or a little less than 3 hours a day.

So it's moved materially on that. Not surprisingly, the converse of that is that the average car time in a shop has doubled, and the average time to get a car into a shop has more than doubled. So you put all of those together and consumers are, frankly, just choosing to hold on to the check and wait to fix their drivable car until a time they think they can get it back in some reasonable time.

And so we're seeing a way elongated repair cycle that then you get your supplements later and you just have a different dynamic in the way the financials are coming through. And it's -- like I said in the prepared remarks, we had planned for it being about 40% greater than any point prior, and it turned out to be even higher than that with the way it delayed coming through. So I just didn't want the question to miss the chance to tell you, it is not claim staffing. We've got plenty of staff, and our team does a terrific job on it.

Thomas Joseph Wilson
Chairman of the Board, President & CEO

Well, in fact, Glenn, you're also doing some stuff and parts buying and other things that mitigate the inflationary aspects, right?

Glenn Thomas Shapiro
President of Property-Liability of Allstate Insurance Company

Yes, absolutely. So using our scale as a company, we've doubled down on some of our parts suppliers, and this is both in home and auto, by the way, where we become a large and in some cases, the largest in the industry buyer of certain materials, whether it's parts in auto or roofing and homeowners or flooring, and we get the benefit of those broader relationships and trends.

We've also doubled down on our direct repair shop, network in auto, so that we can get our customers access to more shops that can take their car and we have a better one-to-one relationship with that network and are able to control costs in that way.

Thomas Joseph Wilson
Chairman of the Board, President & CEO

And Mario, why don't you talk about a reserve release piece?

Mario Rizzo
Executive VP & CFO

Yes. So I guess -- just a couple of points I think are worth making before I jump into -- to that. First of all, at the end of any reporting period, we believe, based on our processes that our reserves are adequate. That's certainly the case at the end of the second quarter as we work our way what are very comprehensive and thorough processes to estimate reserves, taking into account all the data and inputs both in terms of internal and external data that we have. So I guess that's the place I'd start.

Well, Tracy, your question was on physical damage development specifically, which is different than historically because these tend to be pretty short-tail claims in the past. And as Tom mentioned, they're really -- they show up principally in 2 coverages: collision and property damage.

Collision is first-party coverage. There are customers. We're fixing their cars. A claim gets reported, it's open. It may be subject to the same delays that Glenn talked about in terms of body shops, waiting periods, certainly the same inflationary factors. But we have the claim, we pay the claim, we move on.

Property damage is a third-party coverage. So just to remind you, it's another carrier's customer. And oftentimes, we get notice of that claim and the payout on that claim are subrogation demands we get from a third-party carrier. And what we've seen is, as Glenn talked about, lack of capacity and auto repair shops, coupled with the inflation factors we've been talking about as well as changes in consumer claiming behavior. A lot of consumers are waiting oftentimes months to get their cars repaired whether that's because they can't get in the queue or they can't get an appointment to get it repaired, but it's just taking longer.

And what that -- what all those factors are showing up as is a much longer tail and property damage on those third-party sub road demand from other carriers. And that is the physical damage strengthening that we reported in the quarter, much of that was in PD, and you see that on the chart that we showed on Page 6 of the presentation. In terms of the dollar amounts getting paid after the end of the calendar year are much more significant than we've seen in the past.

The thing I'd leave you with is because we have this information on kind of longer tail expectations, we're taking that into account as we establish 2022 severity levels. So we're certainly factoring that into the severity increases that we talked about earlier.

Tracy Dolin-Benguigui
Barclays Bank PLC, Research Division

So just a follow-up on that. Your auto underlying loss ratio of 79.6% was up 4.7 points sequentially. So should I think that part of that was raising your loss picks from everything you said, but was there also a component that you trued up your first quarter loss ratio since that will show up as a prior year, it's in the same accident year?

Mario Rizzo
Executive VP & CFO

Yes, Tracy. So as you know, when we increased severity, which we did slightly this quarter relative to where we talked about our severity trends last quarter, that gets applied to claim counts for the entire year. So there is a catch-up component that would have been reflected in the first quarter, had we had perfect information in the first quarter.

Tracy Dolin-Benguigui
Barclays Bank PLC, Research Division

And would you be able to quantify what that first quarter true-up would have looked like, just so we have a better sense of what's the right starting point when thinking about your loss ratio?

Thomas Joseph Wilson
Chairman of the Board, President & CEO

Tracy, I think you should just think about looking at the combined ratio by quarter, it does bounce around. There's seasonality, there's driving in the summer, there's all kinds of stuff. So I would -- I think look at it on a year basis. We did it 1 year -- 1 quarter last year when it was a pretty big number. It's not that big as we're looking at this quarter.

Operator

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

Paul Newsome
Piper Sandler & Co., Research Division

I was wondering thinking about on the home insurance side of the house. Do we see the same sort of regulatory pressure in the home insurance business that we do in the auto because presumably, we have inflationary issues there and presumably, you need to get rate there as well to offset those issues?

Thomas Joseph Wilson
Chairman of the Board, President & CEO

Paul, the increase in home insurance, you saw is 15% year-over-year. So we don't -- we're getting the rates we think we need in those areas. The underlying assumption there is we have regulatory pressure in auto insurance. And as Glenn mentioned, we have good relationships with the regulation when the price of picking cars, they got it. So there are a few states. And so we've been waiting to get a rate increase that was agreed to with State of California over a year ago on homeowners, and that has yet to come through. So it tends to be more of a state-specific issue than a broad-based regulatory pushback.

Glenn, anything you want to add?

Glenn Thomas Shapiro
President of Property-Liability of Allstate Insurance Company

Yes. The only thing I would add there is it's that base level of premium we're getting that isn't great. It's the inflationary factors that really keeps us going in that space. It's just a different type of products. Home values go up, and replacement costs go up. Cars, other than recent history, tend to not go up. So it's a different type of product in that way.

So when you look at an average premium up over 13% year-over-year, it's a mix of rate in that. But to your point, Paul, like we've got to get rate there, it's not as heavy as it is in auto, but we deal with the same regulators.

And I always go back to, it's the math. Like we're not making up these rates, and they're not looking to make up a reason not to do the rates in most cases. It's the math. Does the math support a trend that says you need rate? And we've been successful in that space.

Paul Newsome
Piper Sandler & Co., Research Division

No, I was just curious because obviously getting rate in home is different than auto is that inflation factors there and such. I just want to know if the dynamics is -- so really any different in the improvement of the rate there as well. And on the home side, is -- are you implementing some of the same underwriting criteria changes? Or are they materially different than what we've talked about from that volumes changes this quarter on the auto side?

Thomas Joseph Wilson
Chairman of the Board, President & CEO

Glenn, do you want to take that?

Glenn Thomas Shapiro
President of Property-Liability of Allstate Insurance Company

Yes. No, we're -- I would say it is materially different. We like where we are in homeowners. That's obviously not universal. I mean, there's -- from a risk standpoint, from a catastrophe-prone standpoint, everything, there's obviously a lot of underwriting we do. It's one of the strengths we have. And homeowners is that we know how to underwrite this business to make money over time and protect a good balance set of customers in such a way that, that portfolio works.

But we are not in an equal or even that similar position in homeowners as auto right now in spite of the inflation. We're in a very good position to continue to write and grow homeowners.

Thomas Joseph Wilson
Chairman of the Board, President & CEO

Jonathan, let's just do 1 last question.

Operator

Certainly. And our final question for today comes from the line of Josh Shanker from Bank of America.

Joshua David Shanker
BofA Securities, Research Division

When I think of Allstate, I think you guys are second to none understanding the long-term value bundler that the Progressive people call the Robinson. And when anyone says they're going after that Allstate customer, I'm very skeptical at the level of success they'll have.

On the other hand, you guys bought NatGen to go into nonstandard in a bigger way. You guys have come back and forth over 20 years in that a number of times. And if you look at Progressive, they're losing their SAMs at this point in time. Whether they're unprofitable or whatnot, that they are going somewhere.

And when you talk about having 1,000 basis points of better margin in NatGen and it's growing, how confident are you given that that's not your legacy business that you understand that those aren't Progressive customers that they can't make work coming onto your books?

Thomas Joseph Wilson
Chairman of the Board, President & CEO

Let me see if I can deal with that. So I'm going to go up in a minute. So it's really the question of we. And so who is we, Josh? So we as now Allstate and NatGen, as opposed to we was Allstate without experience in nonstandard.

So you may remember when we got started on NatGen, I went to Barry Karfunkel and said, hey, Barry, I got this problem, I'm not making any money in the independent agent business, and I'm not really in the nonstandard business. So I either have to get out of the business or try to fix it, I had trouble fixing it. So I've decided I'd like to get out of it, but I'm going to get out of it first by buying you, and then your team can fix our business, and that's exactly what's played out.

Peter Randell and that team are really good at nonstandard. They know their business well. They run separately. They have separate pricing, separate claims, they know that business well. And then they took our Encompass business, which was more a standard business, and they're folding that in.

And so we think we have a great opportunity to expand in the independent agent channel, not just for the nonstandard piece but in what's affectionately called, I guess, the Robinson is quite progressive because we're really in that segment. And we think there's a great opportunity for us to compete there.

Joshua David Shanker
BofA Securities, Research Division

And so I just -- I'll make this the last part of the question. You say who as we, and you're making it seeing that National General is running separately in some ways from Allstate. Of course, you're in charge and the buck stops with you, Tom, how comp are you that you understand the underwriting going on there that you know that what we see right now is results that you're very comfortable and proud of?

Thomas Joseph Wilson
Chairman of the Board, President & CEO

Yes. It's not that hard to understand, Josh. It's more difficult to build a set of business processes, policy documents, procedures and relationships with agents to note. So they -- for example, they were on something called the WAR Score where they look at every individual agent and see what kind of business they're getting for them.

So it isn't -- like if it's got wheels on it, and it's got losses and that stuff is not that complicated. What's really complicated is building the business model to do it. And we are highly confident that they know what they're doing.

All right. First, as we move forward, we clearly, based on your comments and the amount of time, we're focused on auto insurance. We're going to get those margins up. We still got to make sure we make good money in homeowners, expand on our Protection services and at the same time, rebuild its digital insurer called transformer growth of that when we get margins where we are, we can hit the accelerator hard on profitable growth and drive more shareholder value.

So thank you all, and we'll talk to you on investments in September.

Operator

Thank you, ladies and gentlemen, for your participation in today's conference. This does conclude the program. You may now disconnect. Good day.