S&P Global
Market Intelligence

The Allstate Corporation NYSE:ALL

FQ3 2020 Earnings Call Transcripts

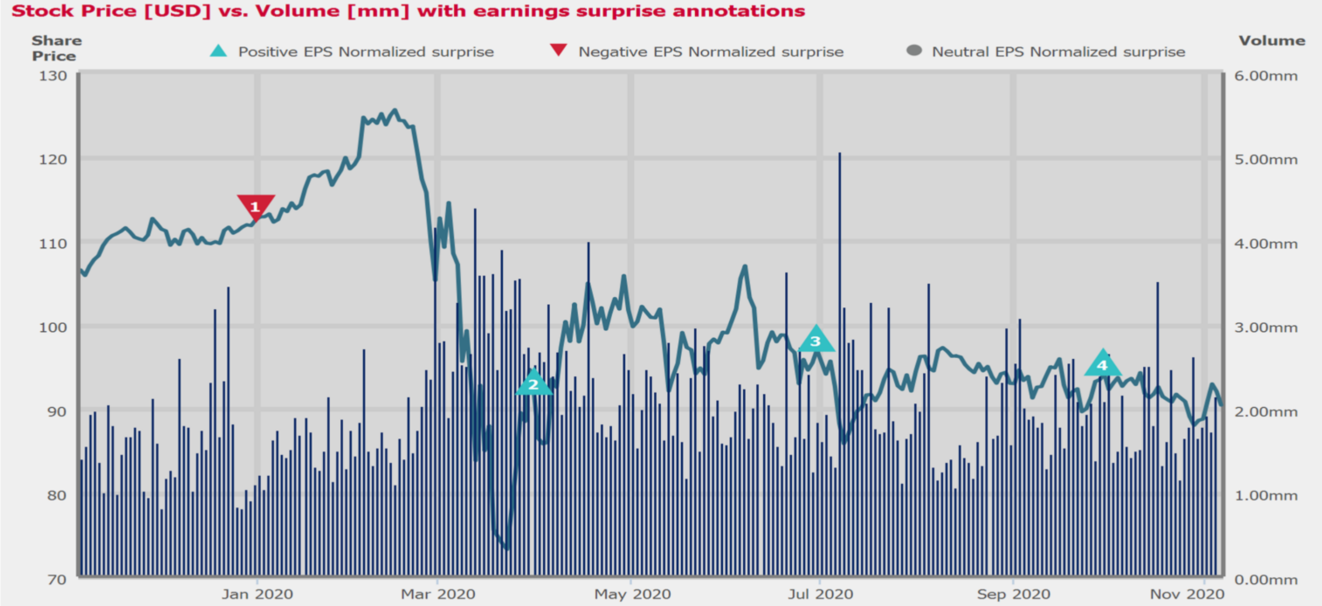
Thursday, November 05, 2020 2:00 PM GMT

S&P Global Market Intelligence Estimates

	-FQ3 2020-			-FQ4 2020-	-FY 2020-	-FY 2021-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	1.76	2.94	▲67.05	3.53	12.08	NA
Revenue (mm)	9436.00	9336.00	▼(1.06 %)	9418.00	37319.00	NA

Currency: USD
Consensus as of Nov-06-2020 3:01 AM GMT

Stock Price [USD] vs. Volume [mm] with earnings surprise annotations



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ4 2019	3.21	3.13	▼1 (2.49 %)
FQ1 2020	3.31	3.54	▲2 6.95 %
FQ2 2020	1.62	2.46	▲3 51.85 %
FQ3 2020	1.76	2.94	▲4 67.05 %

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Call Participants

EXECUTIVES

Dogan Civgin
President of Service Businesses & CEO of Protection Products and Services-AIC & Vice Chairman

Glenn Thomas Shapiro
President of Personal Property-Liability of AIC

Mario Rizzo
Executive VP & CFO

Mark Nogal
Head of Investor Relations

Thomas Joseph Wilson
Chairman, President & CEO

Unknown Executive

ANALYSTS

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

Jon Paul Newsome
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Philip Michael Stefano
Deutsche Bank AG, Research Division

Yaron Joseph Kinar
Goldman Sachs Group, Inc., Research Division

Presentation

Operator

Ladies and gentlemen, thank you for standing by, and welcome to The Allstate Third Quarter 2020 Earnings Conference Call. [Operator Instructions] As a reminder, today's program is being recorded. I would now like to introduce your host for today's program, Mr. Mark Nogal, Please go ahead, sir.

Mark Nogal
Head of Investor Relations

Thank you, Jonathan. Good morning, everyone, and welcome to Allstate's Third Quarter 2020 Earnings Conference Call. After prepared remarks, we'll 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 and further context on our Transformative Growth Plan to accelerate growth in the personal Property-Liability business. 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 the 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 2019 and other public documents for information on potential risks. And now I'll turn it over to Tom.

Thomas Joseph Wilson
Chairman, President & CEO

Good morning, everybody. As usual, we appreciate you joining us and investing your time to learn more about Allstate. This was just an exceptional quarter. I mean we're adapting, we're executing, we're investing for the future. We adapted to the pandemic, the wildfires, the hurricanes, record low interest rates. And despite all of that, our execution enabled us to make $1.1 billion. At the same time, our Transformative Growth is coming to light. The stock is a great value on any measure. So we executed a $750 million ASR. Our team has performed exceptionally well this year, serving customers, creating economic value, in building a stronger foundation for growth.

So let's start on Slide 2, which has Allstate's strategy, which is shown by the 2 ovals on the left. We're going to increase market share in personal Property-Liability with our Transformative Growth Plan, which has 3 components. You'll remember that, expand customer access; improve customer value, which includes improving our price position and launching new products; and then investing in marketing and technology. You'll hear more about that from Glenn, and then we'll -- and then Mario will go through the numbers, and then we'll get to your questions.

We're also expanding our protection businesses to increase -- which is increasing the total addressable market we serve. We have an edge in this expansion by leveraging the Allstate brand, our customer base and our operating capabilities which you can see in between those 2 ovals. For a company that empowers customers that is -- we provide affordable, simple connected products. There's been plenty to protect them from this year. And as I mentioned, we get all kinds of severe weather and catastrophes, and we moved with speed and efficiency, and you can see that from our third quarter results, and those are shown on the right. Our profitability was excellent. Adjusted net income was $2.94 a share and return on equity 17.7%. Underwriting results also remained really strong. We had favorable auto insurance results, which offset the elevated home insurance losses from increased catastrophes.

Our implementation of Transformative Growth Plan is accelerating with the initiation of a cost reduction plan and the new Allstate advertising campaign. Investment income was off slightly due to lower interest rates, but the performance-based income returned to prior year levels. We did have an annual review of our actuarial assumptions for Allstate Life, Benefits and Annuity businesses, which assumes that the continued low interest rate environment carries forward and reduces future investment income over the next 20-plus years, and that resulted in several charges for the reduced net income, and Mario will go through a specific slide to show you how that works.

Allstate Protection Plans has continued to grow policies, revenue and income, while expanding its totally addressable market -- or total addressable market. So despite a tumultuous operating environment, we delivered great customer experiences, growth, excellent returns and progress on the Transformative Growth Plan.

If you go to Slide 3, let's do the numbers. Total revenues of $11.5 billion increased 3.9% from the prior year quarter, and that reflects both higher net realized capital gains and growth in Property-Liability premiums earned. Net income of $1.1 billion increased by 26.7% from the prior year quarter. As you can see that in the table as higher revenues more than offset, Allstate Life and Annuity income in connection -- which was down because in connection with those actuarial assumptions.

Adjusted net income of $923 million was $2.94 per share; it was $23 million lower than the prior year quarter, as higher auto insurance underwriting income was more than offset by the elevated catastrophe losses and restructuring charges related to Transformative Growth and the lower Allstate Life and Annuities income.

Our returns remained excellent. And as I said, the return on equity is well above the range that we've discussed.

So let me turn it over to Glenn, who will talk about third quarter results for personal Property-Liability.

Glenn Thomas Shapiro
President of Personal Property-Liability of AIC

Thanks, Tom. So let's go to Slide 4, and we'll discuss the, as Tom said, very strong performance of our Property-Liability business. Before going deeper into the results, it's worth mentioning that consistent with how we operate under Transformative Growth, Esurance and Allstate financial results were combined beginning in the third quarter. Property-Liability results were strong with excellent recorded and underlying profitability. Growth was modest and lower than prior year quarter for auto insurance, but in the range that we expected as we build the foundation of Transformative Growth. And let me go into some detail on that before continuing on this slide.

First, the 3 components of Transformative Growth are all making progress. The path is a bit steeper, though at the beginning for several reasons. One, in our direct business, we lowered advertising for Esurance brand since it's being sunset and has a negative impact on new business there. At the same time, we've improved new business sales flows for online sales and improved our sales practices in our call centers for the Allstate brand being sold direct, which is significantly increasing volumes there, but not yet enough to offset the Esurance drop.

Volume in our Allstate agent channel is on plan, except for the first 2 months of the pandemic, and we believe the shift in compensation towards new business that we start this year is working. We stopped hiring new agents under the existing commission contract early this year since we're building a new lower-cost agent model. We also increased base-level production requirements coming into this year for agents as we're investing in agents who want to grow their business. This resulted in a planned and expected decline in licensed producers as we build the foundation on a high-quality set of producers. We were in the right place with the right product at the right time when it comes to Milewise, which is our pay-per-mile product, that's really appealing to customers right now because they're driving less during the pandemic. And we're the only major carrier offering a product like that.

In the independent agent channel, Encompass had a small negative impact on growth, reflecting Homeowners increases. National General acquisition, which is pending, will expand or access into the independent agent channel, and we're really excited about the growth prospects there after closing. The cost reductions we're implementing will enable us to further improve our competitive position in auto insurance and drive growth while earning attractive returns. And on the Homeowners side, premium grew 2.6% from the prior year quarter. This was due to policy growth of 1.2% and average premium increases. We're really well positioned for further growth in the Homeowners business.

In total, we believe that the foundation we're building to be a major player in both the direct space and independent agent space that will add to our great exclusive agent channel that we already have, will lead to Transformative Growth.

All right. So now I'll go back to our slide and go to bullet 2 here. Underwriting income was $753 million, increasing $16 million compared to the prior year. While the recorded combined ratio was equal to last year's third quarter, there were many meaningful changes underneath that, which are shown in the lower left chart. Starting on the left, the underlying loss ratio improved 7.8 points, primarily due to lower auto insurance losses from fewer accidents due to lower miles driven. Underlying loss ratio improvement was offset by elevated catastrophe losses in homeowners, unfavorable reserve development in discontinued lines, restructuring charges and Allstate's efforts to help customers during the pandemic which are all shown in red.

Catastrophe losses of $990 million in the third quarter were driven by a very active hurricane season and ongoing wildfires in the West Coast. This was partially offset by favorable prior year catastrophe development recognized in the quarter with

$450 million and $45 million, respectively, coming from PG&E and Southern California Edison's subrogation settlements. Non-catastrophe prior year reserve reestimates were adverse $70 million in the quarter. This includes $132 million adverse from the annual review of asbestos, environmental and other reserves in the Discontinued Line and Coverage segment, which was partially offset by favorable reestimates in the Allstate protection personal lines.

The chart on the right breaks down the expense ratio components. Excluding the impact of restructuring charge and bad debt in the third quarter, the expense ratio was 22.6, a 1.1 point improvement compared to prior year quarter. It also represents a 2.5 point improvement if you go back to 2018.

Moving to Slide 5. Let's discuss our progress on Transformative Growth. As Tom covered, Transformative Growth is a multiyear effort to accelerate growth through 3 components: expanding customer access, improving customer value and investing in marketing and technology. Customer access was expanded by combining the direct sales capabilities under the Allstate brand, which enables us to leverage Esurance's capabilities with a stronger brand of Allstate. We're also enhancing local agent sales models to improve effectiveness and efficiency and customer value is being improved by implementing a cost reduction program. This enables us to offer more affordable prices, while maintaining strong margins. We also continue to improve the competitive price position of auto insurance with pricing sophistication.

The third component is investing in marketing technology. In the third quarter, we launched our new advertising campaign to reposition the brand, supported by increased spend. Technology investments continue to improve customer-facing interactions, including the launch of the Allstate OneApp which simplifies all of our digital interactions and access, including telematics offerings.

Moving to Slide 6. Let's go deeper into a few of the actions taken in the third quarter to advance Transformative Growth. We're executing a cost reduction plan and streamlining operations and processes across claims, sales, service and support functions to lower costs. Lower costs enable us to have more affordable price without sacrificing attractive returns. The plan impacts approximately 3,800 employees this year which will result in a charge of $290 million with $198 million of that recognized in the third quarter and the balance in future quarters. The bulk of the charges for employee benefits and severance, including expanded transition support, extended medical coverage and employment search assistance. The remainder is driven by real estate exit costs.

At the same time, we launched a new advertising campaign in September, built on the belief that we all deserve to live life well protected, as shown on the right side of the slide. The campaign repositions our brand and updates the messaging to generate business across a broader audience by showing the breadth of product portfolio we have, including identity and phone protection. The campaign also emphasizes a connected experience with telematics capabilities as customers' behaviors and needs are changing.

I'll now turn it over to Mario to cover the rest of our results.

Mario Rizzo
Executive VP & CFO

Thanks, Glenn. Let's go to Slide 7, which highlights investment performance for the quarter. The chart on the left shows net investment income totaled $832 million in the quarter, which was $48 million below prior year due to a decline in market-based income. Market-based income, shown in blue, was $68 million below the prior year quarter. With lower interest rates, our reinvestment rates remain below the average interest-bearing portfolio yield, which reduces income. Performance-based income totaled $210 million in the third quarter, as shown in gray; partially reversing valuation declines recorded in the first half of the year. GAAP total returns are shown in the table on the right. Year-to-date returns were 4.4% and the latest 12 months was 5.7%, reflecting higher fixed income and public equity valuations. Performance-based investment return was 2.4% for the quarter, but remained negative year-to-date.

Our performance-based strategy has a longer-term investment horizon with higher, but more volatile return expectations compared to the market-based portfolio. The compound annual rate of return on the performance-based portfolio is 7.2% over the past 5 years, as is shown on the bottom right of the table, exceeding the market-based return by 220 basis points.

Let's move to Slide 8 and review results for Allstate Life, Benefits and Annuities. Allstate's annual review of assumptions and the expectation of lower long-term interest rates unfavorably impacted the Allstate Life, Benefits and Annuities segments in the third quarter. Allstate Life, shown on the left, recorded an adjusted net loss of $14 million in the third quarter. The loss was due to accelerated amortization of deferred acquisition costs, primarily from lower projected future interest rates related to the annual review of assumptions. Higher contract benefits also reduced adjusted net income including $22 million in coronavirus death claims. Allstate Benefits adjusted net income of $33 million in the third quarter was $2 million higher than the prior year quarter driven by a decrease in contract benefits primarily due to lower claim experience. This decrease was driven by limited activities and the deferral of nonessential medical procedures as a result of the pandemic.

The benefit from lower reported claim experience was partially offset by the acceleration of deferred acquisition cost amortization related to the annual review of assumptions. Allstate Annuities had adjusted net income of $37 million in the third quarter as contract benefits decreased primarily from favorable mortality experience compared to the prior year quarter. In the third quarter, Allstate Annuities also recorded a premium deficiency reserve of $225 million pretax, given the expectation that interest rates will remain low over the long duration of these liabilities and annuitants are living longer than originally anticipated. While this reduced net income for the quarter, it did not impact adjusted net income.

And let's turn to Slide 9 to discuss the Allstate Annuities and the premium deficiency reserve in a little more detail. As you can see on the chart, we've been reducing our Annuity business consistently over the last 15 years to manage risk-adjusted returns. As a result of this dynamic, we began to systematically exit these businesses. In 2006, we reinsured the variable Annuity business. In 2010, we exited the broker-dealer channel. In 2013, we stopped issuing structured settlements. And in 2014, we stopped issuing all remaining annuity products and sold Lincoln Benefit Life. As a result, liabilities declined from $75 billion in 2005 to $17.5 billion as of the end of the third quarter.

Today, liabilities are made up of that $17.5 billion of reserves and contract holder funds related to deferred and immediate annuities. Our asset liability management strategy has positioned the portfolio to cash match near-term liabilities, while investing in public equities and performance-based assets for longer-duration liabilities to generate attractive risk-adjusted returns. 2/3 of the payments on these annuities are expected to be made after 2030. As part of our third quarter review of actuarial assumptions, we lowered our long-term return assumptions given the expectation that interest rates will remain low for an extended period. This reduces expected future investment income. Mortality assumptions were also updated to reflect the expectation that annuitants will live longer. These 2 changes led to a forecast where current reserves and expected returns on those reserves over the life of these annuities is less than the expected payouts, which led to the charge of $225 million pretax.

So now let's go to Slide 10 and discuss the results of our Service businesses. The Service businesses continue to generate strong growth as policies in force increased 38.6% to $133 million in the third quarter, driven by Allstate Protection Plans growth. Revenue, excluding the impact of realized gains and losses, grew 16.9% to $484 million in the third quarter. Adjusted net income of $40 million reflects an increase of $32 million compared to the third quarter of 2019. The improvement continues to be driven by the growth of Allstate Protection Plans and improved profitability at Allstate Roadside Services.

Now let's turn to Slide 11 to review the results of Allstate Protection Plans in a bit more detail. So as you remember, the acquisition in early 2017 for $1.4 billion further expanded our circle of protection for customers and continues to exceed growth and profit expectations. As you can see in the chart on the left, Allstate Protection Plans has had exceptional growth since acquisition in early 2017. Policies in force increased more than fourfold from less than 30 million policies in 2017 to 126 million in the third quarter of 2020. This represents a compound annual growth rate of 51%. In addition, net written premium of $831 million for the first 9 months of 2020 increased 50% compared to the prior year period.

On the right, you can see that Allstate Protection Plans began generating positive adjusted net income in early 2018, which is earlier than expected. The upward trajectory has continued this year generating $105 million of adjusted net income through the first 9 months of 2020. Even more important to shareholder value is the trajectory going forward from here. The team has successfully expanded the total addressable market into appliances, furniture, cellular carriers and international markets with revenues in each of these areas. A combination of attractive unit economics, scalable technology platform and the power of the Allstate brand will lead to continued profitable growth in this business. Quite simply, this is not your typical protection platform.
Finally on Slide 12, we want to highlight Allstate's attractive returns and strong capital position. Allstate generated strong returns on capital with an adjusted net income return on equity of 7.7% as of the end of the third quarter. We returned $967 million to common shareholders in the third quarter through a combination of $798 million in share repurchases and $169 million in common stock dividends. Over the last year, we have reduced common shares outstanding by 6.4%, primarily as a result of our share repurchase program, as you can see from the table. Book value per share of $82.39 increased 18% compared to the third quarter of last year, reflecting income generation and increased fixed

income valuations, partially offset by cash returned to shareholders. Allstate's stock valuation metrics, however, have not kept pace with this combined strength and strong operating performance. With that context, we'll open up the line for questions.

Question and Answer

Operator

[Operator Instructions] Our first question comes from the line of Yaron Kinar from Goldman Sachs.

Yaron Joseph Kinar
Goldman Sachs Group, Inc., Research Division

First question is with regards to the top line growth. So I understand a lot of moving parts here, and you're still in kind of early to maybe the end of the beginning of the Transformative Growth Plan. At what point do you think we actually do start seeing the initiative and the various components there resulting in top line growth?

Thomas Joseph Wilson
Chairman, President & CEO

Yaron, this is Tom. So the -- you can't -- we can't really give you a quarter and say here's when the churn is, so you should buy the stock right before then, so that [Technical Difficulty] is really reflected in [indiscernible] because a number of things happening, right? So we're trying to make sure we take care of our existing customers well, and that requires, as we change out some of the agents and the stuff Glenn talked about, we have to make sure we're doing that well with integrated service and moving people to other agencies.

Second, there's obviously a competitive market in which we're in. So part of it depends what happens with our competitors and what they do, how much more they put into advertising, how much they raise homeowners' prices. I think that what I would say is the focus seems to be narrowed down to just auto insurance. And really Transformative Growth is about auto insurance, it's about home insurance, where we didn't have growth -- good growth, not as much as we think we can have, but certainly higher than auto and then the circle of protection. So I can't really call it by quarter. But I would say as you should expect, as you see the components come into place, we should expect to see a trajectory up from here, but we're not giving specific guidance on here where we're going to be at X percent of market share gains.

Yaron Joseph Kinar
Goldman Sachs Group, Inc., Research Division

Okay. And then my second question, somewhat related, the launch of the Allstate OneApp. Are there any metrics you can share with us around how, like, how many applications have been downloaded, take-up rate, the ease of use, how long it takes to get a quote on the app?

Thomas Joseph Wilson
Chairman, President & CEO

Well, we have -- obviously, we have a whole bunch of the metrics, and we don't give most of them out because we think we're starting to get an advantage versus our competitors on it, and we really don't want them capping what we're doing. That's in both stuff -- and to your point, both on things like also in telematics. So we're really positive about what we got going on there. And -- but I would tell you that the insurance industry, in general, is not to the level that the banks are, which says we have a lot of potential to increase our connectivity and lower our costs at the same time. Glenn, anything you would add to that?

Glenn Thomas Shapiro
President of Personal Property-Liability of AIC

No, I think that covers it.

Operator

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

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

So I'm going to stick with the Transformative Growth Plan. And I think in your second bullet point, you talked about improving customer value. So there's 2 pieces of that, as we sit outside looking in. One is the expense ratio initiatives that you've highlighted. The other one would be just price to your customers. So can you give us an idea of where the expense ratio will go to? Or what sort of objective you have in the context of your competition? And then on price, we have observed a number of your competitors starting to cut prices in the marketplace and -- in auto insurance, and I'm curious about your posture with respect to that.

Thomas Joseph Wilson
Chairman, President & CEO

Greg, let me start with the overview of [Technical Difficulty] components of Transformative Growth. And then Glenn, if you could jump into where we are on pricing these. So Transformative Growth has 3 components, right? Second one is improve customer value. The idea has really 2 components to it. But one is improve the competitive price position with affordable products. And second is to launch new products, so things like Milewise. So the second piece is really about more differentiation [Technical Difficulty]. The cost piece is really the way -- the door you go through to get to the price piece. So they're not separate. So -- and the reason we haven't put cost targets out there -- we obviously we have cost targets and we also have price competitive targets. The reason we haven't put those out there is they're tightly linked. And we don't want to signal to our competitors where we think we're going on price. So it's not that we don't have targets, we do. And we think we can reduce our costs, which enables us to give customers better value called more affordable price without sacrificing attractive margins. So that's the path we're on. Reduce expenses, get those expenses down, turn that into a more affordable price which increases your close rate which then drives growth. So the first -- the two -- it's really one component that you're talking about.

The second piece will take some time because you have to rebuild the whole technology stack. There's just a bunch of work that has to be done to launch new products. That will take a couple of years to really get done, which is why we keep -- this is a multiyear initiative. Glenn, do you want to give Greg an update on pricing and your thoughts there?

Glenn Thomas Shapiro
President of Personal Property-Liability of AIC

Yes. You covered, Tom, well, the -- going forward, how we bring the cost down and keep margins while being a better value for customers. But I don't want to leave anybody the impression that we're not moving now because sometimes you can look at a -- like an investor supplement and say, well, there was 0 rate taken and think that, that means there's 0 rate action. We have made hundreds of filings over the last quarter all across the country. And I know you always hear me say it, Greg, but we manage this at the market level. So we've got a really talented group of state managers. I always talk about that. They've got their hands on the lever. They're looking at how competitive are we, each competitor in this market. What's our close rate doing, what type of shifts are we seeing in customers and quoting. And they're moving those levers all the time and working with regulators to do that.

So the hundreds of filings that we've made already since the pandemic and through this time, have materially changed our competitive position in spite of that 0.0 you see on total rate filing. We've done things like improved our competitive position on telematic products, increased new business discounts, changed pricing around for the type of people that are shopping.

And so the average person that's out there shopping for insurance is getting a lower price right now for us than they were 6 months ago or 9 months ago, meaningfully lower. And so this is how we stay competitive. And it goes a little back to Yaron's comment or question on growth. And I look at it as while we're building this foundation, like, I mean we're setting up the capability for us to be a major player in direct. We're setting up the capability for us to be a major player in independent agent when with the acquisition that's pending. And while we're building that foundation, I'd call it, we're holding our own, like we actually grew policies year-over-year, policies in force, minimally in auto, more so in home. But we're doing a good job of keeping the fight going and keeping our growth engine going in spite of building that foundation.

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

Got it. Your answers make sense. I guess the second question and just kind of pivot to the other source of income would be investment income. And just looking over to Slide 7, and considering Mario's comments, there's obviously 2 pieces, and it's been volatile this year. But it feels like because of the current interest rate environment, that there's going to be downward pressure on your market-based returns, and therefore, investment earnings you generate off that for the next year or 2. And then also on the performance base, the volatility is interesting for us to try and model. So can you frame it for us as we think about what the future performance might be of the performance-based portfolio?

Thomas Joseph Wilson
Chairman, President & CEO

Greg, let me go up, and then John, you can talk about the risk-adjusted return and the volatility of the performance base. So as -- when we do our investment allocations all the way at the top, we look at risk-adjusted return based on economic capital per asset class. And so earlier this year, when we sold $4 billion of our $6 billion of public equities, it wasn't because we saw the pandemic coming, or we thought there was going to be a dip down and then a bump back up. It was -- and we're going to avoid that volatility. It was just we didn't think the risk-adjusted return was right. When we look at our market-based results, and you're right, interest rates are coming down. They're at low rates, really low rates. You're probably not going to have as much depos on those bonds as you had historically. And we looked at the risk-adjusted return.

The performance base, we decided it was a better risk-adjusted return on the performance base. Now obviously, it comes with more volatility, and particularly from quarter-to-quarter, as you point out. So what we did is we matched those performance base with long-dated liability -- long-dated annuity or capital, which we expect to have for a long time. And so when you do that, you can handle that interim volatility -- and that's why you get the higher risk-adjusted returns because you're taking on that volatility.

And once you get past 7 years, you're better off owning equities and bonds, as you all know well from just looking at pension funds. And you get past 10 years, and it's like you get double the return and you actually have less risk on equity. So that's how we got to performance-based equities, and we're willing to accept that volatility either because we have liabilities or capital, which we know we'll have and we'll recoup the incremental economic return over time. Before I turn over to John, let me just -- one other thing as you look forward, what we do, of course, is when we're managing our Auto business, in particular, we look at what underwriting margins do we need, given what we think we're going to get in investment income. So to the extent investment income goes down, we can -- given our power in underwriting, we're able to still make a good return for our shareholders even with slightly lower interest rates, unlike some of the life companies who have no other way to adjust their future premiums. So John, do you want to spend a few minutes talking about performance base?

Unknown Executive

Yes. Sure, Tom. And Greg, thanks for the question. I'll pick up where Tom left off. And when you think about performance based, it can be volatile for periods of time. And as Tom mentioned, we really match it off versus longer liabilities that we have. If you take a longer-term view, and this is information that's in the supplement, the -- over a 10-year period, the internal rate of return, which is a common way of measuring these assets, is about 11.5%. And whether you look at it over 10 years or over 5 years relative to the public equity benchmarks that we think about owning these assets against, they're superior in terms of return. So we're willing to take some of that volatility relative to more observable public markets because we think we've got a team that has skill and expertise that can extract value out of the marketplace that isn't easy for other people to do. I tend to think of it as we've got a lot of flashlights that we can shine in different corners of the market that maybe everyone else doesn't have to extract additional value.

Now you're right to point out, it has been a little bit bumpier during the course of this year, and that does require some explanation. Yes. I think we'd all agree this year has been a pretty unique year. And when you think about what releases income in performance-based assets, part of that is the deal flow itself. You need to get -- we invest in a particular entity, whether it's a fund or an individual investment. It improves in value over time and then we tend to sell those investments and it generates income. During the period of time when deal flow was down because people just couldn't travel due to due diligence and that sort of thing, it's normal to understand that, that income was reduced.

There was also -- and we disclosed this earlier in the year, we did have some loss. We had about $130 million in national losses, and that plays in as well. What we've seen this quarter is a beginning of returning to more normalized deal activity. So we're not going to predict the future here. But there's reason -- if you look back relative to what we've experienced historically, we're starting to see a pattern that starts to fit in a little bit. So long-dated liabilities matches off well versus that. We like the long-run returns, even though they're more volatile, but we think they're superior to what we can do in public markets.

When it comes to rates, you've seen us, Greg, you've seen us be proactive in the way that we think about investing in our market-based portfolio. And as Tom said, that's part of a larger enterprise system where we think about risk and return across the enterprise, whether it's underwriting risk, mortality risk or investment risk and return. And we made changes over time to address the different market environments.

So a good example of that is coming out of the global financial crisis, we reduced interest rate risk as risk became lower, and we took more credit risk, we thought that it was -- that had a good risk return profile. As rates started to increase in recent years, we lengthened our duration to take advantage of that, and that served us quite well as interest rates have fallen here. And we've -- subsequently in the beginning of the year, we saw less value on a risk-adjusted basis for public equities and reduced that.

One thing that may not be completely obvious is during the course of the year, this year, we've taken further actions; not only are we helping buffer income by increasing duration, but we've also moved some of that equity exposure and some of our pure government exposure into almost $10 billion of investment-grade credit, some high-quality high yield and associated securities to help minimize the impact that lower rates will have. I mean, you're right. If rates stay this low for a long period of time, there will be a reduction of income. It's just kind of pure math would play out that way. When I look at the Slide 7 of the presentation and you see those blue lines, it just doesn't happen that rapidly. Part of our investments are matched off versus longer liabilities. So they're cash matched. And then part of it has to happen as the portfolio tends to roll off over periods of time. So it will happen if rates remain low for a long period of time. It won't happen overnight. And we're hopeful like most people are that interest rates will recover some ground as we pull out of the COVID-induced lower interest rate paradigm that we're currently in.

Operator

Next question comes from the line of Mike Zaremski from Credit Suisse.

Michael David Zaremski
Crédit Suisse AG, Research Division

First question, Looking through the deck, I see one of statements saying improved online and call center sales flow in Allstate direct. Can you give us a flavor for how much of your sales today, I think you mostly think of Allstate as an agency-based seller of insurance, but how much is coming from direct? And related, I believe in the past, you've said that as part of the transformation program, you might be offering a discount to existing customers to potentially use more of the direct platform versus the agents. Is that still part of the game plan?

Thomas Joseph Wilson
Chairman, President & CEO

Mike, let me first start with the overview and [indiscernible] couple of things Glenn said, and Glenn, if you want to talk about sort of sales flows, and what you got going on sales. So we've put together the -- so if you looked at our old stuff, last quarter, you would see Esurance broken out, and that was 100% direct, either online or through call centers.

We did also sell some business under the Allstate brand in the same manner, mostly through call centers, but a little bit online. And with the new format we have, we've put those 2 together. And so we're not planning on breaking out how much comes out direct and how much comes through agents. You're correct in that if you buy direct today, you get what you pay for, so you don't pay for an agent. So you don't -- your price is 7% lower if you buy direct from the company. But that's for only for new customers. We're not going back to existing customers and saying, "Hey, how would you like a 7% price reduction?" because they are happy with their existing relationships. They bought from those agents. They have -- we cross-sell them through those agents. So there's no really need to go disrupt that. We're about giving it to people any way they want. If you want an agent, you can call us and get an agent and we'll -- you call a call center, we'll get you and agent, and you can have a local agent. If you want to do self-serve and you want to do it online, we'll do that as well.

So the strategy is to really leverage the Allstate brand and take that Esurance money, which was Esurance advertising money, which was hundreds of millions of dollars a year and throw that at the Allstate brand, so that we could compete more aggressively with GEICO and Progressive in the direct space.

Glenn, do you want to talk about, like, sales flows and how you're making that work? So...

Glenn Thomas Shapiro
President of Personal Property-Liability of AIC

Yes. So the team that we've had that ran Esurance and has been put together as Allstate, as Tom said, with the Allstate Group, and you would think that it would be relatively easy to flip a switch and say, "Hey, we're a direct company now, and we're going to play big in this space." But we literally have decades of connective tissue and process built around everything is an off-ramp for an agency system.

And so what we want to be and aspire to be in the near term, is a company that really goes to market in both ways. It's open access for a customer, a customer that wants to click or call, that -- we do that really effectively, and we can compete with biggest direct carriers out there in that space and think about that as a full channel. And then it takes nothing away from the exclusive agent channel we have, which is outstanding. They do an incredible job for customers. They've done a great job through the pandemic. You can see it in our retention numbers and continue to grow that channel. But the work they've done is really the pick and shovel work of removing some of those pieces of connective tissue between channels and really going to market as a direct business. Esurance was set up that way because it was a separate run operation. This now is, it's common product, it's common back-end service that we have, but it's a separate sales channel.

Michael David Zaremski
Crédit Suisse AG, Research Division

That's very helpful. Last question, circling back to the annuity business, and we do appreciate all the color. I think we all get asked a lot whether Allstate would entertain a transaction. So I know you've answered that in the past, but maybe I'll try to ask it a different way. So you pointed out very well that you've moved a lot of the investments into kind of longer duration, hopefully, higher-yielding assets, which is one of the things that some of the private equity-backed firms do as part of their, right, their special sauce. So would you say the lower interest rate environment combined with how you guys have positioned the portfolio kind of makes the bid-ask spread of entering a transaction wider than it was a year or so ago.

Thomas Joseph Wilson
Chairman, President & CEO

First, Mike, if you look at that the one slide, we've taken annuities down from $75 billion to $17 billion over a period of time, and we've done that with a couple of objectives in mind: one, you want to make sure you take care of customers; two, you want to get a good deal for shareholders.

And so we've been kind of whittling away at it, and these are the last 2 chunks we have left. And we're open to different ways to do that. And we look at all different ways to do it all the time. So everything from reinsurance to sales, everything else. And so I don't think lower interest -- lower interest rates obviously are something you need to factor in. It's less important when you have the investment portfolio that you just mentioned in terms of what it does to the -- it helps fill the gap from low interest rates because you're earning higher returns. I think the other side to this is, these are becoming more scarce properties because you've seen the asset managers go out, and they like having what I would call captive assets.

So there's a whole host of, you're all familiar with that lot and want to buy annuity blocks, so that they can have those assets to manage and then they separately finance the purchase of the company, part with their money, part with other people's money, is a way to build a better revenue stream for themselves. We're open to that thing as long as it meets our 2 objectives: one, you got to take care of our customers. So some of these customers are going to get paid for 30-plus years. We don't want to turn them to somebody that's going to take it all and go to Las Vegas and put it on red, and then our customers are left holding the bag.

Secondly, the -- we want to make sure it's a good deal for our shareholders. So we're always looking at opportunities to further reduce the exposure. I mean you look at that trend line, whatever slide that is, and it's -- there's no reason to expect that we would try to change that trend line. It will go down by itself. So, like, they do roll off, people do stop collecting payments, either because their term is up or they pass away. So -- but you should expect it to keep going down. If we can find the right way to do that for shareholders and customers, then we would do it.

Operator

Our next question comes from the line of Phil Stefano from Deutsche Bank.

Philip Michael Stefano
Deutsche Bank AG, Research Division

Yes. So with the sunsetting of the insurance brand, we're down to 3 brands now. I guess, in my mind, part of the Transformative Growth Plan is a rally behind the Allstate brand. So I was hoping strategically you could talk about the importance of Encompass Financial as we think about the Transformative Growth Plan over time.

Thomas Joseph Wilson
Chairman, President & CEO

So it's Tom. I think it's really one brand, and we have some names. But right now, we have one what I would call consumer brands. There's obviously some brands amongst agents. And so you see us leveraging the brand, not just on direct, but Allstate Protection products, I don't believe we would have gotten Walmart and driven the kind of growth we have without the Allstate name on there and the Allstate backing. Same is true with Home Depot, which we'll be rolling out starting in January. So it's really one brand. There are -- you do point out 2 other ways, you go to market.

So Glenn, could you talk about plans for the independent agent channel Encompass with National General, and then just touch on what you're doing with Answer Financial as well?

Glenn Thomas Shapiro
President of Personal Property-Liability of AIC

Yes. So in the IA space, it really is National General. I won't get into the brand because I don't know if any decisions were made in terms of exactly the brand. But as Tom said, it's more of a branding with agents than it is with customers in that channel. But with National General and Encompass, it's really about bringing those together in sort of a reverse integration because National General has a platform, a technology platform that IAs love. They have 42,000 existing relationships with agency locations to go along with the 10,000 that we have with Allstate and Encompass.

And between the 2 companies, we have a product set that goes from nonstandard all the way up through high net worth and everything in between. And what I always point out on this is, I think maybe the most important part is, our homeowners capability. The IA space, they really need that -- the full stack and all the capabilities, and we clearly have a premier homeowners capability at Allstate. So you put all of that together, and we will have the most capabilities of any carrier. We'll be the #5 in size as soon as the closing goes through in the IA space. But we will be #1 in terms of overall top-to-bottom capabilities. That won't be the day that we go live. It won't be that because we won't have been able to integrate products and everything and push it across. But in short order, we'll be able to bring those together and really go to that market and be a very major player in the independent agent space. And then I'm forgetting if there was a second part to that?

Thomas Joseph Wilson
Chairman, President & CEO

Answer Financial.

Glenn Thomas Shapiro
President of Personal Property-Liability of AIC

I'm sorry, Answer Financial. Thanks. Yes. So on Answer Financial, that is -- it's a very different type of model. That is -- that really is taking care of customers who we can't take care of in other ways. They sort of fall between the cracks of -- the always narrowing cracks actually at this point because we cover just about all different types of customers at this point. But the narrowing cracks there, and it's a way to monetize the exhaust from our expense on marketing and make sure that anybody that comes to us, we can get to at some point. And so Answer Financial from a branding standpoint is separate, and they sell multiple carriers.

Philip Michael Stefano
Deutsche Bank AG, Research Division

Got it. And going back to the National General acquisition, we noticed in the Q that there was a note that you're currently contemplating the mix of cash and debt for that purchase. I was hoping you might be able to put a finer point on what your thoughts are there, and just intertwine that into a broader thoughts on capital management and share repurchases.

Thomas Joseph Wilson
Chairman, President & CEO

Mario, if you could take that?

Mario Rizzo
Executive VP & CFO

Sure. Phil, thanks for the question. Yes. Well, we -- when we announced the National General acquisition, the financing strategy all along was part cash from our deployable capital -- part excess capital within the National General structure and part debt. So that continues to be the strategy in terms of how we'll fund National General. So that part hasn't changed. So we fully expect it to execute across all 3 dimensions and the close process is progressing on that acquisition.

In terms of broader capital management, we -- and I think Tom mentioned this early on, we continue to think the stock is undervalued and we have ample capital and liquidity available to continue to buyback stock. We have $2.8 billion of holding company assets. We got over -- almost $7 billion of readily available liquidity. Our debt-to-cap ratios are below 20%. So we feel really good about the financial strength of the organization. And that's one of the reasons -- that, combined with our view on the relative valuation of the stock is what led us to do the $750 million ASR in the fourth quarter.

We got 7 million shares as part of that. We still have a ways to go on the current share repurchase authorization. So we still have just under $1.6 billion left, and we'll continue to execute on that. And another point that's worth mentioning is, as we've said from the beginning, the National General acquisition doesn't impact the buyback program. We fully expect to complete that by the end of the year.

Operator

Our next question comes from the line of Josh Shanker from Bank of America.

Joshua David Shanker
BofA Merrill Lynch, Research Division

On your press release where you were announcing the restructuring plan, you made the comment that the cost reductions and job reductions were necessary in order to maintain underwriting ratios. I'm not really asking for guidance, but obviously COVID throws a little bit of a curve ball things. When we think about 2019, I guess, is there actually a possibility in your long-term outlook that you think the type of underwriting margins you're achieving on a COVID normalized basis can be maintained into the years going out, given pricing actions and given what your goals are?

Thomas Joseph Wilson
Chairman, President & CEO

That's a [Technical Difficulty] Josh, because I'm not sure where COVID normalized out. But I think the shortest way to answer that is we earned really attractive returns on auto insurance. We have for, I don't know, 14, 15 years, maybe longer running. And we have a system and objective and goals that we've achieved to continue that. When I say COVID normalized, what we don't really know is certainly, of course, when the pandemic ends, which is beyond your normalization, but I'm not sure what it will do to consumer behavior, particularly driving. I think commuting is going to be viewed as over rated. And so given that about 1/3 of the time people are in their cars, they're driving to and from work, so if even a small portion of people, so if 25% of the people commute less, that's a pretty big drop. And we will react to that when we can. I think what it does is it gives us more room to maintain the kind of returns we have while getting more competitive. And so -- but you should assume we'll continue to be focused on earning attractive returns. That comment in the press release was really about saying we didn't have to reduce costs because we're not making money. There are a lot of people out there who today are, airlines and other people who are having to let people go because they're just in trouble. We're not in trouble. We're making really good money. And so we don't need to for that reason.

We also, as we're talking about getting more competitive in auto insurance, in particular, we don't want everybody moving to the conclusion, which you could, if you took your question further, would be that we're going to do that by giving it away. We like to say anybody can give it away. It's talented teams that both grow and make money. And so we were just trying to point out that the point that I think Greg mentioned earlier, which is that the cost and the price thing are tightly linked. And I know a lot of you would like to have some expense ratio target that you could put into your models. But trust us, we have a measure. It's a good measure. It's aggressive, but it's tied to what we're trying to do on price. So we're not willing to talk about that publicly.

Joshua David Shanker
BofA Merrill Lynch, Research Division

And just a quick one on SquareTrade and growth. Obviously, people have been stuck at their homes. They've been buying a lot of stuff on Amazon and whatnot. Do you think that 2020 was a record year for consumer electronics purchasing? And that 2021 will face some headwinds in beating 2020 as a year for new policy at SquareTrade or Allstate Protection Plans?

Thomas Joseph Wilson
Chairman, President & CEO

Let me have Don answer that and then just do a commercial before that, which is we are stronger being together with SquareTrade than we were independently, both in terms of what it does for our server protection and what we do for them in getting Walmart, Home Depot, leveraging the Allstate brand. But I would say, you put this up against any of the recent IPOs out there, this thing is worth a whole lot more than we paid for. Don, do you want to talk about whatever?

Dogan Civgin
President of Service Businesses & CEO of Protection Products and Services- AIC & Vice Chairman

Sure. So Josh, first, the trends have been strong for a long time. So it's not like this year, all of a sudden, SquareTrade have got off; they've been doing well since the acquisition. It's been a combination of things that's driven that. It's the growth in the existing customers, which they've been able to help drive with their customers. It's been additional customers that they've added, B2B customers, additional retailers. And then this thing that Mario talked about, which is just expanding their total addressable market.

So 3 years ago, they were largely consumer electronics through U.S. retail. But since then, it's more than consumer electronics, it's now appliances, it's now furniture, it's now an international business; it's growing dramatically. It's cell carriers and so forth. So it's been kind of expansion across the board, which has been consistent for the last 3 years. This year's results, you're right, were impacted by COVID. They were going to be strong regardless. So this was going to be a really great year. We got the benefit of COVID, but it wasn't just people buying online. It was the customers that we have are the places people are shopping, and the categories that lend themselves to warranties are the ones that customers have been purchasing. So whether it's setting up own office, you're setting up consumer electronics, as you said. So this year has been good, and it's been positively impacted, but I think it would be a big mistake to assume it wouldn't have been good anyway. And then when you get into 2021, those underlying trends that I talked about that have been going for 3 years will continue. And so we still expect them to continue to grow and do well. I suspect at some point, the lack of buying power and the economy will probably dampen retail sales across the board more. Hard to predict how that's going to happen, when that's going to happen. But I think that's the -- that's on the margin. The underlying trends will continue in very strong.

Thomas Joseph Wilson
Chairman, President & CEO

To add to that is when you look forward in 2021 in Allstate Protection Plans, the mix of policies is going to change them. So you'll see the policy growth come off, but you'll see the revenues continue to accelerate, that's particularly as we get into bigger dollar amounts per policy. So one thing to get a warranty policy on an iPad; it's another thing for a washer or a dryer or furniture. So you should still see, and we expect increased revenue growth, but you may see a slight takeoff -- drop, maintaining 51% company growth and policies, it gets hard as you move into bigger dollar policies. I want to take one more question and then we'll wrap up.

Operator

Our final question then for the day comes from the line of Paul Newsome from Piper.

Jon Paul Newsome
Piper Sandler & Co., Research Division

I guess I was hoping you could just revisit a little bit. You've already made some comments about driving behavior that's pandemic-related and what you're seeing that's changing. Nothing terribly specific, but you've had some peers that are talking about these changes in driving, for example, to work and not -- versus regular driving. And as well, I was curious if you've seen differences that were material on a state basis. Again, nothing specific to state, but if there's really insights into kind of what's happening from a dynamic -- from an actual behavior perspective, I think that would be very interesting.

Thomas Joseph Wilson

Chairman, President & CEO

Glenn, why don't you answer that? I would say, Paul, the other part is with Arity, we're tracking 26 million cars. We have 10x the amount of miles driven that a company that recently went public. And so we get lots of good math on this. So Glenn can share with you what he's seeing just in terms of mileage driven and what its impact is on frequency.

Glenn Thomas Shapiro
President of Personal Property-Liability of AIC

Yes. And thanks for the question, Paul. It is interesting getting into the data in the space. And as Tom said, with the billions of miles of data we've got and the partnership with Arity, we're able to really get into the detail. The short answer to your question is, yes, there are absolutely differences state by state. There are broad trends that are true everywhere when you see some of the things about commuting and total miles driven. But you'll see based on sort of where states are in the pandemic, where they have either formal stay-at-home orders or shutdowns or anything versus when they have more informal, they just have a lot of cases coming in. And just attitude is different, differ by state in terms of how to deal with either staying home or not and so on.

So we do see differences by state, but there is enough of a prevailing sort of tailwind on it that there's more similarity than difference. A couple of things just to go deeper on the comments Tom made before. We see about 40% of our losses happen in rush hour. And so as we're working through and we predict, and again this gets to different states because obviously in metro areas, it's more of a truism about rush hour than non-metro areas.

But we get a double effect in terms of the frequency of those accidents in rush hour in one, fewer people, so fewer of our drivers that we ensure are actually traveling during rush hour. And so if you're not traveling, you're not having an accident. And two, the ones who still are, because it's not 0, are on less congested roads. So they have fewer accidents. And you see that in the types of accidents that remain. So it is not a pure mix of if there were a million accidents before and you take out 10% of them, it is not a random 10%. It is a very specific 10%. And so what the mix of what's left is very different. And all of these are things that we're looking at in a granular level down to the state detail, so that, as I mentioned before, those -- the pricing actions we take, the go-to-market actions we take are highly specific.

Thomas Joseph Wilson
Chairman, President & CEO

So thank you all for participating. We had an excellent quarter. Mark is obviously available for any follow-up questions, things we didn't get to. And we'll talk to you next quarter. Thank you.

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