S&P Global
Market Intelligence

The Allstate Corporation NYSE:ALL

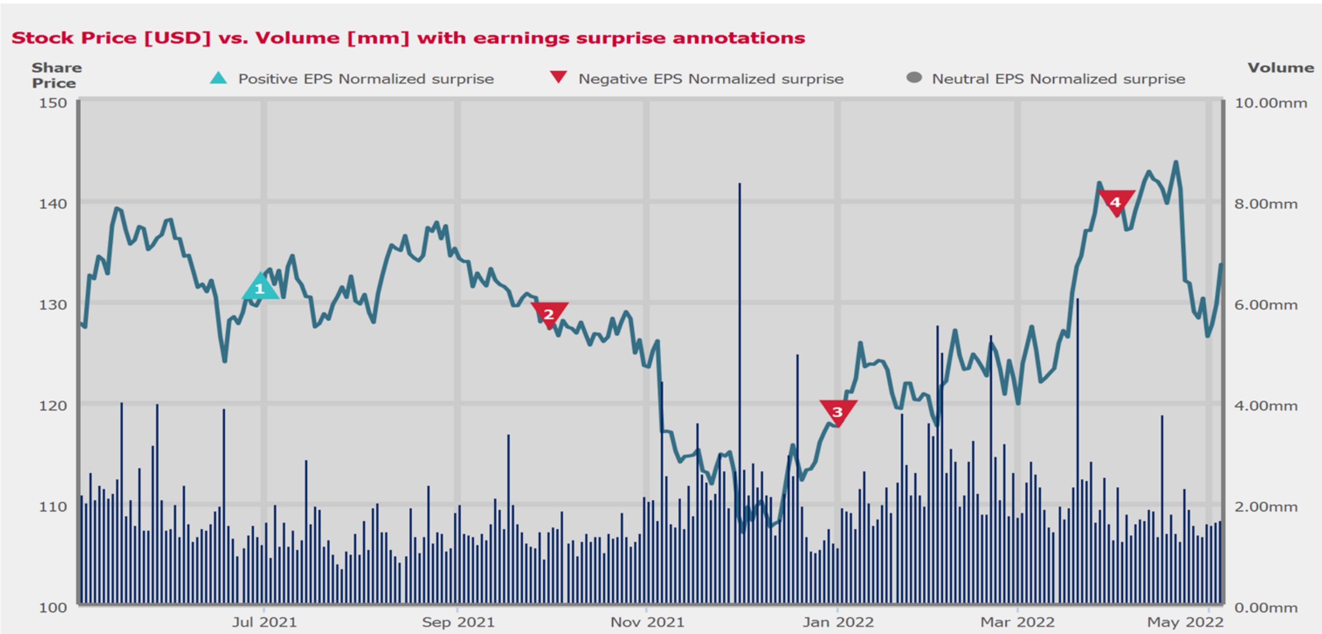
FQ1 2022 Earnings Call Transcripts

Thursday, May 05, 2022 1:00 PM GMT

S&P Global Market Intelligence Estimates

	-FQ1 2022-			-FQ2 2022-	-FY 2022-	-FY 2023-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	2.95	2.58	(12.54 %)	1.14	8.92	NA
Revenue (mm)	11138.27	10981.00	(1.41 %)	11197.37	44669.34	NA

Currency: USD
Consensus as of May-05-2022 6:39 PM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ2 2021	3.17	3.79	1 19.56 %
FQ3 2021	1.74	0.73	2 (58.05 %)
FQ4 2021	2.77	2.75	3 (0.72 %)
FQ1 2022	2.95	2.58	4 (12.54 %)

Table of Contents

Call Participants

EXECUTIVES

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

Mario Rizzo
Executive VP & CFO

Mark Nogal
Head of Investor Relations

Thomas Joseph Wilson
Chairman of the Board, President & CEO

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Presentation

Operator

Good morning, everyone. Thank you for standing by, and welcome to The Allstate First Quarter 2022 Earnings Conference Call. [Operator Instructions] And please be advised that today's conference is being recorded. [Operator Instructions]

I would now like to hand the conference over to your speaker today, Mr. Mark Nogal.

Mark Nogal
Head of Investor Relations

Thank you, Kirby. Good morning, and welcome to Allstate's First Quarter 2022 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, along with our reinsurance update, on our website at allstateinvestors.com. Our management team is here to provide perspective on these results.

As noted on the first slide of the presentation, our discussion will contain non-GAAP measures, for which there are reconciliations in the news release and investor supplement and forward-looking statements about Allstate operations. Allstate's results could differ materially from these statements, so please refer to our 10-K for 2021 and other public documents for information on potential risks.

Before I hand it off to Tom, I want to share that we will be hosting our second Special Topic Investor Call on June 16, focusing on the value of homeowners. We look forward to the additional engagement later this quarter, and we'll share further information soon. And now I'll turn it over to Tom.

Thomas Joseph Wilson
Chairman of the Board, President & CEO

Well, good morning, and thank you for investing your time in Allstate today. Now let's start on Slide 2.

So Allstate's strategy to deliver Transformative Growth and higher valuation has 2 components: increase personal property-liability market share and expand protection services, which are shown in the 2 ovals on the left. We're building a low-cost digital insurer with broad distribution to a Transformative Growth. We're also diversifying our business by expanding protection offerings, as shown in the bottom oval.

In the first quarter, we made progress in 3 key areas to execute this strategy. We're 6 months into a multifaceted plan to address the negative impact of inflation, which is largely in auto insurance. This begins with aggressively raising prices. We're doing this surgically and raising prices more for new or shorter-tenured customers with less profitability and less for longer-tenured profitable customers.

Progress was also made in executing programs to reduce expenses and manage loss costs. We also shifted our asset allocations by reducing the interest rate exposure of our bond portfolio in the fourth quarter of last year, which lowered the overall enterprise impact from higher inflation by $800 million.

Secondly, we continue to make progress on Transformative Growth by expanding customer access, increasing pricing sophistication and building new technology ecosystems. Protection Services also continues its profitable growth trajectory with revenue growth of almost 14% above the prior year.

Moving to Slide 3, let's discuss first quarter performance in more detail. Property-liability premiums earned increased 6.1% due to higher average premiums and a 2.1% growth in policies in force. Net investment income of $594 million was 16.1% below the prior year quarter, reflecting lower fixed income reinvestment rates, the impact of reducing the bond portfolio duration and strong performance-based portfolio income, but that was in comparison to an exceptional prior year quarter.

Net income of $630 million in the first quarter compares to a $1.4 billion loss in the prior year, which included losses related to the disposition of the life and annuity businesses. Adjusted net income of $726 million or $2.58 per diluted share declined compared to the nearly $1.9 billion generated in the prior year quarter due to lower underwriting income.

You'll remember, last year's first quarter reflected low auto accident frequency because of the pandemic, and inflation and loss costs had not yet been realized. We provided over $1 billion in cash returns to shareholders in the quarter and reduced outstanding shares by 8.1% over the last 12 months.

Moving to Slide 4. You can see how income from homeowners insurance, investments, Protection Services and Health and Benefits mitigated the negative impact that inflation had on auto insurance. Insurance underwriting margins provided $267 million of after-tax adjusted net income or $0.95 a share. Auto insurance generated a slight underwriting loss with a recorded combined ratio of 102.

Our industry-leading homeowners insurance business generated underwriting income that contributed $335 million of adjusted net income or $1.19 per share. And although performance-based investment income declined from record highs in 2021, results were still strong in the first quarter, with property-liability net investment income contributing $1.56 per share. Protection Services and Health and Benefits income more than offset the losses in auto insurance.

Now let me turn it over to Glenn to discuss the property liability results in more detail.

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

Thanks, Tom. Starting on Page 5, we'll talk about profitability in Allstate brand auto insurance. We targeted mid-90s combined ratio in auto insurance. And as you could see from the chart on the left, we have a long history of meeting or exceeding that target, supported by our pricing sophistication, underwriting, claims expertise, expense management. And of course, when you look at 2020 in that chart, it's an outlier in terms of the view because we had much better than target results due to the early pandemic impacts.

And the chart on the right breaks down the 5 most recent quarters, highlighting the significant increase in combined ratio that occurred in 2021, as we transitioned from those favorable pandemic impacts to the high inflation environment that we're in today.

In late 2020 and early 2021, as Tom just mentioned, while we were running a combined ratio around 80 and benefiting from frequency and the improved cost structure changes we've made, we took price decreases. And then as inflation spiked in Q2 and Q3 of last year, we shifted towards rate increases, which ramped up significantly in the last 6 months.

The recorded and underlying combined ratios improved sequentially in the first quarter of '22, though inflationary trends continue to pressure margins with increasing severity. And frequency is obviously higher year-over-year from that low point, but it's been very stable in terms of maintaining lower-level frequency compared to pre-pandemic levels. We'll go deeper into severity and pricing for auto insurance in the next few pages.

So let's move to Slide 6 and talk about Allstate auto physical damage claim severity in more detail. The story of higher severity has continued into 2022, and it's across the country, as you can see from the map on the left. Allstate brand report year 2022 incurred severity for property damage increased about 11% compared to report year '21. Now recall that we shifted to report year incurred severity to give you a better view directly into what's recorded in our financials.

And it's really important to note on this that when you look at paid severities, it's typically shared as a comparison to the prior year quarter or year-to-date or some prior period, whereas our new disclosure is an estimate of the full change in the fully developed report year severities year-over-year. So the 11% in this case is the expected severity in '22 over all of 2021, inclusive of the inflation seen in quarters 2 through 4.

On the chart on the right, you can see that Allstate has a higher distribution of total loss claims involving newer vehicles compared to the industry. And while those vehicles come with higher premiums, they also can adversely impact total loss severity when vehicle values rise. We're adjusting pricing and using our strong claim capabilities to mitigate rising costs, and that includes leveraging our scale, our operating processes, experienced claim professionals, technology, broad repair relationships that we have and our investments in data and analytics to help contain costs for customers.

Moving to Slide 7. Let's talk about bodily injury severity increases because they've also contributed to auto insurance cost and price increases. Like property damage, casualty loss trends have been elevated for the past few years and continued into '22. But the bodily injury pressure isn't quite as widespread. Allstate brand report year '22 incurred severity for bodily injury increased about 8% compared to report year '21. Higher-speed accidents and less congested roads are leading to harder impact crashes and more severe injuries. And an evolving legal environment is also a factor in casualty costs.

If you look at the chart on the left, you'll see that claims resulting in a nondrivable vehicle, which would mean kind of a harder hit, and claims resulting in bodily injury claims with a major injury designation have increased compared to pre-pandemic levels. That's driving a shift to more complex and costly treatments and contributing to higher medical consumption.

In terms of the legal environment, trial attorney advertising for claimants has doubled over the past decade and exceeds $1 billion annually now. That results in higher attorney representation rates, and ultimately, higher costs for consumers.

The chart on the right shows the severity variance to prior years, trending higher in some of our more populous states like Texas, Florida, Georgia, New York and California. And Texas actually accounted for about 80% of the prior report year strengthening within bodily injury in the first quarter. Here again, our scale, our investments in technology and in data and analytics and our claim expertise are helping us resolve claims fairly, accurately and efficiently.

Moving to Slide 8. Let's talk about another key component to our multifaceted plan to deal with inflation, and that's raising auto insurance prices. The table on the left provides a view into 2021 and the first quarter of '22 rate actions in Allstate brand auto. We implemented rate decreases, as we talked about earlier, in early '21 to reflect our continued lower frequency and expense reductions.

In the second quarter, as inflation picked up, we pulled back on any reductions and began increasing rates by the third quarter. And then those rate actions accelerated in the fourth quarter and then further accelerated in the first quarter this year. In the first quarter of '22, we implemented rate in 28 states with an average increase of 9.3% and a weighted Allstate brand auto premium impact of 3.6%.

When you combine that with the fourth quarter actions, we've increased weighted rates by 6.5% over the last 6 months, and that equates to a gross annualized written premium impact of $1.6 billion within the Allstate brand. About 95% of our premiums in the U.S. are coming from 6-month term policies.

So the rates will improve margins, but there's a lag between when the rates are implemented and they're ultimately earned, which you can see in the chart on the right, which estimates when the rate increases taken in the last 6 months will be earned into premium. That illustration assumes only 85% of the annualized premium will be earned to account for things like retention and the fact that customers modify their policy terms when faced with a price increase, like changing deductibles or limits.

As you can see, looking at Q1 2022, the rate increases we've taken didn't have a whole lot of impact yet, but you can see it coming in the coming quarters, and it really accelerates. We expect to see significant increases in earned premium beginning in the second half of '22, reaching over $1.1 billion by the first quarter of next year based on the implemented rate so far. And keep in mind that additional rates and increases that we take through this year will be additive and compound on those rate increases.

And given the ongoing inflationary pressure, we have increased the magnitude of rate increases we expect to take in the rest of 2022. We remain very confident in our ability to restore auto profitability to targeted levels, and we'll keep you posted on that in our new monthly disclosures of rate filings.

So let's move to Slide 9 and take a look at something that I think is an undervalued strength at Allstate, and it's our industry-leading homeowners business. As you know, a significant portion of our customers bundle home and auto, and that improves the retention and overall economics of both lines of business. We've differentiated our homeowners product and our homeowners capability really. And that goes to our product, our underwriting, our reinsurance, our claims ecosystem. It is a unique entire business model and system in the industry.

The graph on the left shows the history of Allstate brand combined ratio in homeowners versus the industry and competitors. And we believe that in order to achieve an adequate return on the capital that's required in this particular line of business, you have to achieve a recorded combined ratio over time at a target of 90% or better. And as you can see from the Allstate dots on that chart, we have a long history of doing exactly that. You can also see that some of our large competitors and the industry as a whole consistently generate combined ratios that don't meet what we find as a definition of needed for a return on capital.

We've repositioned the homeowners business over a multiyear period by reducing exposure to unprofitable geographies, designing new products, creating highly sophisticated pricing plans, improving home inspection and risk selection process and sourcing capital through multiyear reinsurance programs. As a result of all of that, we've consistently generated excellent underwriting results.

Since 2017, we've earned $3.3 billion or about $667 million annually in underwriting income, with the industry generating an underwriting loss over that same period. Homeowners Insurance and Allstate's homeowners insurance are certainly not immune to the rising inflationary environment right now, though. And we see that in the form of higher labor costs and higher material costs. But our products have the sophisticated pricing features needed to respond to those changes in replacement values and help offset the impact.

The chart on the right shows key Allstate brand homeowners insurance operating statistics. And there, you'll see that our net written premium has grown sharply through 2021 and into 2022, increasing 17% from the prior year. We grew policies in force by 1.7% in the first quarter. And our Allstate agents continue to be in a really good spot to broaden customer relationships with homeowners. And our average premiums rose 14.3%, mostly driven by increasing property values, as I mentioned earlier.

The first quarter combined ratio of 83.3% generated $368 million of underwriting income for the Allstate brand. In short, our property insurance business is a competitive advantage, and we aim to continue to leverage that advantage and grow it. And we look forward to sharing additional insights on homeowners with you during our upcoming Special Topic Call on June 16.

And with that, I will turn it over to Mario.

Mario Rizzo
Executive VP & CFO

Thanks, Glenn. Let's move to Slide 10 where we'll discuss how we're improving customer value through cost reductions. The chart on the slide shows the adjusted expense ratio, which is a metric we introduced a couple of quarters ago. This starts with our underwriting expense ratio, excluding restructuring, coronavirus-related expenses, amortization and impairment of purchased intangibles and investments in advertising.

It then adds in our claims expense ratio, excluding costs associated with settling catastrophe claims because catastrophe-related costs tend to bounce around quarter-to-quarter. We believe this measure provides the best insight into the underlying expense trends within our property-liability business.

Through innovation and strong execution, we've achieved more than 3 points of improvement since 2018. Over time, we expect to drive an additional 2 points of improvement from current levels, achieving an adjusted expense ratio of approximately 23 by year-end 2024. This represents approximately a 6-point reduction compared to 2018, enabling an improved competitive position relative to our competitors while maintaining attractive returns.

While the adjusted expense ratio increased compared to the prior year quarter, primarily due to higher employee-related costs, we remain committed to our 3-year reduction goals.

Not included in this measure, but in the reported expense ratio was an increase in advertising expenses versus the prior year quarter as we took advantage of a drop in advertising costs and a seasonal increase in direct shopping to shift spending earlier in the year. Advertising will fluctuate throughout the year as we implement auto price increases and could impact near-term growth. Our future cost reduction efforts are focused on digitization, sourcing and operating efficiency and distribution-related costs.

Slide 11 diagrams Transformative Growth will increase market share. This multiyear initiative is designed to increase personal property-liability market share by building a low-cost digital insurer with broad distribution. This will be accomplished by delivering on 5 key objectives: improving customer value, expanding customer access, increasing sophistication and investment in customer acquisition, deploying new technology ecosystems and enhancing organizational capabilities.

We made significant progress across each objective in 2021 and are continuing the momentum in 2022. While the current auto operating environment required rapid price increases, we are confident this plan will generate long-term growth.

Starting at the top of the flywheel, we have reduced expenses to improve customer value with more competitive prices while earning targeted returns. We are building simple, affordable and connected protection solutions that are competitively differentiated. We have enhanced and expanded distribution, including modifying the Allstate agent model to increase growth and decrease distribution costs. We also improved the strength of our direct channel capabilities by leveraging the Allstate brand and significantly expanded in the independent agent channel through National General.

Differentiated products and expanded distribution are supported by increased marketing sophistication and investment. New technology ecosystems lower cost, support protection offerings and improve service and speed to market. This comprehensive approach is like a flywheel that creates sustainable competitive advantage, leading to market share growth.

At the bottom of the page, you can see the 5 phases of Transformative Growth. We continue to make meaningful progress as we execute on building the new model in Phase 3 and begin to scale the new model in Phase 4.

Moving to Slide 12. You can see how expanding customer access better meets customer demand. Starting on the bar on the lower left. You can see the auto insurance industry written premium distribution by channel in 2020 was roughly 1/3 exclusive agency, 1/3 direct and 1/3 independent agency. Allstate's pre-Transformative Growth distribution for auto new business as of year-end 2019 is shown in the middle bar, and Allstate's first quarter 2022 distribution is shown on the right.

As you can see, today, the distribution of new business more closely mirrors the industry due to Transformative Growth and the acquisition of National General. The National General acquisition significantly increased our presence in the independent agent channel and offers future growth potential by expanding middle-market product offerings. Direct sales capabilities were improved and expanded from the Esurance base, including the use of the Allstate brand with lower pricing in this channel.

Allstate agents are and will continue to be the competitive strength as an incentive shift to growth and costs are reduced. Today, the source of new business matches customer preferences and drove a 14% increase in new business applications in the first quarter compared to the prior year quarter.

Slide 13 shows the profitable growth of Protection Services. Revenues, which exclude the impact of net gains and losses on investments and derivatives, increased 13.6% to $627 million in the quarter. The increase in revenues was driven by continued growth at Allstate Protection Plans, generating a 19.6% increase in revenues to $329 million compared to the prior year quarter. Policies in force also increased 4.7%, reflecting growth in Allstate Protection Plans and Allstate Identity Protection.

Protection Services policies in force of $147 million are approximately 4x that of property-liability, showing how ubiquitous the Allstate brand is becoming. Adjusted net income of $53 million for the first quarter of 2022 increased $4 million compared to the prior year quarter after generating $179 million of adjusted net income for all of 2021.

Moving to Slide 14. Allstate Health and Benefits expanding product offering generated growth and income. The acquisition of National General in 2021 added both group and individual health products to our portfolio, as you can see on the left. Revenues of $581 million in the first quarter of 2022 increased 4.9% to the prior year quarter, driven by higher premiums and contract charges and other revenue, primarily in group health. Adjusted net income of $53 million decreased $12 million from the prior year quarter, driven by increased individual and group health claims.

Now let's shift to Slide 15, which highlights our investment performance in the reduction of fixed income duration to reduce enterprise exposure to inflation. Net investment income totaled $594 million in the quarter, which is $114 million below the prior year quarter, as shown in the chart on the left. Performance-based income, shown in dark blue, was $72 million below the prior year quarter, but 2021 was an exceptional year for private equity markets and reported income.

While results are lower compared to a strong prior year, the performance-based annualized yield of 14% in the first quarter is above long-term average performance. Market-based income, shown in blue, was $31 million below the prior year quarter. As we've discussed, our market-based portfolio yield has declined in the lower interest rate environment over the last few years, with reinvestment rates below our average fixed income portfolio yield.

The fixed income yield was further reduced by actions we took in the fourth quarter of 2021 to lower portfolio duration and reduce the negative impact higher inflation and interest rates would have on our fixed income portfolio valuations.

The chart on the right illustrates our proactive management of interest rate exposure over the interest rate cycle. After shortening duration late in the fourth quarter of 2021, we further reduced duration by 0.7 years in the first quarter. The increase in interest rates in the quarter decreased our fixed income valuations by $2 billion, resulting in a negative portfolio return of 2.8%.

However, our interest rate risk mitigation lowered the negative impact of higher interest rates by approximately $800 million versus our position at the end of the third quarter of last year. The shorter duration portfolio also positions us to reinvest in higher market yields as interest rates continue to rise.

Now let's move to Slide 16, which highlights Allstate's strong capital position. Adjusted net income return on equity of 12.8% was below the prior year period due to lower auto insurance underwriting income. Allstate's strong capital position continues to enable significant cash returns to shareholders. We returned $1 billion through a combination of share repurchases and common stock dividends in the first quarter of 2022.

Common shares outstanding were reduced by 8.1% over the last 12 months, 16.9% since 2018 and 45% since 2011, reflecting our history of providing strong cash returns to shareholders. As of March 31, 2022, we had $2.5 billion remaining on the current $5 billion share repurchase program, which is expected to be completed by early 2023.
With that context, let's open up the line for questions.

Question and Answer

Operator

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

Joshua David Shanker
BofA Securities, Research Division

2 on the NatGen or, I guess, the Agency segment. You guys added 159,000 auto policies in the quarter net and lost 5,000 homeowners policies. I don't know if those are Encompass policies or if those are NatGen policies. But it does seem like you're adding a lot of monoline auto, which is a lower persistency than the overall Allstate book. Given where your pricing is in the NatGen book, how comfortable are you with the monoline drivers you're adding right now? And what is the strategy there on April of 2022 versus where it will be in 1.5 years?

Thomas Joseph Wilson
Chairman of the Board, President & CEO

Right, Josh, let me go up and then I'll let Glenn take the specific part of it. So we bought National General in part to get into the monoline stuff you're talking about. So we wanted to -- we needed a stronger presence in the nonstandard business, particularly designed with the products and the pricing on it. We also thought we had -- and see great potential with the independent agent business.

And so our goal is to take that strength in nonstandard, add our standard auto insurance and our homeowners product to that portfolio and really leverage the distribution. So you should -- we expect to see not only just growth from picking up new product line, but also by expanding our existing product line through that distribution.

The homeowners piece is basically we've got to make them us. We're really good at homeowners. I think they were okay at homeowners. And so you see some of the reduction being us getting their profit targets to where they need to be. Glenn, why don't you take the specifics of how that works?

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

Great. And thanks for the question, Josh. So it is definitely 2 different stories on the auto and home, as Tom mentioned. So auto, the first quarter is the shopping quarter in nonstandard auto. It's by far the biggest shopping quarter. And our National General team did a really nice job of being in the market in the right places, in the places they felt they had good profitability and the right pricing and growing effectively. So think of that one as -- and you're right, it's shorter duration business in terms of lifetime value. But that is their business model, and they make a good return on those policies. So they grew auto in that way.

As Tom just mentioned, on the homeowners' side, this has been a shift to the homeowner strategy in NatGen time that we're in, where we're really taking the Allstate strength and making it a strength of NatGen. So they've had to get some pricing in there.

They haven't -- they've shrunk a bit in homeowners, but that's setting ourselves up for than the strategy part of this, which is as we get our middle-market products based on that Allstate data and the Allstate capabilities into the independent agent channel, marketed as National General and Allstate company, the endorsed branding, that we think we have a really great opportunity to grow homeowners with the Allstate level of sophistication and pricing and all the things I talked about in the opening remarks.

But in a channel, we really haven't meaningfully been in before. So that's the path forward. But as we sit from a 1-quarter basis, we're still in, I guess, correction mode of the homeowners business there, but in a really good quarter and in a really good place from a nonstandard auto standpoint.

Joshua David Shanker
BofA Securities, Research Division

Okay. And based on my reputation as the only person who asks questions about Allstate Protection Plans, I want to go to another area that never gets any questions. Allstate commercial, as I calculated, it seems like you guys are running at about 120% combined ratio in that business, but growing very quickly. What is it and what exactly is going on there? And maybe I'm wrong.

Thomas Joseph Wilson
Chairman of the Board, President & CEO

No. We always appreciate your precision, Josh. First, I am not pleased -- none of us are pleased with the results of Allstate Business Insurance. So we review -- we've done a bunch of work to improve the profitability in that line. There's really 2 parts to the business. And one is the, what I would just call, traditional commercial insurers, small contracts or stuff like that, that we sell through Allstate agents.

And then there's the shared economy business. And it's a shared economy business that has been trouble for us from a profitability standpoint, particularly a home-sharing company and then some states in the transportation network companies.

And we made a decision last year that we weren't going to chase revenue if we didn't think that the states were profitable. So we exited a number of states, I think 3 big states in particular in the transportation network piece, because they were not profitable. And then the home-sharing business, we just got out of that contract altogether. Glenn, do you want to -- what would you like to add to that?

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

I would just add that if you look at -- when you're talking about the premium growth there, it is 2 things in large part. One is, we've raised rates in sort of the traditional small commercial business we have. So rates are materially up, units are not. The other is that a year ago, transportation businesses -- because we have -- the charge by mile and we pay them for the usage.

A year ago, there was very little usage still in those transportation networks, and there's a lot more usage and therefore a lot more premium right now. And we have raised -- as Tom said, we've gotten out of some states and we've raised rates on those. So we think the profitability go forward is better. So it's not growth in that we're piling on business as we've gotten a lot more revenue coming through.

Operator

Next question comes from the line of Greg Peters of Raymond James.

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

I appreciate the new information and your updated investor slide deck, just FYI. So I'm going to focus my one question on Slide 8. And I'm just trying to put the pieces together of the information you provided us around pricing. Tom, you mentioned in your opening remarks surgical pricing, and you talked about how you're differentiating between lower lifetime value customers and longer lifetime values. Glenn, you talked about a lot of rate in the pipeline that's going to affect earned premium going forward.

And I was trying to reconcile the language difference from your February cat and pricing report to your March cat and pricing report. And the difference between the 2, just 1 month later in the March pricing report, you said that effectively, loss cost inflations were exceeding your targets and you were going to have to raise prices even more just 1 month later from your February pricing report. So I was hoping maybe you could put all those pieces together for us and sort of map out what's going on.

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

Tom, did you want to start on that? Or do you want me to?

Thomas Joseph Wilson
Chairman of the Board, President & CEO

Yes, sorry, I was on mute. It was quite articulate but -- okay, great. Let me start off and then I'll get Glenn and Mario to give you more specifics. So first, obviously, increasing price is really important to getting our auto insurance possibility up. We've been aggressive, but we believe smart about spreading it between newer, less profitable customers and profitable longer-tenured customers.

And so obviously, let's say you have a customer who has been with you 10 years and you're making a 95 combined ratio, and you have one that's new and you're losing money on it and you have to raise your rates to cover the higher inflation, which impacts both customers. If you give them both the same amount, you run the risk of losing that long-tenured profitable customer. So we put less rate into our, what we would call, older closed books and more into our newer books with shorter-term customers.

And we believe that, that protects lifetime value and will help with retention. In this new space, retention is going to be a challenge for all companies. And so we're -- but we're trying to make sure we manage our way through it. So the numbers that you see on Slide 8 are the total between all the customers, whether new, old, profitable, unprofitable to help us get there, but it's more surgical than it appears.

I would say the other part is what we're doing at auto profitability, back to Glenn's earlier slide, was like we know how to make money in auto insurance, and we're going to make money in auto insurance. But we want to make sure it's sustainable. One is the way we're taking those prices. Two is make sure the expense reductions are permanent, not just temporary, making sure you manage your loss costs differently and just -- and make sure you're being -- continuing to invest in sophistication and new products.

So we feel good about this, but then hopefully, that provides some insight. As to the change in the outlook, that may be more of what we said than just sort of like waking up in the month of March and deciding we're going to say something different. Glenn, do you want to talk about how this has unfolded. And Mario, if you're going to go into closures, that would be helpful.

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

Yes. So I'll start with how it unfolded. I mean -- I would say we continue to see inflation run like a lot of people continue to see. We continue to see elongated time frames for development and including prior year development. And so we're taking, I think, an appropriately conservative view and saying that like we're going to need more rate on that part of it. The other part on the precision, I want to build on what Tom said, because it's an important point because we do use a lot of precision.

And I think that there some folks talk more -- or some companies talk more or less about their level of segmentation and precision. We maybe don't do a good enough job talking about the depth that we have in terms of our segmentation, which is highly sophisticated, and that's what Tom is going into. But it's sophistication at that level, but also on the go-to-market level. Because clearly, we kept marketing open, and we took an opportunity to grow some business that the economics were good on.

We did that because the marketing cost itself was down with others leaving that area. There were a lot of shoppers, and first quarter tends to be a time that a lot of people shop. Now we also did that with a lot of precision. It's the entire go-to-market system because we're not just to sort of have the open sign everywhere.

It is -- we're marketing precisely where we know we have a lifetime value return based on risk type, based on market within state level. And it's a combination of underwriting, marketing, pricing that all comes together -- and distribution that all comes together with how we go to market and drive where we want to grow and how we want to grow that I think goes into the need for rate as well.

Mario Rizzo
Executive VP & CFO

Yes. If I can just add, Greg, this is Mario. First, I guess, where I'd start is, the objective of providing that rate information monthly that we started this year was really to create a level of transparency into what we were doing with auto profitability, with rates being such a significant lever, and provide you all with a view of the progress we're making, but also some color around what we're seeing on a forward-looking basis. So that's the objective. And the language we used in the most recent disclosure provided, I think, some additional context.

In terms of what's happening, I think we continue to look at loss trends month-in and month-out, both in terms of reserve levels, severity trends and just loss trends overall. And the statement we made in our most recent release was really a reflection of what we were seeing in loss trends and severity development, both in terms of what we saw in last year, we strengthened reserves by $151 million in auto this quarter, and what we were seeing in terms of the physical damage severity escalation as well as what -- how that translated into current year severity.

So we're taking that data. We're looking at it. We're working with the pricing team and factoring it into our outlook. And the purpose of the disclosure again is to tell you what we did, but also provide a little more texture around what we're seeing in the market.

Operator

Next question comes from the line of Andrew Kligerman of Crédit Suisse.

Andrew Scott Kligerman
Crédit Suisse AG, Research Division

Yes, great answer to the prior question. I guess you didn't mention anything about non-rate actions. Would it be possible to discuss non-rate actions as maybe a percent of the business that you're able to get that on and maybe how much that might be contributing to improved performance?

Thomas Joseph Wilson
Chairman of the Board, President & CEO

Glenn, do you want to take that for both the Allstate brand and National General?

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

Yes. So one -- and if you saw the -- I'll go to the National General first. We saw that National General's underlying combined ratio looked pretty good in the first quarter. And one of the things that they have that's really stable is fee structure. The fee structure is a non-rate element that turns out to be really stable over time and helps them predict and plan for their combined ratio.

When I think about non-rate actions across the Allstate book, it really goes back to what I was talking about where it's about -- I don't like to isolate it to the word underwriting, because then it sounds like you're sort of deciding to write or not to write as opposed to getting the right level of rate for each type of risk, but that also goes into with underwriting and marketing and distribution, how you go to market.

And where we've really built our sophistication is in how our marketing team, our underwriting and product teams and pricing and our distribution organization deploy resources quickly and nimbly to where and how we're looking to grow. And I think that in itself generates a lot of the long-term economic value that we drive.

Andrew Scott Kligerman
Crédit Suisse AG, Research Division

Okay. So really not any real actions to -- okay, makes a lot of sense. And then if I could just quickly sneak one in. The buyback of $794 million, that's pretty fast in terms of the pace. I thought you had about $3.3 billion left. And this implies you're going at a quicker pace. Is there a chance that you could complete that authorization by the end of this year or do more than you anticipated? Because it seems pretty robust and I was curious about the thinking there.

Thomas Joseph Wilson
Chairman of the Board, President & CEO

Andrew, it's Tom. First, on the actions, you will see though -- I know you will see some things like down-pay requirements and stuff like that, that we will change going forward to help manage the selection of the business. So Glenn is absolutely right that we're being very precise in which stuff we want. But if we feel like there are certain policy terms and things we can change or payment terms that we can change that will help us, we will put those in place. On the buyback, Mario is committed to have it done early in the first quarter of next year. Mario, anything you want to add to that?

Mario Rizzo

Executive VP & CFO

No, I think that's right, Tom. So I wouldn't read too much into any one quarter. We still have $2.5 billion left to buy. We said we'll complete it by early next year, and that's the plan.

Operator

Next question comes from the line of David Motemaden of Evercore ISI.

David Kenneth Motemaden
Evercore ISI Institutional Equities, Research Division

I had a question on Slide 8 or Page 8. It says that you guys have a higher mix of newer, more expensive vehicles. Glenn, I believe you said that those vehicles come with higher premiums, and they can adversely impact total loss severity when vehicle values rise. Does the fact that you have more of a mix of more expensive vehicles, does that increase -- or does that mean that you need to take more rate relative to peers? Or I guess, how should I interpret this mix difference that you guys have versus peers?

Thomas Joseph Wilson
Chairman of the Board, President & CEO

Glenn, do you want to do that?

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

Yes. So there's a few parts to that because I'll talk more macro about the auto -- the car park out there and like the whole system. With every new model year, newer that we get and every year that passes, we've done the math through what's in our book of business, what type of safety elements are in cars, accident avoidance, technology and everything. And we know 2 things: one, that we get a little bit of a tailwind with every year that passes on frequency, and we get a little bit of a headwind on severity because they're more expensive to fix, more sensors and so on.

And the reason I started there is that would be true of this example as well. The fact that our book of business tends to trend that way more, it will give us a little bit of a sustainable benefit on frequency in comparison to others, and it will give us a little bit of a sustainable headwind on the severity. But we do charge premium based on make-and-model year, and you get a higher premium for it.

It was more of a statement in that opening that as we look at and we try to put our trends, whether we're looking at fast track or looking at public disclosures, when we look at our trends on bodily injury or property damage, which are third-party vehicles, and then collision first-party vehicles, we see some of that difference come through and then have to like do the math back to our premium and ensure that we're getting the right rates for all of that.

Operator

Next question comes from the line of Meyer Shields of KBW.

Meyer Shields
Keefe, Bruyette, & Woods, Inc., Research Division

Fantastic. I wanted to dig in a little more to your comments on homeowners and the automatic lift because we've seen a little bit of deterioration in the underlying loss ratio all of last year and continuing into the first quarter. Is the automatic, I guess, inflation changing? Are there other steps that are necessary in homeowners?

Thomas Joseph Wilson
Chairman of the Board, President & CEO

Well, the -- first, we're really happy with where the homeowners business is today in terms of its profitability. As you know, sometimes it bounces around because of catastrophes, and we had slightly lower catastrophes this quarter than the prior year quarter, but still earned a really good return. The underlying combined ratio, as you point out, which excludes catastrophes, ticked up a little bit. We feel comfortable with where that is, in part because of the inflation parts that you mentioned that come through, what we call PIA, Property Insurance Adjustment.

It really raises average premium. And as that burns in to earned premium, just like it does burn through in auto, then that covers some of those increased costs. If it doesn't, we have plenty of room to go in and continue to [raise] prices. Glenn, what would you add about severity and the combined ratio in homeowners?

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

Yes. So first, I always start with -- I think we're accountable for the recorded combined ratio. Because ultimately, if we always had a good underlying, but like we hadn't gotten the right reinsurance or we hadn't been in the right locations and we hadn't done good risk mapping for wildfire or hail or hurricane or any other exposure and we were constantly running what the industry or key competitors run, I think you would rightfully hold us accountable for that. So I always go back to the recorded combined ratio.

That said, the underlying, as Tom said, it moves up and down a little bit, and we do watch that, primarily though we watch the recorded combined ratio. Right now, like Tom, I feel really good about where we are. Severity ran hot in the first quarter. It's tough to look at one quarter in homeowners and draw a lot of conclusions, because there's a decent amount of volatility between the mix of perils in homeowners. It's not nearly as stable as auto in that way.

And so we're watching that. That was a high number, but we got an average price increase, average earned premium of 14.3% burning through, which really ticked up in the latter part of the year last year. So will continue to give us benefit as that earns through. And we're in -- obviously, we're really good shape in homeowners, and I feel good about it.

Meyer Shields
Keefe, Bruyette, & Woods, Inc., Research Division

Okay. That's helpful. Second question on the auto side. I just want to make sure that I'm understanding the commentary on the surgical application of rate increases. Should we expect, I guess, suppressed new business as the strategy works its way through to the extent that rate increases are being focused on lower-tenured customers?

Thomas Joseph Wilson
Chairman of the Board, President & CEO

I'll start off and then, Glenn, you can jump in. I think a lot of this primarily depends on what happens in the competitive environment. So as other people are taking [rates], it depends where they're spreading their rates. So if you buy it on the renewal book, then that will create more shoppers because those tend to be people who shop less than just putting it all on the new business.

But part of it depends what happens, how people do it. That said, we feel pretty good about where we track our competitive position, the LTI index -- with our LTI Index at this point. So we're hopeful that as we move through this, we'll still continue to grow. With Transformative Growth on top of that, we think that it all still hangs together in terms of increasing market share. Glenn, what would you add to that?

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

I'll just add, if you take the long term and the short term, the long term first, as Tom said, our expanded customer access, our work on improving value as we get the 3 points across that Mario talked about out and we've got access into all these systems and we get middle market products into the IA channel and our exclusive agents are humming, we've got a really good long-term prognosis on that.

With your question, you were asking, I think, some about the short term. So as you think about what we did early this year, we pulled marketing dollars forward. And we talked about the fact that we pulled them forward. That's not the same as increasing them. It did increase in the quarter, but it's pulling it forward. That means it does have to come out of somewhere, too.

We decided to do that because there were good economics on the marketing. A number of companies publicly talked about pulling back from marketing that left from the supply and demand curve of marketing costs that left it reasonable, and there was good economics on it, plus a lot of business gets sold in the first quarter. So we thought with a lot of shoppers in the market with rates out there, that it would be a good time to be in the market where we had our prices in and we felt good about the lifetime value.

That said, inflation is continuing to run. And we're taking more rate, and we pulled that money forward from later. So marketing will reduce from this point, and that could have a short-term impact on new business growth. Plus we've got -- everybody will have headwinds on retention with the amount of rate that's in the system across the industry.

Thomas Joseph Wilson
Chairman of the Board, President & CEO

Yes. I think when you go back to Glenn's long term, bottom line, we like prospects for sustainable profitable growth. I mean, auto insurance, we know how to make money. And with Transformative Growth, we really like to grow that business. You add homeowners on top of that, which is really a growth business. And just like price and value are important to auto insurance customers, it's also important in investing. And when you look at the price of Allstate, it's essentially less than your other options. That's why we think Transformative Growth is going to increase [indiscernible] multiples.

Operator

Next question comes from the line of Brian Meredith of UBS.

Brian Robert Meredith
UBS Investment Bank, Research Division

A quick question here. On Slide 11 of your supplement, you've got an interesting chart here that looks at auto state profitability. Just my question is, is this based on an earned kind of basis, or is it on a written basis? And if it's on an earned basis, how would this chart look on a written basis as far as what states do you think are currently pretty close to rate adequate?

Thomas Joseph Wilson
Chairman of the Board, President & CEO

Well, that's a tough question. I don't know if we -- Glenn, do you want to take the forward-looking...

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

Yes, I'll take it. Yes. So it's definitely earned basis in that we look at our -- when you look at combined ratios, it's on an earned basis. So you're hitting a really important point. So it's an astute observation. Because I think about that disclosure and you could look at -- when you look at the percentage of states that are above 100, for example, that is not the same as looking at the way we look at where do we want to grow. Because the state could be above 100 right now, but we've just gotten in the rate we feel we need to be adequate.

So any new business we put on is going to be at a rate-adequate level that we like, and we would want to grow there. So it really does lag and you have to go back to Page 8 and see where that -- which we don't -- because that's an estimate. We don't estimate every state and disclose based on when we'll earn the premiums and what percentage will earn by state and what that will do. But the point is, while that's a snapshot of where we are today, that does not reflect all of the written premiums and increases that we've got.

Thomas Joseph Wilson
Chairman of the Board, President & CEO

Okay. Well, thank you all for engaging with us today. As we go forward, we look forward to, in the next month or so, talking about homeowners. And then we'll continue to execute in the meantime our multi-faceted plan, both to improve profitability of auto insurance and to get Transformative Growth because that's a key component to sustainable growth, and both of those will improve shareholder value.

So thank you for your engagement, and we'll talk to you soon.

Operator
Thank you so much to our presenters and to everyone who participated. This concludes today's conference call. You may now disconnect. Have a great day.