S&P Capital IQ

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The Allstate Corporation NYSE:ALL

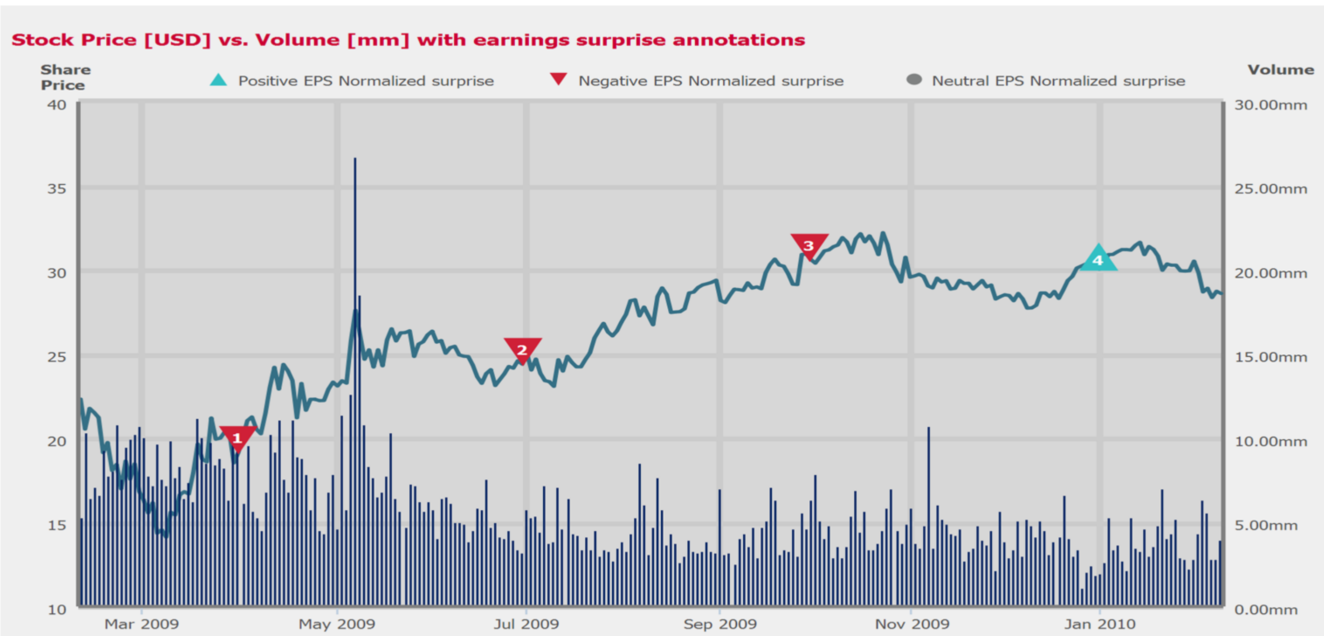
FQ1 2010 Earnings Call Transcripts

Thursday, April 29, 2010 1:00 PM GMT

S&P Capital IQ Estimates

	-FQ1 2010-			-FQ2 2010-	-FY 2010-	-FY 2011-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	0.88	0.69	(21.59 %)	1.02	3.70	4.24
Revenue (mm)	6413.28	6503.00	1.40	6565.53	26154.23	26405.20

Currency: USD
Consensus as of Apr-29-2010 12:19 PM GMT



- EPS NORMALIZED -	CONSENSUS	ACTUAL	SURPRISE
FQ1 2009	1.23	0.84	(31.71 %)
FQ2 2009	1.11	0.55	(50.45 %)
FQ3 2009	1.01	0.99	(1.98 %)
FQ4 2009	1.01	1.09	7.92 %

Call Participants

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Presentation

Operator

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

Robert Block

Thanks, Matt. Good morning, everyone, and thank you for joining us for Allstate's First Quarter 2010 Earnings Conference Call.

Today, Tom Wilson, Don Civgin and I will provide some thoughts on our results for the quarter, and then we will open up the call to take your questions. Judy Greffin, Chief Investment Officer; Joe Lacher, President of Allstate Protection; Sam Pilch, controller; and Matt Winter, President of Allstate Financial, will also participate in the Q&A session with us. If you would limit yourself to one question and one follow-up, we'll be able to get to more people during our time together today.

Last night, we provided our earnings press release, investor supplement and filed our 10-Q for the first quarter of 2010. We also provided a presentation that we will be using this morning. All of these documents can be found on our website.

As noted on Slide 1 of the presentation, this discussion may contain forward-looking statements regarding Allstate's operations and actual results may differ materially, so refer to our Form 10-K for 2009, Form 10-Q for the first quarter 2010 and our most recent press release for information on potential risks. Also this discussion may contain some non-GAAP measures for which there are reconciliations in our press release and on our website. This call is being recorded and a replay will be available following the completion of the call. As always, Christine Ieuter and I are available to answer any further questions you may have once the call is completed.

Let's begin with Tom Wilson.

Thomas J. Wilson
Chairman & CEO

Thanks, for joining us today and your continuing interest in Allstate. I'll share my thoughts on the results for the quarter, putting them in context of the programs we put in place over the last couple of years and looking forward for the priorities we have in place for 2010. And then Bob is going to go through the business unit results and Don will cover investments and our financial position, then we'll get to your questions.

This quarter's operational financial results were really a combination of the trends and progress we made throughout 2009. We had strong profitability in Auto Insurance. The Homeowners business continued to underperform as we experienced near-record catastrophe losses. Allstate Financial made further progress in reinventing its strategic focus. And our investment results continued to reflect low interest rates but improving fixed income markets.

The net result, we generated $375 million of operating income and $120 million of net income, as you can see on Slide 2. The overall combined ratio was 98.9. The underlying combined ratio excludes the catastrophe losses in prior-year reserve re-estimates, was 89.1, which is right in the middle of our full-year forecast of 88 to 90. Investment income was $1.1 billion. That's 10.7% lower than Q1 2009, which primarily reflects two things: Lower short-term interest rates and risk mitigation efforts we've taken to protect the portfolio from large economic losses if interest rates increase.

Our return optimization programs served us well as the unrealized loss on $100 billion investment portfolio decreased from $2.3 billion at year-end 2009 to about $850 million at the end of March 2010. This improvement reflects our decision to stay along corporate credit and the continued decline in corporate credit spreads. As a result of all of that, our book value per share was up 42% over the last 12 months and increased 5% during the first quarter.

The operating results underneath these numbers also reflect steady progress on our goal of creating shareholder value by raising returns in Homeowners in Allstate Financial and growing our businesses.

We are staying focused on improving returns in Homeowners through a comprehensive set of profit improvement initiatives. We've tightened our underwriting guidelines, reduced market share in highly volatile areas, restructured reinsurance programs and continually evaluated our claims practices. We've raised pricing so that average premiums are up 7% this quarter over the first quarter of last year.

In addition, this quarter we received approval for price increases in another six states of an average of about 7%. The weather, however, continue to outrun the benefits of these initiatives so we have more work to do. Our goal is to turn the Homeowners business into a competitive advantage instead of a burden on returns. Allstate Financial made progress in raising returns by discontinuing sales of its fixed annuities to financial institutions at the end of the quarter. It is also now about 93% of the way home on its focus to win expense-reduction initiatives.

We will grow our Auto business by keeping more of our existing customers and increasing new business. We did well on raising customer loyalty, which increased for the fifth quarter in a row and should drive higher retention rates. Retention was up versus last year's first quarter but was flat for the preceding quarter. New business was up slightly, reflecting declines in Florida and California. Our Encompass business also declined due to profitability initiatives. Average premium essentially offset the decline in overall units.

Looking forward, we have to stay focused on increasing items and force to drive long-term growth. Allstate Financial's Workplace business continues to grow rapidly and is now the second-largest domestic insurance provider of voluntary products at the work site. We're also well along the path of launching several new products this year, both for Allstate Protection and Allstate Financial, which will be supported by new marketing programs.

Let me now have Bob take you through the operating results in greater detail.

Robert Block

Thanks, Tom. Turning to Slide 3, we provide premium and underwriting trends for property liability. Starting with the top line, total net written premium fell slightly in the first quarter by $11 million to $6,258,000,000. This was driven primarily by profit improvement actions in our Encompass brand, included in the all other line on the slide where net premium fell by $71 million.

Allstate Standard Auto net written premium grew 1.1% to just over $4 billion. An increase in average premium more than offset a decline in units. After a strong year-end 2009 for New business, our new issued applications fell in the first quarter of 2010. Profit actions taken in Florida and California significantly reduced the new business flows in those two states.

Partially offsetting those declines were increases in new business flows for most of the states where we introduced enhanced discounts for our multi-line customers. Retention, a key metric, increased by 0.20% of a point compared to the first quarter 2009, and about the same improvement we saw in the last two quarters of 2009.

Allstate brand homeowner premium increased by 1.5% in the quarter when compared to the first quarter of 2009. Increases in average premium driven by rate actions that we've taken over the last year more than offset declines in units. We will continue to see great changes in order to drive this line to acceptable margins.

On the bottom half of this slide, we give the combined ratio trends. Our overall combined ratio for the first quarter was 98.9%, an increase from first quarter 2009 of 2.1 points. Catastrophe losses accounted for 10 points of the combined ratio versus 7.8 points in the first quarter 2009.

Prior-year reserve re-estimates, excluding those affecting catastrophe losses, were favorable in 2010 whereas they were slightly unfavorable in the first quarter of 2009. The net result, our underlying combined ratio, finished the quarter at 89.1%, $0.20 of a point higher than prior year and right in the middle of our annual outlook range of 88% to 90%.

A word on catastrophe losses for 2010. At $648 million this quarter, represents the worst first quarter Cat loss since 1994. In fact, we have experienced three straight years of elevated catastrophe losses in the first quarter of the year. About half of the quarter's estimated losses occurred in the month of March, including one weather pattern that affected almost half the country and is estimated across $250 million.

Slide 4 provides a look at the components of lost cost per auto. Property damage frequency was down slightly in the quarter despite the weather we experienced in the quarter. Bodily Injury frequency increased over 5% in the quarter, a trend we are carefully watching. Paid severities for both bodily injury at minus 1.3% and property damage at only 0.4% increase were well within the expectations, and in the case of Bodily Injury, helped to mitigate some of the increase in frequency. The combined ratio for the Allstate brands Standard Auto came in at 94.4%, 1.1 points higher than the 93.3% posted in the first quarter of 2009, and essentially in the same range it has been for the last five quarters.

The loss trends for homeowners shown on Slide 5 are mixed this quarter. Excluding catastrophe losses, claim frequency continues to increase, reflecting the influence of non-Cat weather. Offsetting this trend, paid severity, excluding the impact of catastrophes, declined in the quarter. Given the rate increases taken in the last two years, the combined ratio excluding catastrophes declined in the quarter by 5.1 points. We will continue to see great changes designed to improve the margins in this line of business.

On Slide 6, we switched the focus to Allstate financial results for the quarter. As Tom mentioned, we're moving to improve returns to this business by reducing the concentration of spread-based business and focusing on Mortality and Morbidity business. The top half of the slide depicts premium and deposits activity for the last five quarters. In total, the volume was down to $1.1 billion from $1.53 billion last year. But underwritten products, interest-sensitive life, traditional life and accident health grew by $102 million. About half of this growth came from Allstate workplace division, where we have made good progress penetrating the large employer segment. The decline in bank deposits reflects the fact that we held a savings account promotion the first quarter 2009 and did not repeat that this year.

The bottom half of the slide shows the income result. We had a strong net income in the quarter versus a loss in the first quarter of 2009 of $327 million. Operating income of $139 million in the quarter was an increase of $54 million over the previous year's results. The increase in operating income was due to lower DAC amortization, including a lower amortization rate on fixed annuities and the unlock. As is our practice, we completed a detailed study of our deferred acquisition costs to determine if an unlock of assumption was appropriate. This unlock had a favorable impact on operating income in 2010 of $26 million while last year's unlock in the first quarter was a favorable $15 million. The total impact of the DAC unlock on 2010 net income was a favorable $8 million.

The investment spread increased almost 28% from prior year due to lower deferred sales and induced amortization, partially offset by a lower net investment income. The benefit spread declined slightly on unfavorable mortality experience, offset by the growth in the accident and health products.

With that, I'll turn it over to Don.

Don Civgin
President of Emerging Businesses - Allstate Insurance Company

Thanks, Bob. First, I'll cover our investment performance and conclude with a quick review of our capital position. In the first quarter, we continued to proactively manage our investment portfolio. On Slide 7, the total value of our investments finished the quarter at just over $100 billion. Fixed income securities remained the largest portion of the portfolio at $81 billion, an increase of $2.5 billion. Strategically, we maintained a significant exposure to corporate credit, which again proved to be the right call as market conditions improved and fixed income spreads narrow.

Consistent with our economic outlook, we continue to reduce our exposure to commercial real estate and municipal bonds with both asset classes declining in the quarter from year-end 2009. Municipals were reduced by $1.3 billion of amortized costs, primarily through net sales which resulted in a small trading gain. The commercial real estate portfolio, made up of mortgage loans, CMBS and real estate funds, declined by $0.6 billion of amortized cost, partly due to our aggressive pursuit of mortgage loan payoffs. And we did reduce our equity allocation during the quarter by $1.4 billion of cost as part of our repositioning of the portfolio.

On Slide 8, we lay out the investment income and realized capital gains loss trends for the last five quarters. Investment income fell 10.7% versus Q1 2009 as we maintained our defensive stance relative to rising interest rates.

Realized net capital losses were $348 million for the first quarter, about the same level as in Q1 2009, but the makeup of this result was very different from last year. OTTI impairments of $255 million were $470 million less than Q1 2009. Gains from sales were significantly less than in the first quarter of 2009 to $88 million.

Derivative generated $185 million loss as macro hedges against interest rate and equity market tail risks remained in place throughout the quarter and performed as expected. The limited partnerships performed much better this quarter, posting a small gain versus a substantial loss in Q1 2009.

On Slide 9, we provide the details of unrealized net capital gains losses position at the end of the quarter. As I mentioned earlier, narrowing credit spreads improved our fixed income valuation by $1.3 billion, and the rising equity markets benefited our position by about $200 million compared to year-end 2009. On an after-tax and DAC basis, we have now have only a small net loss of $84 million, $3.7 billion better than a year-ago March.

Finally, on Slide 10, you can see our capital position, which now stands at $17.6 billion on a GAAP basis. That's a $5.4 billion increase for March 2009. Book value per share rose to $32.26, an increase of 42.4% from Q1 2009 and 4.6% from year-end 2009. Assets at the holding company level remained at $3 billion and our estimated statutory surplus results were roughly unchanged from year-end 2009.

So in summary, our financial position today is significantly improved from a year ago. Our proactive management of risk mitigation and return optimization continues to pay off for us and our shareholders.

With that, I'll turn it back to Tom.

Thomas J. Wilson
Chairman & CEO

Let me quickly summarize before we turn to your questions. We made progress on our initiatives to create shareholder value and deliver a profitable quarter despite of the near-record catastrophes. We continued to post strong Auto margins. We made progress in raising returns in Homeowners and at Allstate Financial. We proactively managed our investment portfolio to mitigate risk and to optimize returns. And we're taking action to create sustainable growth in our businesses. So with that, let's open it up for your questions.

Robert Block
Matt, if you could begin the Q&A.

Question and Answer

Operator

[Operator Instructions] Our first question comes from Bob Glasspiegel from Langen McAllenney.

Robert Ray Glasspiegel
Langen McAlenney

I was wondering if we could review advertising. Where do you think you are this year in your spends versus prior years and how does that stock up against GEICO and Progressive? And long-term, where do you think you need to be to grow the business?

Thomas J. Wilson
Chairman & CEO

Advertising. This business has become much more marketing driven over the last, really, since 2002 when we began -- GEICO and Progressive where at that point we're spending somewhere around $200 million a year, and we were spending less than that. And you remember in 2003, we said we're going to step it way up, and it really began a series of competitive responses, which lead marketing as a significant way in which this business competes today, besides just price. And what you see over a long period of time is that the bigger players who advertise a lot tend to grow faster than those that do not. So whether you look at the top 10 or you look at the heavy advertisers. So I think you should expect to continue to see advertising be a successful and ever-increasing weapon used to grow. Sometimes, Bob, people confuse advertising with channels, that it's big advertising that drives it. Certainly, you got to be competitive, you need to have all the different channels, so you need to do it with people, you need to do it through call centers, you need to go over the Internet. But what you'll see is continued high levels of spend this year. I can't speak for our competitors but from looking at the airwaves, it looks like they're spending about what they did last year at GEICO. Progressive seems like its dialed up a little bit with flow. And we've been reasonably steady in the first part of this year. As we seek to reposition some of our advertising to be towards our target customers and talk more about longer-term value. Last year, we spent a lot of time on price, which we needed to do because of our silence on price. Before that, we were perceived as too high, we're not any longer. We've brought that measure way down. So we're shifting our focus on the issue. You should expect to continue to see us be aggressive in advertising as we go throughout this year.

Operator

The next question is from Jay Gelb from Barclays Capital.

Jay H. Gelb
Barclays PLC, Research Division

I want to touch on the Allstate brands standard auto PIP [personal injury protection] trends. Year-over-year in the first quarter, it looks like it was down 1.5% versus being down 1% in the fourth quarter, I was hoping you could comment on that, first. And then my second question is on the run rate of profits in Allstate Financial, x the DAC unlock, it was around $113 million. And I'm just trying to get a sense of, that's right, run rate going forward or if the shift in strategy on Fixed Annuities business will have an impact?

Thomas J. Wilson
Chairman & CEO

Let me make an overall comment on auto PIP then Joe can give you some specifics on it, and Matt can then pick up on Allstate Financial. A couple of overall comments. First, of course, our strategy is to grow our Auto business. The biggest way we can do that is to keep more of the customers we already have, so retention becomes very important. As you point out, of course you always need new customers because people die, move away or go someplace else. So we do have to continue to find a way to get new customers. But you have to look it in total. And Joe can help you think that one through. On Allstate

Financial, Matt will take you through the specifics, but I think you're correct not to multiply this quarter's number by four. So you want to start, Joe? And then we'll go to Matt.

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

Right question on auto PIP, and one of the things we're focusing on inside the organization is recognizing areas of marketplace forces where a lot are also are driving towards auto growth. And we're well in the hunt to deal with that. What you saw a little bit last year was some significant increases for us in new business. And we had a couple of states where we had to temper that a little bit in the first part of this year and really, a little bit in the last part of the fourth quarter last year. That slowing in new business is helping drag down that PIP number a little bit. We do believe that that's a near-term issue and are actively continuing all the initiatives that Tom touched on, and a number more, to improve customer loyalty and improve retention to make our value proposition clear in the marketplace and the competitiveness of our products clear to drive a crisper advertising message with focus spend there to drive colors and shoppers into our different distribution channels and potential new product initiatives later in the year. So we're confident we're moving in the right direction. But you see, near-term, flowing. We're adding a fair amount of initiatives with EDD [ph] discounts and targeting our model line, Homeowner, customers. So we think there's opportunities are showing fruit, and if you could use discounts, and will continue to bear fruit for us, over the course of the rest of the year as we drive these other initiatives.

Jay H. Gelb
Barclays PLC, Research Division

What are those discounts, Joe?

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

The discounts, I'm speaking an internal code. The discounts are for our target customers with a bundled auto and home products. It's going to be our highest lifetime value customers and we're successfully attracting more of them with these discounts and making sure our competitive position is sharpest in those segments.

Matthew E. Winter
President and President of Allstate Insurance Company

Jay, it's Matt. Your question about whether or not you can assume a new run rate for Allstate Financial, as Tom said, we did have a couple of one-time favorable items. And we had some favorable volatility that worked to our benefit in both life and the workplace. So I would not multiply it by four. But what you should start seeing, as a result of the de-emphasis of the spread business and the continued focus on the underwritten products is a slow and steady increase in returns and stabilization of those returns, that will be a result of both the product shift, where we continued expense work we do and other work we're doing to improve the returns in the business.

Jay H. Gelb
Barclays PLC, Research Division

What were last year's profits on the spread business? Should we use that as a baseline in terms of what we take out?

Matthew E. Winter
President and President of Allstate Insurance Company

You really shouldn't for a bunch of different reasons. Because we're having run off of different blocks of business at different times. And although we think we can predict some of that, none of it is completely predictable. So I would not encourage you to multiply anything but instead, to kind of look at some of the pre-disaster run rates in some of the sub-segments on the mortality and morbidity and watch a slow trend line as the fixed annuities run off. We'll expect $7 billion to $8 billion of those fixed annuities to run off over about a three-year period and that will give you an indication of probably having our current exposure at least in the bank channel.

Operator

Our next question is from Josh Shanker with Deutsche Bank.

Joshua David Shanker
Deutsche Bank AG, Research Division

I want to follow up a little on Jay's question about PIP. I didn't completely understand the answer. One question I have is, I noticed that in addition to the auto parts counting down 150, 160, something policies. The Homeowners' account comes from 90,000 policies. When you lose a homeowner's policy, what's the likelihood that you'll also lose the auto policy?

Thomas J. Wilson
Chairman & CEO

Let me take a longer-term view since I've looked through some of this. And if Joe wants to fill in, he can. We worked hard at trying to maintain our relationship with our customers. So in Florida, for example, we went from a double-digit market share in Homeowners to around 2.5% to 3%, I think now is where we're at. Yet at the same time, our market share went up, and that was around 13% or something like that. So we were able to manage our way through it in part by offering customers homeowners products that are provided by other people. So we maintain that strong relationship between our agency owners, so that they are still covered. It's Just not on our books. So we've been able to do that. The other item that Joe was referring to is, the acronym PPD [ph], which is a discount for people who have their home insurance and their car insurance with us. And we have about 3 million homeowners who do not buy car insurance from us. It is our goal to have each and every one of those buy auto insurance from us. It really makes no sense to have a lower turn business for good customers and have GEICO or Progressive take the high return of Auto business. So we've have dramatically changed the discounts, increase them, for those customers. So, when we go out to somebody and we say, hey Josh, the bad news is your homeowner insurance went from $1,000 a year to $1,150 a year, so you're up 15%. That's the bad news. The good news is our discount is much higher on auto insurance. So, if you were to move your cars to us, we can package it together and maybe we can save your money in total. That's the program that Joe has talked about that is being very successful today. Not only will help us improve our Homeowner business by getting the right prices there. It gives us good solid Auto business, which then has great retention to it, because we have everything with them. So it's sort of a win-win deal.

Joshua David Shanker
Deutsche Bank AG, Research Division

I mean, so in terms of currently, let's think a year ago, let's think one year from now. If you were going to non-renew the homeowners, what historically has been your win rate of keeping the auto? What do you think of it today and where do you think it's going to go?

Thomas J. Wilson
Chairman & CEO

We don't give that out because we think it's competitive. I think if you went back to the Florida example, I would say that we have been successful in competing in a market both as a monoline auto insurer, because we have good pricing, good product there, as well as we have been in Homeowners. Of course, sometimes you make people mad if you -- we call it, don't offer continuing coverage, as opposed to non-renewed. But if we don't offer them continuing coverage, sometimes they get mad about that. But if you do it in the right way, we actually help them shop. We give them different alternatives. So we have found that we've been able to maintain that balance. And have been doing that really since 2005, so we have got a lot of experience built into the system as how to do that.

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

Similar to what you're seeing Josh, to give you an indication on it, is the policy in force decline in homeowners exceeds the policy in force decline in auto. So you're seeing some of the actions we're taking to drive homeowner's profitability improvement causing a greater impact on our homeowners policy in force. Part of our issue is on the Auto side. I mean, it's simple as we're losing more customers and we're writing the issue here, as we got to drive our new business up. We've been working on those initiatives over the last several quarters and with success. We had the temper. Some of that new business drive a little bit in the late fourth quarter and the early part of this year, to adjust a couple of states. And are continuing to drive initiatives that will work towards increasing that new business. At the same time, we're focusing on customer loyalty programs to improve our retention. And you've seen that improve from an auto perspective as well. So we're moving in the right direction.

Joshua David Shanker
Deutsche Bank AG, Research Division

Finally, if I understand, don't multiply the decline in policy account by four. But what do you expect your implementation sort of rate is for the new directives going through?

Matthew E. Winter
President and President of Allstate Insurance Company

Josh, we were talking -- when we four, we were really talking about Allstate Financial.

Joshua David Shanker
Deutsche Bank AG, Research Division

You said it twice, actually.

Thomas J. Wilson
Chairman & CEO

I think we were talking about the multiple -- Matt said it twice with different elements of Allstate Financial. We don't typically give revenue guidance. So if we were almost doing it, we made a mistake.

Operator

Your next question comes from Paul Newsome from Sandler O'Neill.

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

I was wondering if we have seen the bottom in the Non-standard business, and then I would love to hear some comments upon strategically what you think you could do in Encompass as compared to the Standard business

Thomas J. Wilson
Chairman & CEO

Yes, let me give you some long-term perspective on Non-standard then Joe might want to give you some short-term view on Allstate Blue and how it's doing. And he can certainly talk about Encompass as well. Paul, when you look at the Non-Standard business, we grew that business very rapidly a decade ago. We were actually at one point in the late 90s selling more Non-standard than we were Standard insurance on our weekly basis. Unfortunately, that business was mispriced. And so about 2001, we began to reduce that book of business. And so, you'll see actually our market share and policy count start to go down, which was the intention on our part, because we were losing money. In 2004, we had to make a choice between whether we wanted to prioritize Your Choice Auto or growth in Non-standard. At that point in the cycle, we thought prioritizing Your Choice Auto was the right thing to do. So we did that and of course we are now I think over 5 million Your Choice Auto policies, which has really helped stabilize and protect that standard auto book. At the same time, then later in, it was about 2007 or 2008, we rolled out Allstate Blue, which was a restaged, more consumer-friendly, non-standard product, obviously targeted towards high-risk drivers, that the growth in that business is in the new state has been good, but it has not been enough to overcome the continual slide down in the Non-Standard business. So the net of all that is that business is a fraction of what it used to be, which is the bad news. The good news is that is an opportunity for us to grow. It shouldn't continue to go down. It has become such a small piece of the overall book, it doesn't actually impact the total book anymore which is a bad thing from our standpoint, because it's a good customer segment we have to figure out how to go after. So that is work that is underway. So maybe you want to jump in, Joe, and talk about specifically non-standard,

then don't forget about Encompass as well .

Company Speaker

Leveraging off of those comments, our Allstate Blue program is more customer oriented and customer-friendly program and we're growing it at a much slower rate than we did the last time we drove a product initiative. There's some element of the Non-standard marketplace that it's not appropriate to sort of interact with it on a most customer-friendly orientation. There is a lot of complexity inside of that business in the operating model to make it run effectively and profitably, is somewhat different than you need in a standard and preferred marketplace. We're using our current programs now to sort of expand from our core. We'll take the learnings there and leverage them to gradually and thoughtfully expand into that long-term attractive market. But it won't be at the pace that you saw us do it last time. Relative to Encompass, Encompass' core business was a Homeowners' Bundle business for relatively higher network in sort of the medium or middle-income America, and we're going to bring that business near term back to its core. We tried for a while to expand more significantly in that brand to a standard and near-standard auto play. And it did match the distribution channel position that we had, the shelf space that we were occupying inside of agent's offices and our operational capabilities weren't as well matched to that as they needed to be. The core product offerings, the core niche of that business has provided independents agents. There's a good one and a strong one, and we're going to adjust our execution and focus around that and then build from there, which you're going to see near term. It's a continued retrenchment if you will to fix some of those items. And then it will last for a couple of more quarters as we get refocused.

Operator

Our next question is from Dan Johnson from Citadel.

Dan Johnson
Citadel Investment Group

Maybe we can talk a little bit about the Homeowners business. Looks like we've put through some pricing increases over the last couple of quarters, just looks like they are starting to show in the average written premium. Can you talk a little bit about where you think that average written premium per policy is going over the next couple of quarters?

Thomas J. Wilson
Chairman & CEO

I'll let Joe handle that. But as he said earlier, we try to give -- the guidance we'd like to give you is on underlying combined ratio, it's not on various components of the P&L. But Dan, I think Joe can give us some perspective on that.

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

We have clearly said before that the Homeowners business is underperforming our return targets for it. We had a series of programs actively running and are working successfully from our perspective. We've tightened underwriting guidelines, in some cases we've reduced market share in highly volatile areas. We've restructured our reinsurance programs and we continue to evaluate our claim practices. We've raised pricing, so that average premiums are up 7% this quarter over the first quarter of last year. In addition to this quarter, we've received approval for our price increases in another six states that also average 7%. So without giving you a revenue guidance, you can look at those rate increases and you can look at the ones that we've received approval for, which will roll themselves forward. There should be some continued movement on pricing, and we're not just one renewal cycle or one pricing cycle away from getting the returns where we want and need them to be. And we're committed to using our Homeowners business as a competitive advantage and not as a burden on returns. So we're going to drive towards that goal.

Dan Johnson
Citadel Investment Group

I guess maybe the way to put that question in a different way is, that obviously, the weather has been the weather. But if you look at the rate increases you have taken and you will expect to sort of flow into the written premium over the next couple of quarters, are we making progress on the non-Cat loss ratios?

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

Yes, we are. And we've got a couple of different spots inside of our disclosures, where you can see the ex-Cat loss ratio. And I think it's about a 5 point improvement over prior year. So you can clearly see that we're moving in the right direction on that. And what I would describe is that long term, it's moving in the right direction. Short term, you get weather volatility. And you're asking the right question, what's the long-term view with how these initiatives are working and they're clearly making an impact.

Dan Johnson
Citadel Investment Group

And then a follow-up question would be just on the exit from within the Financial business, from the financial institutions, distribution channel. Any thoughts on the amount of sort of capital that's sort of tied up in the products there and what sort of capital release we'll see over the next, say, two years by not writing any new product?

Thomas J. Wilson
Chairman & CEO

We don't have a specific release number that comes back and of course, part of it and how long the block stays in the businesses, it was about $17 billion there. Matt's working hard with his team to make sure we keep it in place. But you're asking the right question, which if you go back to Matt's comments, I think he said, I was sitting here smiling because I think he said three or four times in the course of his comments, returns, which is the way we're going to improve shareholder value on Allstate Financial is to get the returns up. We're cognizant we have to manage operating income. We need to get operating income up to get returns up, but the other piece of that is even if operating income doesn't go up, but the size of the business is down, and so the capital involved in the business is down, then return should be up. If you remember, we got, I think, it was about $1 billion out of Allstate Financial in '05 and '06. We put back a little more than $1 billion over the next two years and then we don't think -- our current view is we're not going to have to put any money in this year. So they are focused on returns. This will have some impact on it, but we don't have the specific on what you're looking for, on just the bank channel fixed annuities.

Dan Johnson
Citadel Investment Group

And then finally, in your preference of capital deployment, would you prefer dividend increases over share repurchase or the other way around?

Thomas J. Wilson
Chairman & CEO

Our continued view is that dividend should be tied to profitability. So to the extent the profitability goes up and it's sustainable, then we will put in dividend increases that are commensurate with that. And other than that, we said if we don't -- then we'd like to deploy capital in the business and grow it because we think that's the best alternative for shareholders. If we cannot, then we would use share repurchases to pass that money back to shareholders. We have of course, a long track record of doing that, but that's prospectively. Don and his team don't have any plans at this point to do anything different than what we've currently been doing at share repurchases, which is nothing. And of course, I say every quarter, that the Board approves the dividend and that's not for us to talk about here and make any promises, while my Board has to decide what I want them to do.

Operator

Our next question is from Matthew Heimermann from JPMorgan.

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

I guess, one, when you talk about the multi-product discount that you offer customers, how should we think about how that impacts the profitability of that customer with respect to auto? And I guess what I'm trying to drive out is when you give that discount, is that discount effectively represent the lower acquisition costs for that client over its life time? And so combined ratio equals that of a stand-alone auto customer just with a different mix between loss ratio and expense ratio. I just want to try to understand how that economics work.

Thomas J. Wilson
Chairman & CEO

I would say, yes, to your question. But there was only one piece of it that I think you have to want to be careful of, as you said, the combined ratio is equal to that of stand-alone auto. That of course, varies widely by year. But your comment about acquisition expense, lifetime value is consistent with the economic model that we use with customer relationships, which is lifetime value.

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

So it is the acquisition piece, is the right way to think about it.

Matthew E. Winter
President and President of Allstate Insurance Company

I think what Tom said, I'm sure what Tom said, was we look at lifetime value, which is a combination of acquisition costs, loss costs, how long we retain customers. There's a wholesome view inside of that, and we're going to be unable to give you, or unwilling to give you as much information as you want because I think there's some competitive thought process underneath that. But we do take a broad view of the lifetime value of those customers. We recognize how that differs depending on what they buy and how they buy it. And we use that knowledge to adjust our pricing. We don't have a point of view that we derived everything to exactly the same margin. We know what those margins are, and we use the knowledge to be appropriate prices in the marketplace.

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

I guess kind of the issue underlying that, that I'm trying to get at is, as you discount whether or not that has any negative impact on how you think about -- how we should think about externally the loss ratio? My gut tells me that in total, in terms of total combined ratio, it doesn't really have an impact in terms of how we should think about the business running vis-à-vis pricing, general loss cost trends. But I just want to make sure I'm not missing something with respect to that.

Matthew E. Winter
President and President of Allstate Insurance Company

The discounts probably have some impact, but it's not a dollar-for-dollar impact. Some impact on the combined ratio because they do have other, they interact with other components, other than just acquisition costs. And what we tell you is we think that what it does, is it will drive our capacity to increase earnings dollars and aggregate returns by attracting and keeping more customers.

Matthew G. Heimermann

JP Morgan Chase & Co, Research Division

One of your competitors noted that because frequency trends at least relative to my expectation looked a little bit better than I thought they might. Was there any benefit in the quarter from just the bad weather, in other words, people just didn't drive as much because one of Travelers mentioned on their call about was a benefit this quarter?

Thomas J. Wilson
Chairman & CEO

I guess I would say it's impossible to variance analysis frequency for weather, gas prices, miles driven, good luck. So I think we view frequency as within the expectations we had, which is why we're in the middle of the range that we committed to of 88 to 90. And we don't see any big changes around that. Trying to specifically say that frequency was up or down on auto, I assume we talked about that.

It is related to weather, it's been very difficult to prove. We've tried for years to do that. But it gets difficult even if you use meteorological data, by the amount of rainfall, amount of snow. We built all kinds of algorithms on it, but it mattered if you get freezing rain at 2 a.m., it's different than if you get it at 3:30 p.m. because people on the road at 3:30 p.m., there's not time to clean it up. So we've tried very hard to build it, we find it to be extra impossible. At this point, with the tools we have to do it. It doesn't mean that we won't get there eventually. Right now, I don't think we could say frequency was essentially flat in PD [Property Damage]because of bad weather.

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

And then a clarification on Dan Johnson's question on the fixed annuity income capital. Could you quantify how your RBC ratio would improve if that's based on current capital, if that business was wiped off the books hypothetically?

Thomas J. Wilson
Chairman & CEO

No, we couldn't do that for you. First, we're not allowed to talk about RBC under Illinois law. So it's against the law to give our numbers out that way. Secondly, it's a really complicated problem. You have co-variance, you get all kinds of investment portfolio decisions. The thing to focus on is Matt understands this business well, he understands the components of returns. He believes that this action will drive returns up, so we feel good about it.

Operator

Our next question is from Ian Gutterman from Adage Capital.

Ian Gutterman
Adage Capital

I'm just wondering, back to the early question of testing growth and so forth. Is it possible you need to think a little bit about expanding the appetite a little bit? Meaning there's been throughout of it, I guess, it's been close to ten years, this focus on high lifetime value. And maybe, Joe, obviously at his past employer let him through an expansion of appetite. I'm wondering if that's something you're thinking about that. I'm not saying you all are pushing on standard or anything, but you need to be sort of expand the target range a little bit, because it seems like the GAINSCO and the Progressive are trying to creep up from their most inner customer towards your more preferred, do you need to restart a little bit to get that growth?

Thomas J. Wilson
Chairman & CEO

I'll make an overall comment, and maybe Joe want to jump in. In 2007, in focusing on all of our programs, we decided to focus on high lifetime value, really, multi-car homeowners and drove our activity in actions around that because we wanted to protect that base because we felt we were going into an unstable environment. It was not, we didn't think it would be as unstable as it was, otherwise we sold everything we had to put in cash, and made ton of money. As it was, we worked our way through it, but that was an intentional decision on our part, which is where you see that showing up in lack of growth in those years versus in '04 and '05, we were growing at 4% to 5% because we did exactly what you talked about, which was expand our focus. So that's how we got to worry. Joe might want to talk a little bit about where we're going from here.

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

In the context Tom provided, an important one to understand how and why we are where we are. And I think we had a point of view similar to the underlying thought process in your question, that there are customers out there that generate attractive returns that exceed our return targets. They may not be as higher returning customers as our current highest lifetime value customers, but it's an attractive business opportunity for us, and we're going to increase our focus and ability to capture those customers.

Ian Gutterman
Adage Capital

And just as a follow-up, I'm having a brain freeze here, I'm forgetting the name, kind of hoping it will settle but the movement you had a couple of years ago to offer the platinum and the gold, the tiered strategy. Did that -- is there something that you -- looking back on that maybe that, that's going to produce the kind of growth you hoped it would? That, that needs to be revisited?

Thomas J. Wilson
Chairman & CEO

Ian, if you'll give me your number after the call, I'll make sure we call you and offer you, Your Choice Auto. We are the only people in the industry who do it, we sell it, it is a -- we did it because it is a differentiated product. We never expected that it would drive growth off the top of the charts. It was really about giving customers what they want, helping them understand the products better. So it's simply packaged, it helps them remember what they have, do they have gold, platinum or did they go with the value products. So they don't get all hung up and clause to Page 3 of the contract. So being customer-focused, building the products around them, it did lead to -- we believe it led to incremental growth, although trying to prove that is a little difficult because we obviously sell a lot of auto insurance every year anyway. We do know that we sold more up than down as we got into the program, so that average premiums were up and we do know that retention was better for those people because they knew what they had and they thought the sales process are better. As we move through this current recession, one of the great benefits of that product is we've seen a -- if you look over from really, I think it was about middle of last - middle of, maybe it was even end of '08 through the end of '09. The number of people moving from platinum down to either gold, standard or value just went up. And so what that shows is we have a relationship and a product structure that enables us to work with our customers overtime in a way that's simple, that they understand, that enables them to manage their premiums, which they've had to do in this economic recession. So I would say that it serves the purposes. We never thought that it was -- competitors don't give up their customers willingly. This is not a high turnover business in general. So it's not like you buy a new cup of coffee every day but most of people try to stay with us. So it worked around retention, it's got a lot of retention features built into it. But I would echo what Joe said, is that as we look forward, those people who like Your Choice Auto tended to be those people who don't shop as much. As we expand more marketing, we need to expand to those people who are shopping more, which is the challenge that he and his team have in front of him now.

Operator

Our next question is from Vinay Misquith from Credit Suisse.

Vinay Gerard Misquith
Crédit Suisse AG, Research Division

On Florida and California, could you give us a sense for when you think the drag from raising pricing in those states will start to abate, would that be six months from now?

Don Civgin
President of Emerging Businesses - Allstate Insurance Company

I'm trying to find a balance between revenue guidance and insight into some of these. There are pieces of the actions that will come online very quickly, measured more in months and there's pieces of it that will take a little longer. But all of that, we can get into this year.

Vinay Gerard Misquith
Crédit Suisse AG, Research Division

So the drag from this should start to abate by the end of this year, you think?

Don Civgin
President of Emerging Businesses - Allstate Insurance Company

I think what ends up happening, the profitability changes we need to make and deal with will be implemented in that time period. There are competitive dynamics in any those geographies that are impossible to predict.

Vinay Gerard Misquith
Crédit Suisse AG, Research Division

Sure. Fair enough. And in the other states, you had a 5% increase in new applications. Just wanted to get a sense for the biz in the other states excluding Florida and California? Did it manage to stay flat or was that down? And if so, how was that this year versus the last year?

Thomas J. Wilson
Chairman & CEO

I think, Vinay, I'd love to help you with it. But we're going to have to stay inside our fairly lengthy and detailed disclosures already and let you work off of the components that we have there. Otherwise, at some point, we're going to get a little more detailed in our competitive actions by state is going to be helpful for us.

Vinay Gerard Misquith
Crédit Suisse AG, Research Division

And then finally on Allstate Financial, just a question on what do you think are the sustainable ROEs in the near term versus, say, the next two or three years?

Don Civgin
President of Emerging Businesses - Allstate Insurance Company

We have a goal of course of getting a 15% return on equity in our business. We expect everybody to participate in getting to that level. But Vinay, Matt has quite a challenge in front of him, given that he's down in the mid-single digits. So he's got some work to do there. We don't - that's not a business you turn overnight because it is a long-term business and I like to describe the accounting as to Mr. Coffee. You pour everything in a cup and it just kind of drips out over a long period of time. So it cut expenses and it takes about 10 years to actually get it all into your ROE. So he's got some work ahead of him. But we haven't given out specific targets as to what that business has to do. But I would go above it, we do have to get returns up and Matt and his team will. The other thing is that business is quite helpful to our middle-income customers, who need protection for life insurance, need protection at the work site and need help in retiring. I think our challenge is, is to find ways to create products that are simple and easy for them to understand and can go through our system. And when we figure out how to do that, we'll be creating good incremental returns going forward, and we'll evaluate the business as to not only what is its overall return, but what is the return on the new stuff we're doing and the growth and the ability to serve customers.

Operator

Our next question is from Terry Shu from Pioneer Investments.

Terry Shu
Pioneer Investments

Most of my questions have been answered, the main one I had wanted to ask is I think you answered that the discounts that you offered to the package policies. And I think the answer and correct me if I am wrong, is that it probably will have some upward pressures on the combined ratio and the profitability you can't quite measure, or you can't say that there isn't some impact on the underwriting profitability. But overall, you're going to be earning more dollars and the overall -- and it's a meteor target rate. Did I target returns, did I understand that correctly?

Thomas J. Wilson
Chairman & CEO

Pretty close, Terry. We don't think dollar-for-dollar, the discounts dropped to the bottom line over the long term. And we do think -- I'm trying to remember how you phrased the second part of your thought process.

Terry Shu
Pioneer Investments

Right, because there has been some concerns. I think that if you're offering discounts, are you growing or are you adding policies at the expense of profitability?

Thomas J. Wilson
Chairman & CEO

We understand and measure and watch the impact of the profitability on these customer segments. We just for competitive reasons can't and won't disclose it. So we know what's happening there. We do believe that the lifetime value over the long term is appropriate and sustainable and we believe that there are long-term aggregate profitability, we'll be better off by doing this. Now of course, we'll put the discounts into play and we'll have to see what happens in the marketplace with customers and their adoption in sales to confirm the accuracy of that, but we're confident in its effectiveness.

Terry Shu
Pioneer Investments

In terms of the overall competitive landscape, I guess the message that you've given is that there was a perception that Allstate was higher priced and you've corrected that, and I've seen your ads, your commercials and they're pretty good, the one with President Palmer, right? They're pretty good. And so now where you stand, you feel that your pricing is comparable and that message has gotten across? And if you look at Progressive, it has kind of turned the corner in terms of PIF growth, can you maybe just explain a little? In terms of size, it's not like they're much small, that much smaller than Allstate. They've reached some critical mass as well. Their growth, is it just a matter of advertising that they're achieving better growth? Just a competitive dynamics.

Thomas J. Wilson
Chairman & CEO

There's obviously a whole bunch of stuff. It helps you grow, right? It's your advertising, how good are your floating practices, your closing practices, do people want to buy, are you there when they want to call.

Matthew E. Winter
President and President of Allstate Insurance Company

Planned perception.

Thomas J. Wilson

Chairman & CEO

Yes, there's lots going on there. So I would say that overall, we feel good about our competitive position, we feel even better about where we're headed in terms of pricing, what we're going to do with advertising, what we're going to do with expanding the target group of customers we have and the things that Joe talked about we need to do tactically in some states where we're not growing. We feel good about where we're going to go. So I can't tell you exactly why Progressive's numbers are up, I think their flow is working, it seems like a good program. They're putting lots of money behind it. And they tend to do that when their programs are working according to their numbers in their economic progressional people. So I would just say, we think we can hunt for people, we've got a great brand, we've got a great distribution system, we have 12,000 local agencies. Our direct business is up 27% this quarter, we sell to independent agencies. We have challenges in each of those that we work on every quarter and we talked about a lot of that today. But overall, we believe we can grow and will grow our businesses including Standard Auto, Allstate Financial, so that -- in both Workplace and through the Allstate agencies at Allstate Financial so we can drive shareholder value growth. We have three things we need to do, get volatility down, get returns up in Homeowners and Allstate Financial and then grow the businesses. That will drive shareholder value.

Terry Shu
Pioneer Investments

You do believe that in terms of pricing, kind of all of the top tier players, it's not a pricing issue any more. They are all fairly comparable depending on the market.

Thomas J. Wilson
Chairman & CEO

I think it's complicated.

Terry Shu
Pioneer Investments

Yes, it's complicated.

Thomas J. Wilson
Chairman & CEO

And I would say you can never come to a conclusion that everybody is comparable as evidenced by the fact that all the advertising, everybody saves you somewhere between $300 and $100 and $500.

Terry Shu
Pioneer Investments

Correct, correct. I'm just saying...

Thomas J. Wilson
Chairman & CEO

The matter is, Terry, every -- people don't switch if they cost more. So the ads, let's say, if you switch, you save $500. Well, it's sort of de facto true. I think what you can take from that comment though is you are still wide divergence in pricing for any individual customer in the marketplace and sophistication that enables you to win. I'm not telling you got every sell right, every place and we're at the low, that's not our goal. Our goal is to manage it in total. So I don't think you can say anybody is ever at parity in total.

Terry Shu
Pioneer Investments

I just want to get the kind of the general sense that pricing is, again, it's complicated. But it's not big discrepancies in a broad sense among the carriers.

Thomas J. Wilson
Chairman & CEO

I think we've answered everything. There are broad discrepancies between the carriers on individual customers. I don't think you can come to a conclusion about where anybody's overall prices and draw anything out of it. All you can really do is look and say, how they're growing it out.

Operator

Our final question today is from Brian Meredith with UBS.

Brian Robert Meredith
UBS Investment Bank, Research Division

First one, G&A expense ratio in the C & C business, looks like it's popped up here year-over-year, anything unusual there? Is that we should expect that going forward, increase advertising or something?

Thomas J. Wilson
Chairman & CEO

I would encourage you to think about our target combined ratio that we give you. We're going to be in the 88 to 90.

Brian Robert Meredith
UBS Investment Bank, Research Division

Okay. So keep it in that context. Okay, and then, haven't heard much out of Judy, so I'm just curious to let her talk a little bit here. New money yields versus kind of current book yields on the portfolio, investment yield was down this quarter. I mean, are we getting close to bottoming, you think here?

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

As Tom said in his opening comments, rates continue to be low, reinvesting generally is at a lower yield than the overall portfolio yield. But if you look at it from quarter-to-quarter, we were down modestly from fourth quarter to first quarter and we're to stay fully invested and also to continue to do the things that we committed to do in terms of risk mitigation or return optimization. But with rates as low as they are, it's tough to really grow income with significant exposure in fixed income.

Brian Robert Meredith
UBS Investment Bank, Research Division

Tom, if I take a look at average written premium per policy in your Auto business, it's ticked up nicely here, you see the rates coming through, lost cost aren't all up that much, although we are seeing the underlying loss ratios in the Auto Insurance business, still increase on year-over-year, I think up about 90 basis points. Guess my question is, is that should we expect that to start stabilizing or going down, going forward here given the current dynamics? Or is it that this concept putting through to kind of mitigate that?

Thomas J. Wilson
Chairman & CEO

Brian, are you talking about coming down being the combined ratio or average premium?

Brian Robert Meredith
UBS Investment Bank, Research Division

I'm looking more at the combined ratio in standard auto or actually even more so the action in your loss ratio ex-Cat, the underlying loss ratio?

Thomas J. Wilson
Chairman & CEO

Yes, I would say we try to manage the business in total. The 88 to 90 is a full year number. So we of course, try to be there every quarter because you don't want to be outside the range and not get there.

But we're right in the middle of the range this quarter. We expect we'll stay in that range for the year. And so as it relates to the average premium, yes, it is up about 3%. If you look at loss costs, you don't have the benefit of some of the stuff we see where you see like paid severities down on BI and stuff this quarter. We feel good about staying in the 88 to 90, we think that's a good place where we can grow and necessary for us to have the profitability to continue to invest and grow. So I don't think you should read too much into the lines. Other than we said we will be in 88 to 90, as we like to be.

Thank you for all your questions today. Really, you can see, this quarter is just really a continuation of the trends we've had over the last year and a half or so, things we have addressed successfully. And we'll continue to do that. We do it a couple of ways. One is we're good at what we do and second, we just take action and move forward. So we do have three priorities here: Improving customer loyalty; growing our businesses; and then reinventing protection retirements, so that we differentiate ourselves versus the competitors. When we do that, that will end up in reducing volatility, raising returns and growing the business, which will end up driving shareholder value. So thank you all for being patient with us, we'll see you next quarter.

Operator
Ladies and gentlemen, thank you for participating in today's conference. This concludes the program. You may now disconnect. Good day.