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Presentation

Operator

Good day, and thank you for standing by. Welcome to Allstate's Second Quarter Investor Call.

[Operator Instructions]

As a reminder, please be aware that today's call is being recorded.

And now I'd like to introduce your host for today's program, Brent Vandermause, Head of Investor Relations. Please go ahead, sir.

Brent Vandermause

Thank you, Jonathan. Good morning. Welcome to Allstate's Second Quarter 2023 Earnings Conference Call. After prepared remarks, we will have a question-and-answer session. Yesterday, following the close of market we issued our news release, investor supplement, filed our 10-Q and posted related material on our website at allstateinvestors.com. Our management team is here to provide perspective on these results.

As noted on the first slide of the presentation, our discussion will contain non-GAAP measures for which there are reconciliations in the news release and investor supplement and forward-looking statements about Allstate's operations. Allstate's results may differ materially from these statements, so please refer to our 10-K for 2022 and other public documents for information on potential risks.

And now I'll turn it over to Tom.

Thomas Joseph Wilson
Chairman of the Board, President & CEO

Good morning. We appreciate you investing your time in Allstate. Let's start with an overview of results and then Mario and Jeff will walk through operating results and the actions being taken to increase shareholder value. Let's begin on Slide 2. Allstate's strategy has 2 components: increase personal profit liability market share; and expand protection services, which are shown in the 2 with on the left.

On the right-hand side, you can see a summary of results for the second quarter. Progress is being made on the comprehensive plan to improve auto insurance profitability, which includes raising rates, reducing expenses, limiting growth and enhancing claim processes. While auto insurance margins are not at target levels, the proportion of premium associated with states operating and that underlying -- underwriting profit has gone from just under 30% in 2022 to 50% for the first half of this year. Mario will discuss the actions being taken to continue this trend and importantly, improved results in New York, New Jersey and California.

Severe weather in the quarter contributed to a net loss of $1.4 billion, 42 catastrophe events impacted 160,000 customers and resulted in $2.7 billion of catastrophe losses and a property liability underwriting loss of $2.1 billion. Strong fixed income results from higher bond yields generated $610 million of investment income and Protection Services and Health and Benefits generated $98 million of profits in the quarter.

The transformative growth plan to become the lowest cost protection provider is making continued progress. This both helps current results with lower costs and positions Allstate for sustainable growth when auto margins return to acceptable levels of portable simple and connected property liability products with sophisticated Telematics pricing and differentiated direct-to-consumer capabilities are being introduced under the Allstate brand through a new technology platform.

National General was growing, which will also increase market share. Specialty auto expertise, along with leveraging auto Allstate strength in preferred auto and homeowners insurance products are expected to drive sustainable growth.

Allstate Protection Plans is expanding its embedded protection through new products and retail relationships and in international markets. Allstate has a strong capital position with $16.9 billion of statutory surplus and holding company assets, as Jess will discuss later. And as you know, we have a long history of providing cash returns to shareholders through dividends and share repurchases.

Over the last 12 months, we've repurchased 3.9% of outstanding shares for $1.3 billion. We suspended this repurchase program in July as we had a net loss for the 6 months of the year. Improving profitability, increasing property liability, organic growth and broadening protection offered to customers through an extensive distribution platform will increase shareholder value.

Let's review financial results on Slide 3. Revenues of $14 billion in the second quarter increased 14.4% above the prior year quarter of $1.8 billion. The increase was driven by higher average premiums in auto and homeowners insurance from rates taken in 2022 and 2023, resulting in property-liability earned premium growth of 9.6%.

Net investment income of $610 million reflects the impact of higher fixed income yields and extended duration, which will substantially increase income. This growth more than offset a decline from performance-based investments in the quarter. The net loss of $1.4 billion and an adjusted net loss of $1.2 billion reflects a profit liability underwriting loss of $2.1 billion due to the $2.7 billion in catastrophe losses and increased auto insurance loss costs.

In auto insurance, higher insurance prunes and lower expenses were largely offset by higher catastrophe losses and increased claim frequency and severity. The underlying auto insurance combined ratio did improve slightly for the first 6 months of 2023 compared to the year-end 2022. Auto insurance had an underwriting loss of $678 million.

In homeowners insurance, catastrophe losses were substantially over the 15-year average, resulting in a combined ratio of 145 and generating an underwriting loss of $1.3 billion. The underlying combined ratio on homeowners improved 1.9 points to 67.6% as higher average premiums more than offset increased severity.

Adjusted net income of $98 million from protection services and health and benefits when combined with the $610 million of investment income offset a portion of the underwriting loss. The target for enterprise adjusted net income return on equity remains at 14% to 17%.

I'll now turn it over to Mario to discuss profit liability results.

Mario Rizzo
President of Property & Liability and Director

Thanks, Tom. Let's turn to Slide 4. We are seeing the impact of our comprehensive auto profit improvement plan in our financial results, starting with the rate increases we have implemented to date. The chart on the left shows Property-Liability earned premium increased 9.6% above the prior year quarter, driven by higher average premiums in auto and homeowners insurance, which were partially offset by a decline in policies in force.

Price increases and cost reductions were largely offset by severe weather events and increased accident frequency and claim severity. The underwriting loss of $2.1 billion in the quarter was $1.2 billion worse than the prior year quarter due to the $1.6 billion increase in catastrophe losses.

The chart on the right highlights the components of the combined ratio, including 22.6 points from catastrophe losses. Prior year reserve reestimates, excluding catastrophes, had a 1.6 point adverse impact on the combined ratio in the quarter. Of the $182 million of strengthening in the second quarter, $148 million was in National General, primarily driven by personal auto injury coverages in the 2022 accident year. In addition, prior years were strengthened by approximately $31 million for litigation activity in the state of Florida related to torque reform that was passed in March of this year.

We've been closely monitoring the increase in filed suits on existing claims and the charge reflects a combination of higher legal defense costs and a modest loss reserve adjustment. Despite continuing pressure on the loss side, the underlying combined ratio of 92.9 improved modestly by 0.5 points compared to the prior year quarter and 0.4 points sequentially versus the first quarter of 2023.

Now let's move to Slide 5 to discuss Allstate's auto insurance profitability in more detail. The second quarter recorded auto insurance combined ratio of 108.3% was 0.4 points higher than the prior year quarter, reflecting higher catastrophe losses and increased current report year accident frequency and severity, which were largely offset by higher earned premium expense reductions and lower adverse non-catastrophe prior year reserve reestimates.

We continue to raise rates, reduce expenses restrict growth and enhanced claim processes as part of our comprehensive plan to improve auto insurance margins. This slide depicts the impact of our profit improvement actions on underlying auto insurance profitability trends. As a reminder, we continually assess claim severities as the year progresses. And last year, as 2022 developed, we continue to increase report year ultimate severity expectations.

The chart on the left shows the quarterly underlying combined ratios from 2022 through the current quarter with 2022 quarters adjusted to account for full year average severity assumptions, which removes the effect that intra-year severity changes had on recorded quarterly results. After adjusting for the timing of higher severity expectations, the quarterly underlying combined ratio trend was essentially flat throughout 2022.

As we move into 2023, the underlying combined ratio has improved modestly in each of the first 2 quarters, reflecting both the impact of our profitability actions and the continued persistently high levels of loss cost inflation.

The chart on the right depicts the percent change at annualized average earned premium shown by the blue line and the average underlying loss and expense per policy shown by the light blue bars compared to prior year-end. Rapid increases in claim severity and higher accident frequency since mid-2021, resulted in significant increases in the underlying loss and expense per policy which outpaced the change in average earned premium and drove a higher underlying combined ratio in both 2021 and 2022.

As we've implemented rate increases, the annualized earned premium trend line continues to increase and has begun to outpace the still elevated underlying cost per policy in the first 2 quarters of 2023, resulting in a modest improvement in the underlying combined ratio.

Slide 6 provides an update on the execution of our comprehensive approach to increase returns in auto insurance. There are 4 areas of focus: raising rates, reducing expenses, implementing underwriting actions and enhancing claim practices to manage loss costs.

Starting with rates, you remember the Allstate brand implemented 16.9% of rate in 2022. In the first 6 months of 2023, we have implemented an additional 7.5% across the book, including 5.8% in the second quarter. National General implemented rate increases of 10% in 2022, an additional 5.5% through the first 6 months of 2023. We will continue to pursue rate increases in 2023 to restore auto insurance margins back to the mid-90s target levels.

Reducing operating expenses is core to transformative growth, and we also temporarily reduced advertising to reflect the lower appetite for new business. We continue to have more restrictive underwriting actions on new business in locations and risk segments where we have not yet achieved adequate prices for the risk, but are beginning to selectively remove these restrictions in states and segments that are achieving target margins.

To this point, the number of states achieving an underlying combined ratio better than 100 increased from 23 states, which represented just under 30% of Allstate brand auto insurance premium at the end of 2022 to 36 states, representing approximately 50% of premium at the end of the second quarter.

Ensuring that our claim practices are operating effectively and enhancing those practices where necessary, is key to delivering customer value, particularly in this high inflation environment. This includes modifying claim processes in both physical damage and injury coverages by doing things like increasing resources expanding reinspections and accelerating the settlement of injury claims to mitigate the risk of continued loss development. We are also negotiating improved vendor service and parts agreements to offset some of the inflation associated with repairing vehicles.

Slide 7 provides an update on progress in 3 large states with a disproportionate impact on profitability. The table on the left provides rate increases either implemented so far this year are currently pending with the respective insurance department in California, New York and New Jersey. Because our current prices are not adequate to cover our costs in these states, we have had to take actions to restrict new business volumes.

As a result, new issued applications from the combination of California, New York and New Jersey declined by approximately 62% compared to the prior year quarter. In California, we implemented a second 6.9% rate increase in April and also filed for a 35% increase in the second quarter that is currently pending with the Department of Insurance. We continue to work closely with the California Department to secure approval of this filing and restore auto rates to an adequate level.

In New York, we implemented approximately 3 points of weighted rate in June, driven by approved increases in 2 closed companies and subsequently received approval for a 6.7% increase in the larger open companies, which was implemented in July. We will continue to make further filings in 2023 that will be additive to their -- to the rates approved so far this year.

In New Jersey, we received approval for a 6.9% rate increase in the first quarter and filed a subsequent 29% increase in the second quarter. As mentioned earlier, we anticipate implementing additional rate increases for the balance of 2023 to counteract persistent loss cost increases.

Slide 8 dives deeper into how we are improving customer value through expense reductions. The chart on the left shows the property liability underwriting expense ratio and highlights drivers of the 2.5 point improvement in the second quarter compared to the prior year quarter.

The first green bar shows the 1.4 point impact from advertising spend, which has been temporarily reduced, given a more limited appetite for new business. The second green bar shows the decline in operating costs, mainly driven by lower agent and employee-related costs and the impact of higher premiums relative to fixed costs.

Shifting to our longer-term trend on the right, we remain committed to reducing the adjusted expense ratio as part of transformative growth. This metric starts with our underwriting expense ratio, excluding restructuring, coronavirus-related expenses, amortization and impairment of purchased intangibles and advertising. It then adds in our claims expense ratio, excluding costs associated with settling catastrophe claims because catastrophe-related costs tend to fluctuate.

Through innovation and strong execution, we've driven significant improvement with a second quarter adjusted expense ratio of 24.7%. We expect to drive additional improvement, achieving an adjusted expense ratio of approximately 23 by year-end 2024, which represents a 6-point reduction compared to our starting point in 2018.

While increasing average premiums certainly represent a tailwind, our intent in establishing the goal is to become more price competitive. This requires a sustainable improvement in our cost structure with our future focus on 3 primary areas, including enhancing digitization and automation capabilities, improving operating efficiency through outsourcing, business model rationalization and centralized support and enabling higher growth distribution at lower cost through changes in agency compensation structure and new agent models.

Now let's move to Slide 9 to review homeowner insurance results, which despite improving underlying performance, incurred an underwriting loss in the quarter driven by elevated catastrophe losses. Our business model incorporates a differentiated product, underwriting, reinsurance and claims ecosystem that is unique in the industry. Our approach has consistently generated industry-leading underwriting results despite quarterly or yearly fluctuations in catastrophe losses. Our homeowners insurance combined ratio, including the impact of catastrophes, has outperformed the industry by 12 points from 2017 through 2022.

During that same time period, we generated annual average underwriting income of approximately $650 million. The chart on the left shows key Allstate Protection homeowners insurance operating statistics for the quarter. Net written premium increased 12.4% from the prior year quarter predominantly driven by higher average gross premium per policy in both the Allstate and National General brands and a 1% increase in policies in force.

Allstate brand average gross written premium per policy increased by 13.2% compared to the prior year quarter driven by implemented rate increases throughout 2022 and an additional 7.4 points implemented through the first 6 months of 2023 as well as inflation in insured home replacement costs. While the second quarter homeowners combined ratio is typically higher than full year results, primarily due to seasonally high severe weather-related catastrophe losses, the second quarter of 2023 combined ratio of 145.3% was among the highest in Allstate's history and increased by 37.8 points compared to last year's second quarter due to a 40.3 point increase in the catastrophe loss ratio.

The underlying combined ratio of 67.6% improved by 1.9 points compared to the prior year quarter, driven by higher earned premium, lower frequency and a lower expense ratio, partially offset by higher severity. The chart on the right provides a historical perspective on the second quarter property liability catastrophe loss ratio of 75.9 points, which was elevated compared to historical experience, reflecting an increased number of catastrophe events and larger losses per event.

While the second quarter result was 33.9 points above the 15-year second quarter average of 42 points it is not unprecedented and filled within modeled outcomes contemplated in our economic capital framework. We remain confident in our ability to generate attractive risk-adjusted returns in the homeowners business and continue to respond to loss trends by implementing rate increases to address higher repair costs and limiting exposures in geographies where we cannot achieve adequate returns for our shareholders.

And now I'll hand it over to Jess to discuss the remainder of our results.

Jesse Edward Merten
Executive VP & CFO

Thank you, Mario. I'd like to start on Slide 10, which covers results for our Protection Services and Health and Benefits businesses. The chart on the left shows protection services where we continue to broaden the protection provided to an increasing number of customers largely through embedded distribution programs. Revenues in these businesses, excluding the impact of net gains and losses on investments and derivatives increased 9.1% to $686 million in the second quarter compared to the prior year quarter. Increase reflects growth in Allstate Protection Plans and Allstate Dealer Services, partially offset by a decline in parity.

By leveraging the Allstate brand, excellent customer service and expanded products and partnerships with leading retailers Allstate Protection Plans continues to generate profitable growth, resulting in an 18% increase in the second quarter compared to the prior year quarter.

In the table below the chart, you will see that adjusted net income of $41 million in the second quarter decreased $2 million compared to the prior year quarter, primarily due to higher appliance and furniture claims severity and a higher mix of lower-margin business as we invest in growth at Allstate Protection Plans. We'll continue to invest in these businesses, which provide an attractive opportunity to broaden distribution protection offerings that meet customers' needs and create value for shareholders.

Shifting to the chart on the right, Health and Benefits continues to provide stable revenues while protecting more than 4 million policyholders. Revenues of $575 million in the second quarter of 2023 increased by $2 million compared to the prior year quarter, driven by an increase in premiums, contract charges and other revenues in group health, which was partially offset by a reduction in individual health and employer voluntary benefits.

Health and Benefits continues to make progress on rebuilding core operating systems to drive down costs, improve the customer experience and support growth that generates shareholder value. Adjusted net income of $57 million in the second quarter of 2023 decreased $10 million compared to the prior year quarter, primarily due to the decline in employer voluntary benefits individual health and higher expenses related to system investments.

Now let's move to Slide 11 to discuss investment results and portfolio positioning. Active portfolio management includes comprehensive monitoring of economic conditions, market opportunities, enterprise risk and return and capital as well as interest rates and credit spreads by rating, sector and individual name. As you'll recall, last year, exposure to below investment-grade bonds in public equity was reduced.

We maintained this portfolio allocation in the second quarter, which enabled us to extend duration of the fixed income portfolio and increased market-based income levels. As shown in the chart on the left, net investment income totaled $610 million in the quarter, which was $48 million above the second quarter of last year. Market-based income of $536 million, shown in blue was $168 million above the prior year quarter, reflecting repositioning of the fixed income portfolio into longer duration and higher yielding assets that sustainably increased income. Market-based income has also benefited from higher yields for short-term investments in floating rate assets, such as bank loans.

Performance-based income of $127 million shown in black, was $109 million below the prior year quarter due to lower valuation increases and fewer sales of underlying assets. Our performance-based portfolio is expected to enhance long-term returns and volatility on these assets from quarter-to-quarter as expected.

The chart on the right shows the fixed income earned yield continues to rise and was 3.6% at quarter end compared to 2.8% for the prior year quarter and 3.4% in the first quarter of 2023. This chart also shows that from the fourth quarter of 2021 through the third quarter of 2022, lowering fixed income duration mitigated losses as rates rose.

Beginning in Q4 of 2022, we began to extend duration, which locks in higher yields for longer. In the second quarter, we further extended duration to 4.4 years, increasing from 4 years in the first quarter. Our fixed income portfolio yield is still below the current intermediate corporate bond yield of approximately 5.5%, reflecting an additional opportunity to increase yields.

To close, I'd like to turn to Slide 12 to discuss how Allstate proactively manages capital to provide the financial flexibility, liquidity and capital resources necessary to navigate the challenging operating environment.

Capital management is based on a sophisticated framework that quantifies capital targets by business, product, geography, investment type and for the overall enterprise. Targets include a base level of capital for expected volatility and earnings as well as additional capital for stress events, situations where correlations between risks are higher than modeled and other contingencies. This model enables us to proactively manage capital in a dynamic and uncertain environment.

Utilization of reinsurance, both by event and in aggregate is assessed relative to overall enterprise risk levels. A robust reinsurance program is in place with multiyear contracts to mitigate losses from large catastrophes. Homeowners insurance geographic exposures are managed to generate appropriate risk-adjusted returns, including lowering exposure to California and Florida property markets. This framework was used to decide to purchase additional aggregate program coverage this year.

Reducing high-yield bonds and public equities in the investment portfolio significantly reduced the amount of enterprise capital required for investments. This decision was based on market conditions and the decline in auto profitability as well as the desire to reduce volatility and statutory results. It also provides a sustainable source of increased income in capital generation.

The decline in auto insurance profitability is also captured by our framework, which increased capital requirements for auto insurance from pre-pandemic levels to reflect recent results. The capital management framework ensures Allstate has the financial flexibility, liquidity and capital resources necessary to operate in challenging environments and be positioned for growth.

Allstate's capital position is sound with estimated statutory surplus and holding company assets totaling $16.9 billion at the end of the second quarter, as shown on the table to the left. Holding company assets of $3.3 billion represent approximately 2.5x our annual fixed charges with no debt maturities for the remainder of 2023 and a modest amount maturing in 2024.

Senior debt and preferred stock refinancing in the first and second quarters of this year demonstrate our ability to readily access capital markets to address maturities as they arise. In response to the loss this quarter, we have suspended share repurchases under the $5 billion authorization, which is 90% complete. This authorization expires in March of 2024.

In addition to having a strong capital base, Allstate has a history of generating capital and statutory net income in our largest underwriting company, Allstate Insurance Company, as you can see on the chart on the right. Statutory net income averaged $1.9 billion annually in the 10 years prior to the onset of COVID. You can also see the impact of the rapid increase in auto insurance claim severity and recent catastrophe loss experience on 2022 and 2023 statutory net income.

We're confident that the auto insurance profit improvement plan will restore profitability. The homeowners insurance business is designed to generate underwriting profits, and proactive investment management will create additional capital to grow market share, expand protection offerings and provide cash return to shareholders. Allstate will continue to proactively manage capital to navigate the current operating environment and be well positioned for growth to increase its shareholder value.
With that as context, let's open up the line for your questions.

Question and Answer

Operator

[Operator Instructions]

Our first question comes from the line of Gregory Peters from Raymond James.

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

Well, everyone. I guess I'm going to focus on auto insurance profitability for my first question. And obviously, there's a bunch of slides in your presentation, the one where you identified the 3 states. I guess from a bigger picture perspective, though, do you have updated views on frequency and severity for the second half of this year or for next year versus what you were thinking at the beginning of the year I guess what I'm ultimately getting is how much more rate do we need to get that underlying combined ratio number that you use on the Slide 6 -- excuse me, Slide 5 to get it down to the low to mid-90s.

Thomas Joseph Wilson
Chairman of the Board, President & CEO

Greg, this is Tom. Let me start, and then Mario can jump in. First, as it relates to frequency and severity, of course, it's hard to predict what's going to happen in the second half of the year. What we do know is that the severity was increased in the second -- first half of this year from what we thought it would be when we looked at it last year. So we're really glad we took the rates that we did, and we've been accelerating rates, as Mario talked about.

I think when you look at it, it's really -- of course, it's hard to predict, right? What you're really looking at is that slide and Mario showed that had the line with the average premiums going up and then the bar with the severities and you want that line to be above the bar, of course.

What you know going forward is that the line is going to keep going up, right? Like we filed those rates, we've got those rates. We put them in the computer, we're collecting the cash. And so you know that's going to happen. What you don't know is whether severity will go up from the 11% or whether it will be down from the 11%. It's come down this year from last year.

We'd like to think that all the work we're doing will have it come down even further. And so that gap will get you back to the mid-90s that we talked about in terms of targeted combined ratio. When that exactly happens, of course, is dependent on what happens to the second bar, which is not known. What we do know is we'll continue to take increased rates and make that line continue to go up.

Mario, any specifics you want to add on the 3 states that you mentioned or?

Mario Rizzo
President of Property & Liability and Director

I think, Greg, the thing I'd add is less about to Tom's point, what we expect going forward and more about what we're seeing and maybe just give you a little more color underneath the loss cost trend. So as you remember, last quarter, we started giving you pure premium trends as opposed to coverage specific frequency and severity because we just think it's a better way for you to evaluate where overall profitability is going.

And the point I'd make is if you look on Slide 5, as Tom pointed out, for the first couple of quarters this year, we've seen the average earned premium trend begin to outpace the increases in loss and expense. It's hard to predict what the future will hold, but that's an encouraging development.

Underneath that loss trend, if you look at where we're at in the second quarter compared to where we were for the full year last year, the increase in pure premium is about 12.5%, and we told you that severity is up on average across all coverages by about 11%. So what we're seeing still is persistently high severity across coverages with a lesser impact from overall frequency increases.

The point being we're going to continue to aggressively implement our profit improvement plan, you've seen what we've done with rates. We've done 7.5 points through the first half of this year in the Allstate brand, 5.5 points on National General. We're going to continue to do that. You see the benefit that the cost reductions is having on the combined ratio while that rate earns in.

And we've talked a lot about those 3 states, which make up about 1/4 of our book, California, New York and New Jersey. We want to keep pushing on continuing to drive rate increases into the book. We've gotten some approvals so far this year, but there's rates pending, pretty significant rates pending in California and New Jersey, and we're prepared to file another rate in New York. So we're going to keep pushing really hard on that. And in the meantime, we've scaled way back on new business production in those states.

And while it's having a reasonably small impact on the loss ratio so far this year because new business just tends to be a smaller proportion of our overall book, it will continue to have a favorable impact on our loss ratio going forward. And until we get to adequate rates in those 3 states, we're going to keep restricting the volume of business we're willing to write.

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

Okay. Maybe just keeping on auto as my follow-up question on NatGen you spoke about the reserve strengthening in the quarter. And I guess you also mentioned Florida in your comments, -- can you give us any perspective on the reserve strengthening that happened inside NatGen? Is it a true-up and that you're comfortable where the trends are with matching reserves at this point in time? Or is this going to be another situation where we have a couple of quarters of catch-up that we're having to deal with?

Thomas Joseph Wilson
Chairman of the Board, President & CEO

Mario can answer how we feel about the growth and the profitability of the growth in National General, Greg, let me just settle up context. So first, the acquisition of National General is exceeding our expectations. As you know, we bought the company so that we could consolidate our Encompass business into it that would reduce the cost and create a stronger business that we're serving independent agents. We like what we got there. The consolidation and the cost reductions are exceeding our expectations. And that was the basis under which we agreed to where the economics of the acquisition made at.

The upside from there was growing in the IA channel, both through the specialty vehicle product and by building new products for preferred auto and homeowners insurance using Allstate's expertise, both of which are also becoming reality. Mario, do you want to talk about, I guess, both reserves. But I think Greg's underlying question there was like you're growing, Is that a good thing?

Mario Rizzo
President of Property & Liability and Director

Yes. So Greg, the place I'd start with National General, you're right. We're growing in National General that's principally in the specialty vehicle or the nonstandard auto part of the business, which that market continues to experience pretty significant disruption. A couple of things I'd say on NatGen.

First of all, the underlying combined ratio in the quarter was 96%, and 96% is slightly higher than we want to run it at, but it's pretty close to our target margin. And that 96% includes the kind of roll-forward impact of increasing reserves principally in the 2022 accident year and therefore, increasing our loss expectations in the 2023 year. So that's all embedded in the 96%.

A couple of things in addition to that, that I mentioned. We've talked a lot about the profit improvement plan we're implementing that same approach in that same plan in National General across the same levers we're using in the Allstate brand, we've taken 5.5 points of rate this year, 11 points of rate over the last

12 months in NatGen. And given that it's predominantly a nonstandard auto book, the book tends to turn over and get repriced pretty rapidly.

So we're comfortable that the rate we've taken so far this year is working its way into the system. And I would say in response to a higher loss trend that we've seen in 2023, we've accelerated our plan to take rate in 2023. So we're ahead of that 5.5 points is ahead of where we expected to be at this point during the year. We've also restricted underwriting guidelines in a number of states, we're writing more liability-only less full coverage. So we're being really selective about what we're writing.

And the other benefit, as Tom mentioned, part of the rationale around acquiring National General was the opportunity to lower costs and improve the expense ratio, and we're benefiting from that inside that 96% underlying combined ratio. We've seen a pretty significant improvement year-over-year in the underwriting expense ratio as we essentially take advantage of scale through the growth we're getting. So comfortable where we're positioned. We're taking the appropriate actions from a profitability perspective. And so we're comfortable with what we're writing in NatGen right now.

Operator

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

Joshua David Shanker
BofA Securities, Research Division

Yes. Tom, there's the amount of rate that you need and the amount that you can get over a certain period of time. But when you look back to the beginning of the year and you had your plan for taking rates and you've learned about some changes in frequency and severity over the past 6, 7 months. Has that changed the perspective on how much rate you need and want to ask for? And does that change the 2023 plan? Or does that mean that the regulators will give you only so much and you have to get that rate in '24 and beyond?

Thomas Joseph Wilson
Chairman of the Board, President & CEO

Of course, it's -- I would say, Josh, it's a good question, but I would say it's not like not like every quarter or every 6 months, we adapt it is like every day. So Mario and Guy are constantly looking at our pricing, and we're going to maximum file rates everywhere we can, and we're not getting as much pushback from goes because the numbers are pretty clear. Like it's not like we're making it up, you pay for the cars and they see the cash go out so you -- and they do have to pay attention to what the rules are in the rating.

Now we have 3 states, which are a problem, and we're working aggressively with them so that we can get the right amount of it. But yes, so our -- the rate expectation for the year has gone up from the beginning of the year. And it will keep going up until we get to our target combined ratio. We have -- we've talked about some of the issues we have in some of those states, you see us agreeing to lower amounts than we actually need because the time value of money and the multiplication works for you. So why take a 6.9 when you need 35 in California because you can get 6.9 right away as opposed you could wait 18 months to get 35.

So we've -- we're very sophisticated and have good relationships with them, so we can manage it so that it meets our needs. So -- and we'll just keep rate that's on auto, which I assume where you're going, Josh. Same thing applies in homeowners and our price increases are up a little bit, but not up as much as what we thought they were going to be but they're still from where we set out where we thought would be in the beginning. Mario, anything you would add?

Mario Rizzo
President of Property & Liability and Director

Yes. Just a couple of additional data points, Josh. As Tom mentioned, our data is immediately -- our indications are immediately responsive to the data we're seeing. So we're constantly updating rate indications and filing for what we need based on what we're actually experiencing versus what we thought we would have needed going into the year.

And the other point I'd make is, and this is on a couple of the states that we've spiked out for you we're evaluating trade-offs and leaning in where we think it just makes sense. So for example, in California, got the two 6.9% rate and we turned around and filed for essentially our full indication at 35, knowing that, that was likely to require a longer review period. There was a little more risk there, but we thought it was the right thing to do. In New Jersey, we did the same thing. We got the 6.9% rate approved, which is essentially the cap that the state hold you to, but then we opted to utilize an administrative provision and file for a 29% rate.

So again, we're aggressively pushing on the amount of rate we need based on the loss experience where we've got in real time. And we're going to keep doing that and keep pushing rate through and working with all the departments and each of the regulators to get those rates approved as quickly as we can to continue to bend the line on that loss trend.

Joshua David Shanker
BofA Securities, Research Division

And outside of the 3 problem states, when you are submitting the filing, does the filing need to be audit financial statements or financial data in arrears? Or can you pretty much file new rate with current data as it's coming into the systems?

Mario Rizzo
President of Property & Liability and Director

Yes. I mean for filing used state, certainly, we're filing based on current data as opposed to relying on prior year-end or any of that information. So what we're doing is, Josh, is reacting to the loss trends we're seeing incorporating that into the filing, and that's what kept submitted.

Operator

And our next question comes from the line of Elyse Greenspan from Wells Fargo.

Elyse Beth Greenspan
Wells Fargo Securities, LLC, Research Division

My first question, I wanted to go back to the capital discussion and the decision you guys made to pull the buyback program. Can you just give us a sense of what you're looking for when you return to buybacks? I sense maybe some of this is also dependent going into wind season, right, which could bring additional cat losses to Allstate and you guys are still working on improving the profitability of your auto business. So what would you need to see to turn back on the buyback at some point next year?

Thomas Joseph Wilson
Chairman of the Board, President & CEO

Elyse, let me start macro and then ask Jess to maybe dig in even a little more. I know you spend a lot of time on capital so we can help you show you what we believe to be true. First, we have a long history of proactive managing capital, whether that's how we deploy it at the individual risk level or what we do with different investments, as Jess talked about, whether it's selling businesses like life and annuities or using alternative capital like reinsurance or cat bonds or providing cash to shareholders through dividends and share repurchases.

As you point out, I think if you look at the Q, we bought back about $37 billion of stock since we went public. And so that's because we're -- we got good math, which Jess will talk about, and we do a [indiscernible]. I think the suspending -- I think the suspending the share repurchase we just sound judgment. If you're not making money, don't buy shares back. It's really not a lot more complicated than that. I mean, it obviously helps you preserve capital but just sort of good logic always serves the right kind of capital plan, which is you got to make money to be buying shares back. Jess, do you want to talk about maybe give at least some more specifics on this whole capital?

Jesse Edward Merten
Executive VP & CFO

Elyse, I think to build on Tom's point, and I think it's easiest to just think about not the specific question, but more how we think about capital management more broadly. So you focus as many others do on RBC. RBC is a great measure for insurance companies, it's common. We look at it as well. So we certainly understand why there's a focus at times on RBC. It's a measure that served the industry well in good times and in bad times. But I think as you know, RBC has some limitations. So we use it as an input in our capital management process, but not a primary driver, right?

RBC is focused on statutory legal entities, but it doesn't incorporate the risk across the enterprise or correlation in those types of risks. It doesn't include sources of capital outside of regulated entities, protection plans would be an example there. But those aspects are important to our overall capital management framework.

And we also get situations that are eyes when we just focus on RBC, where you have entities, and I think we've talked with you about this. There's an example where a national general entity has reinsured all of its risk into the Allstate Insurance Company, but it retains capital. So the RBC ratio in that particular entity is quite high and the AIC RBC ratio is slightly lower because it has the risk without the capital.

Now that capital is all available to us and our comprehensive and more precise capital management framework considers those facets. So -- and I think it's important to go back to really how we're managing capital through what we consider to be a very detailed and sophisticated economic capital framework that quantifies enterprise risk and establishes our targets.

As we've talked, that includes inputs from regulatory capital models, rating agencies and then our own risk models to help to quantify stress events, and we built those models really off of their risk models that are used to regulate banks. We feel very good about the output of our overall economic capital model. So we use that then as we've discussed, to determine a level of base capital that we need to operate our business while continuing to meet customer needs and amounts that are well above triggering any regulatory involvement. So you've got base capital.

On top of that, we hold stress capital for unexpected on frequent outcomes. And then we have a contingent reserve that we use and included in our target capital range, that's really meant to incorporate extreme stress events, extreme low frequency events and just basically things that are beyond the standard probabilities that we apply to our stressed capital calculations.

So high catastrophes this quarter used some of the contingent capital reserve, but we continue to hold stress capital that's above our base capital level, and we remain confident in our capital position and our ability to execute on strategy we look ahead. I think your question gets to the future, right? So I wanted to build a base for reminding everyone how we think about it.

But as we look to the future, it's more than just a question of the buybacks, it's what is their capital perspective look like. And we continue to believe we're well capitalized even if it takes longer than we expect to get auto profitability back to targeted levels. And even if catastrophes come in at more expected levels, for the rest of the year in 2023. Even at more normal levels of catastrophes for the rest of the year, 2023 will be the highest year for catastrophe losses on a pure dollar basis in about 25 years.

So it's a high cap quarter. We continue to feel good about capital, liquidity is not an issue, as we've talked about. We have a strong source of cash through interest payments and maturities that come over the next 12 months, and we have about $5 billion that comes off the portfolio that selling everything in the next 12 months, and we have a highly liquid investment portfolio.

We also have a number of capital options that we're continuously evaluating given our proactive approach to capital management, as Tom mentioned. So that includes additional reinsurance options that could allow us to lower the volatility of our earnings at an attractive cost of capital, and we continue to look at those things. I think we've also proven in the last couple of quarters, we have open access to financial markets where we showed that through our -- some of our refinancing activity.

So we have a lot of options. I want to kind of close out with -- as it relates to capital options and capital strength, issuing common stock at this point is not something that we're considering. It's not an option that's on the table given how we feel about our overall capital position. So maybe that -- I know it's more than just when you're going to turn back on buybacks. But I want to -- I think the context around how we think about capital management is more important to how we might answer that question in the future. So hopefully, that was helpful.

Elyse Beth Greenspan
Wells Fargo Securities, LLC, Research Division

That was helpful. And then maybe just one more, right? You did mention reinsurance and some other options that you have. And you did make -- you did in the first quarter, right, you choose to monetize part of your equity portfolio. Is it safe to assume that you think about prospect going forward on the capital side, you're not looking to make any significant changes to investments? And on the same thinking about your current businesses, you're not -- you wouldn't be thinking about monetizing any assets as a way to free up capital?

Thomas Joseph Wilson
Chairman of the Board, President & CEO

Elyse, so on the investment side, that decision was primarily made from a risk and return standpoint, first starting at the markets. And we thought -- when we made the decision, we thought there is greater opportunity to make money by lengthening duration than by staying in equities. It had the benefit of reducing the volatility of equities. And in our models, the capital charges for equities is a lot higher the bot. So it has that capital benefit.

If we felt like the time was right to go back long in public equities, then we would look at it at the time and then we'd say, okay, how much capital do we have and how do we feel about it? But we don't have a date in mind for that. I think when you just look at the economic environment, it's somewhat balanced.

Jesse Edward Merten
Executive VP & CFO

And I think as it relates to monetizing assets, Elyse, in that component of the question. I think we certainly understand all the range of options but we don't believe we're in a position right now where we have to be considering things like monetizing assets to bolster capital. Again, we feel good about our capital position. We have options in place, and we understand the full range of options of what we could do in the event we believe that we had a need.

Thomas Joseph Wilson
Chairman of the Board, President & CEO

We have the capital to make our strategy is, of course, the way we're going to increase shareholder value. One, get profit up. Two, get growth up. And three, broaden the portfolio, which those lands to will lead to a higher multiple, and that's what we're trying to drive to.

Operator

And our next question comes from the line of Michael Zaremski from BMO.

Michael David Zaremski
BMO Capital Markets Equity Research

I guess my first is a quick follow-up on the capital discussion, you said bolstering capital. So I just want to clarify, you reiterated the 14% to 17% ROE targets, which I believe you've been talking about since I believe 2019 could be prior looking at my notes. It seems like there's a disconnect, though, because the shareholders' equity levels ex OCI are down meaningfully since '19. There's an element of where -- it seems like this is why this company is coming up, investors are expecting that the consensus ROEs look like they're well above the 14% to 17% because people aren't bolstering their capital assumptions, I guess, in the model. So I just want to make sure I'm thinking about this correctly. It's 14% to 17% is still the target. And so we directionally should be making sure we don't turn on the buyback until [Sheryl's] equity levels are bolstered a bit.

Thomas Joseph Wilson
Chairman of the Board, President & CEO

So first, the 14% to 17% confirmation was just really our way saying we don't see anything that diminishes the ultimate earning power of the company. What the equity base is and what the earnings are, of course, but we -- so we're really just trying to say we don't see anything that diminishes the earning power of the building company.

We never said it was a cap. And as I just mentioned, our strategy is really get returns up to where they've been historically, which will increase shareholder value. And then the big differential we have versus progressive and others is we need higher growth to drive the multiple of and we're going to get that 2 ways to increase market share, personal profit liability to transformative growth. And then secondly, by expanding our protection offerings, which will drive the multiple up. So it's like step 1, step 2. We think they can both hit at the same time, to be honest, but that's what we're driving to.

Michael David Zaremski
BMO Capital Markets Equity Research

Okay. That's okay. That's very helpful. My last question is just thinking through all the actions you're taking in terms of expense ratio, pulling back in certain states. I guess it seems clear that in the near term, we should be thinking about PIF growth remaining under pressure. I'm just curious, too, is that one the right way to think about it? And two, is there -- for your capital model, does PIF growth being negative with total revenue growth still being very positive because of pricing power? Is it -- does it help that you're shrinking PIF, but growing top line because of pricing? Or is every dollar of growth still seems the revenue still seem the same way within your capital model?

Thomas Joseph Wilson
Chairman of the Board, President & CEO

Capital models are really driven on risk, which are tied to premium. So PIF doesn't really impact it. So -- which is the right economically, we believe the right way to do it. In terms of growth, we think we can -- Mario talked about growth in National General. We talked about growth in 50% of the markets were working there. When those 3 states that we need higher prices on get to the right level, we can grow there as we continue to roll out transformative growth and we'll be in -- we expect to be in 10 states with our new product this year, which will just be in the states and that we drive a lot of growth, but we're using machine-based learning some really cool direct stuff. So we think there's plenty of opportunity to grow, and so we're not concerned about it.

The reason we're reducing the growth in those states like if you're not making any money, it doesn't make sense to sell it. Like I don't really understand the logic of we're losing money. Let's go out and spend a bunch of money to get business, and we'll continue to lose money until we can raise the prices later. That just raises your -- if you include those losses in your acquisition cost, it's hard to make the lifetime value work. So we chose not to write the business it's not quite really, as Mario said, it's not really a combined ratio impact. It's just like why do something that's uneconomic.

Operator

And our next question comes from the line of Alex Scott from Goldman Sachs.

Taylor Alexander Scott
Goldman Sachs Group, Inc., Research Division

First 1 I had is on the prior year development. One of the things we noticed from last quarter was just that I think 2022 accident year actually looked like it developed favorably and 2021 was still a bit unfavorable. And I guess I'm just interested what was the mix of that this quarter?

And how do we think about sort of the speed up of kind of reaching settlements to reduce volatility on some of the older claims and the impact that's having? And where are you in the process of doing that? Like is there still a good amount of wood to chop there? Have you sort of gone through the 2021 claims to the extent you're going to do it already. Just any color around all that to help us think through what development could look like through the rest of the year?

Jesse Edward Merten
Executive VP & CFO

And I'll take that quickly. I think the first thing I would highlight is that the development this quarter was related to National General, so a little bit different than what we went through last year. And we don't separately disclose which prior years, it's attributable to. But it's safe to say they're -- given the nature of that business, some of the near and years, we continually, Alex, move reserves between years and coverages and prior year reserves and coming up with these estimates. And so it's safe to say that we're really focused on settling -- getting some of those older claims settled, getting the reserves right. And sort of, again, I'm a broken record on this, but getting the aggregate reserve recorded properly.

So this was really -- again, this was -- this quarter is certainly a story of the National General reserve levels. And the movement between prior years and coverage is just kind of normal course this quarter.

Taylor Alexander Scott
Goldman Sachs Group, Inc., Research Division

Got it. And the second one I had is just a follow-up on -- there was a comment earlier related to, I think it was the 35% filing where it was mentioned that, that can take up to 18 months. I mean that one, I think, was filed in late May. So that would suggest would be like all the way towards the end of 2024, if I just sort of take that comment at face value as to like when you potentially get the California approval.

I'm just trying to weigh thinking through that versus some of the comments that suggested the regulatory environment may be getting a little better I mean that seems like a pretty long time line. Like can you help us think through? And maybe I'm just trying to take that a little to cut and dry.

Thomas Joseph Wilson
Chairman of the Board, President & CEO

I think I'm probably the one that said 18 months that there was not to imply that we think it's right to wait 18 months or it should take 18 months. We just said sometimes it takes a long time the California department stayed on all rate increases for a couple of years. They're not in that mode anymore, and we're working actively with them because they know that's not a good place to be and it doesn't create a good market.

So I think what you can do is just look at the monthly numbers we've put out on rate increases. You can factor that in. You can -- we've given some math on how it rolls into the P&L. And that will give you a good look 12 months forward at what that blue line is that Mario talked about and at what rate is going up. They will tell you what's going to come in. And then you can make your own judgment on what you think severity and frequency will be.

Operator

And our final question for today comes from the line of Yaron Kinar from Jefferies.

Yaron Joseph Kinar
Jefferies LLC, Research Division

I want to go back to the capital question and the decision to stop the buybacks, if I may. And Tom, I'm certainly -- I appreciate the thought of it doesn't really make sense to buy back stocks when we're generating a loss. That said, I think we have seen about $2 billion of buybacks since I think, the second quarter of last year in a loss environment.

I think everything you're showing on -- and presenting in the slides would suggest that we are hopefully inflecting in the auto margins. I think even a quarter ago, you were still talking about over $4 billion of holdco liquidity. So I'd just love to better understand what changed or shifted in the thinking here to make you decide to stop here, especially when stock seems to be attractively valued relative to previous buybacks?

Thomas Joseph Wilson
Chairman of the Board, President & CEO

Let me go back to the genesis of the buyback program and then roll it forward. So it was a $5 billion program about $3 billion of which was because we're returning capital that was generated by sale of the life and annuity businesses. So it was really a $2 billion net program. We tended to have that program -- that buyback program was usually sized by how much money we made the prior year and we weren't using in growth. So it was sort of in arrears kind of share repurchase program.

And that's how we got to $5 billion. So we're 90% of the way there on $5 billion. We couldn't complete it, for sure, and we just decided you're losing money, don't buy stock back. It's just sometimes good capital management is just a common sense as opposed to a specific formula because it's formulas change, correlations change and all that sort of stuff. So from our standpoint, it was really no more complicated.

I mean, Jess and I talked for like 5 minutes were like, okay, another quarter of a loss. A lot of -- lot catastrophes are a lot higher, almost 2 standard deviations away. We factored that in when we decided on the $5 billion. We factored that in when we looked at last year, keeping the program going. -- and it was a sensitivity, but it was a sensitivity, not a reality when it turns into a reality, you say, okay, let's just stop buying it back. And if we feel like getting back to it, we will. And we have a strong track record of buying stock back.

But what will drive the value of our stock, and I can close on this. is not share repurchases. Like we've looked at share repurchases. As I said, we bought $37 billion back. The return on share repurchases, if you take the price that you bought it at and the price of the stock at any point in time. Of course, it varies like it's cheap now, in my opinion. And so it would be good to buy it back.

But when you look at it over an extended period of time, it kind of turns into the cost of capital, which makes some sense. Sometimes you get a 20% return because you bought it back cheap and the stock went on to run. Sometimes you buy it and it stacks up and you get lower return. But when you look at it over a long period of time, so you don't really create shareholder value by doing share buybacks. If you don't do share buybacks, you destroy shareholder value. That's a bad thing.

But -- so the way we're going to create shareholder value is get profitability up, execute transformer growth and broaden our -- the product offering to people and things like protection plans, which are low capital, high growth high-return businesses, health and benefits in the same way. So that's our plan. We look -- thank you for tuning in this quarter, and we'll talk to you next quarter.

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