S&P Global
Market Intelligence

The Allstate Corporation NYSE:ALL
FQ2 2020 Earnings Call Transcripts

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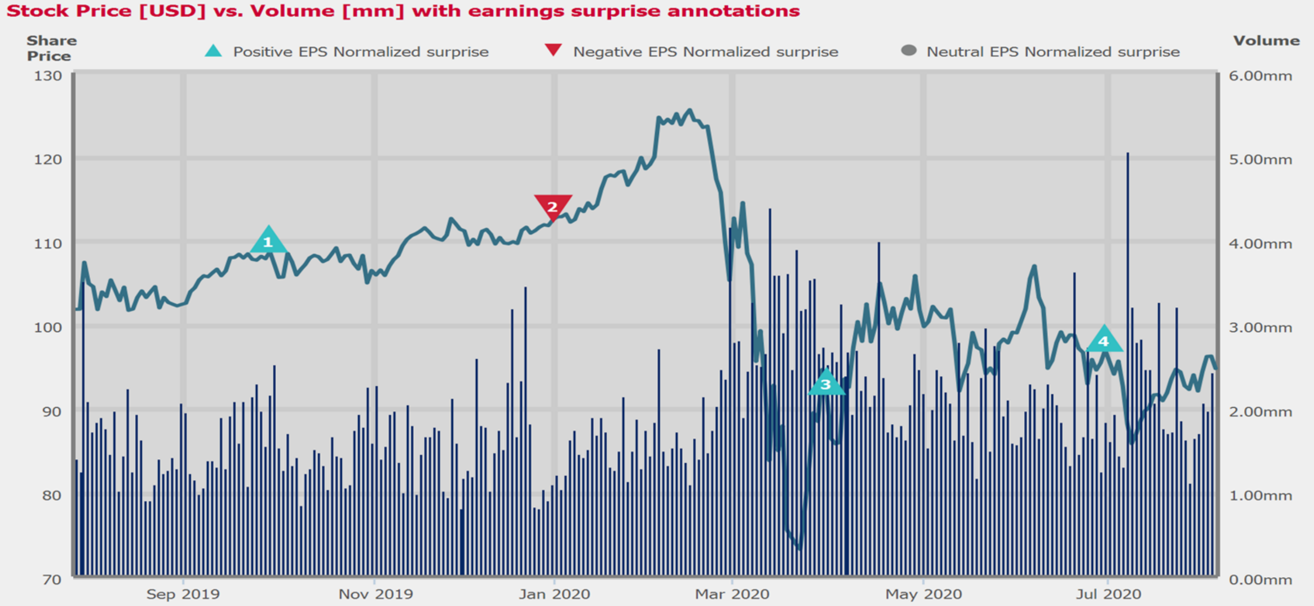
S&P Global Market Intelligence Estimates

	-FQ2 2020-			-FQ3 2020-	-FY 2020-	-FY 2021-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	1.62	2.46	▲51.85	3.22	11.27	11.37
Revenue (mm)	9374.00	9223.00	▼(1.61 %)	9600.00	35835.63	38755.33

Currency: USD
Consensus as of Aug-05-2020 10:59 AM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ3 2019	2.57	2.84	▲1 10.51 %
FQ4 2019	3.21	3.13	▼2 (2.49 %)
FQ1 2020	3.31	3.54	▲3 6.95 %
FQ2 2020	1.62	2.46	▲4 51.85 %

Table of Contents

Call Participants

EXECUTIVES

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

Glenn Thomas Shapiro
President of Personal Property-Liability of AIC

Mario Rizzo
Executive VP & CFO

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Presentation

Operator

Ladies and gentlemen, thank you for standing by, and welcome to the Allstate Second Quarter 2020 Earnings Conference Call. [Operator Instructions] As a reminder, today's program is being recorded.

I would now like to introduce your host for today's program, Mark Nogal, Director of Investor Relations. Please go ahead, sir.

Mark Nogal
Head of Investor Relations

Thank you, Jonathan. Good morning. Welcome, everyone, to Allstate's Second Quarter 2020 Earnings Conference Call. After prepared remarks, we'll have a question-and-answer session.

Yesterday, following the close of the market, we issued our news release and investor supplement, filed our 10-Q and posted today's presentation along with our reinsurance update on our website at allstateinvestors.com. Our management team is here to provide a perspective on these results and further context on our strategy to grow personal Property-Liability market share.

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 2019 and other public documents for information on potential risks.

And now I'll turn it over to Tom.

Thomas Joseph Wilson
Chairman, President & CEO

Good morning. Thank you for joining us this day current on Allstate.

So let's start on Slide 2 with Allstate's strategy and our second quarter highlights. So our purpose is to protect people from life's uncertainties and to be a positive personal good. And as you know, our strategy has 2 components: increase personal Property-Liability market share and expand into other protection businesses, which are shown in those 2 ovals. Leveraging Allstate brands, customer base and capabilities to both of those components.

This strategy is an adaptation to the coronavirus pandemic led to excellent operating results in the second quarter, as shown on the right. The enterprise customer experience score increased as employees and agencies did an excellent job of working remote, and we benefited from leading on the shelter-in-place payback and helping customers in other ways. Profitability was good with adjusted net income of $2.46 per share. We also made progress at our multiyear transformative growth plan by leveraging the direct sales capabilities of Esurance and lowering expenses.

Allstate Protection Plans, which, as you know, we acquired 3.5 years ago for $1.4 billion and high-growth and high returns, Protection Plans at the end of 2017 and an estimated adjusted net income of $35 million in the quarter and $69 million for the first 6 months of 2020. The performance-based core losses in the quarter reduced reported net investment income despite solid total [liquidity] performance.

Our profitable growth [portfolio] depends [indiscernible]. Overall, [indiscernible] We move to Slide 3. Allstate quickly adapted [indiscernible] excellent operating results. Total revenues of $11.2 billion increased 0.5% of the prior year [quarter] gain and growth in the Property-Liability premium earned were -- that more than offset the decline in investment income for performance-based losses. Net investment -- net income of $1.2 billion increased 49% to the prior year quarter, as you can see from the middle of the table, the market value adjust $780 million, [6.1% over] 2019, $2.46 per share, 12.8% of other [share] repurchase program. With adjusted net income mature line at 17.9%. [indiscernible]

Glenn Thomas Shapiro
President of Personal Property-Liability of AIC

Thanks, Tom.

Let's go to Slide 4, where we'll discuss the strong performance of our Property-Liability segment. Premium and policy growth continued with excellent recorded and underlying profitability. Policies in force were 33.8 million at the end of the quarter, and Allstate brand policies reaching an all-time high for auto at 20.5 million. Underwriting income of $904 million increased by $537 million compared to the prior year quarter.

The chart on the lower left shows the second quarter combined ratio of 89.8 and the impacts driving the 6-point improvement over the prior year quarter. Starting on the left, the underlying loss ratio improved by 15.9 points on lower auto insurance losses from fewer accidents due to significant reduction in miles driven. The underlying loss ratio on homeowners insurance also improved due to increased premiums and lower non-catastrophe losses. The underlying loss ratio improvements were partially offset by Allstate's efforts to help customers during the pandemic. This included the 15% shelter-in-place payback on auto which totaled 8.3% of premiums across all lines of business, plus a 0.5% of premiums from increased bad debt expense due to billing flexibility related to the Allstate special payment plan.

The chart on the right breaks down the expense ratio components. The expense ratio was 23.0 and improved 0.5 point compared to the prior year quarter, excluding the $738 million shelter-in-place payback and bad debt expenses in the quarter. As you know, one portion of our transformative growth plan is to deliver better value to customers, in part by reducing operating expenses. While expenses vary by quarter, as you can see from this quarter, the long-term trend has been down as you look at the adjusted numbers, which are 2.1 points below the 2018 expense ratio.

So let's now move to Slide 5 and discuss transformative growth in more detail. The transformative growth plan will accelerate growth through 3 key levers: expanding customer access, enhancing customer value and investing in technology and marketing. We're expanding customer access and increasing product availability by leveraging Esurance's direct sales capabilities under the Allstate brand. Esurance brand will be sunset over time, and the advertising spend will be concentrated on the Allstate brand. This also includes improving online and call center sales flows. We're enhancing customer value through continued cost structure improvements, which will make prices more competitive without reducing underwriting margins.

We recently announced changes in the personal Property-Liability organization, which included combining our direct operations as well as consolidating Allstate brand field operations to further lower costs. To improve customer value, we're also expanding telematics offerings and promoting our unique Milewise pay-by-mile product, which is appealing to customers right now as they're driving less during the pandemic.

The third component is investing in technology and marketing. Technology investments are improving our customer experience, including the recent launch of Allstate One app that simplifies and combines digital access and telematics offerings in one place.

Launching the transformative growth plan also enhances our ability to adapt to a post coronavirus operating environment. We'll have lower cost structure and more competitive prices. We're also building the capacity to invest in new products, marketing and technology while maintaining strong margins. The new technology platform will allow us to be more connected with customers and give us greater flexibility to change products and processes going forward.

Now I'll turn it over to Mario to discuss the rest of our second quarter results.

Mario Rizzo
Executive VP & CFO

Thanks, Glenn.

Let's go to Slide 6, which highlights investment performance for the second quarter. We take a proactive and holistic approach to managing the investment portfolio. After reducing public equity in the first quarter, we increased our allocation to investment-grade corporate bonds this quarter. The chart at the left shows net investment income totaled $409 million in the quarter, which was $533 million below prior year due to a decline in market-based income and losses in the performance-based portfolio. Market-based income, shown in blue, was below the prior year quarter by $77 million. As interest rates have declined, reinvestment rates are below the average interest-bearing portfolio yield, reducing portfolio income. We recorded 208 -- $211 million loss on our performance-based investments in the second quarter, as shown in gray.

As you know, we proactively adjusted valuations in the first quarter in response to the significant decline in equity markets. In the second quarter, we followed our standard process for recording performance-based results, which generally recognizes valuations on a 1-quarter lag. Given this lag in income recognition, the second quarter improvement in public equity markets did not have a positive impact on this portfolio in the quarter.

GAAP total returns are shown in the table on the right. The second quarter return of 5% primarily reflects tighter credit spreads and the impact of higher equity valuations on the $2.8 billion public equity portfolio. Year-to-date returns were 2.7%, and the latest 12 months was 5.9%. Performance-based investments had a 2.4% and 4.5% loss for the quarter and first half of 2020, respectively. These investments are expected to generate higher returns than the market-based portfolio and, consequently, typically have higher volatility. This portfolio has generated an annualized rate of return of 7.4% over the past 5 years, as shown in the bottom right of the table.

Let's move to Slide 7 and review results for Allstate Life, Benefits and Annuities. Allstate Life, shown on the left, generated adjusted net income of $72 million in the second quarter, an increase of $4 million compared to the prior year quarter. Life insurance mortality was elevated in the second quarter, driven by $25 million in identified coronavirus death claims. Excluding these claims, mortality experience was favorable relative to expected levels. Despite higher mortality from the pandemic, Allstate Life generated attractive returns as lower operating expenses supported an increase in adjusted net income for the second quarter.

Allstate Benefits premiums declined 7.4% compared to the prior year quarter, reflecting the nonrenewal of a large underperforming account in the fourth quarter of 2019, lower sales from increased competition and the economic impact of the coronavirus, including higher employee turnover, business closures and furloughs. Allstate Benefits adjusted net income of $5 million in the second quarter was $32 million below the prior year quarter, reflecting a $32 million after-tax write-off for software associated with the billing system. We are developing a technology strategy to build an end-to-end digital platform over time that modernizes more than just our billing system and enables us to maintain our strong position in the voluntary benefits marketplace.

Allstate Annuities, shown in the bottom right, had an adjusted net loss of $111 million in the second quarter, primarily due to the lower performance-based investment results that I discussed earlier.

Let's turn to Slide 8 to discuss the results of the service businesses. Service businesses revenue, excluding the impact of realized gains and losses, grew 15.4% to $457 million in the second quarter. Policies in force continued to grow, increasing 41.2% and to 127.3 million in the second quarter, largely due to growth in Allstate Protection Plans. Allstate Identity Protection policies in force increased 1.1 million from the prior year quarter to 2.3 million and includes subscribers accepting our free service offer through the remainder of the year as a result of the pandemic. Adjusted net income improved to $38 million in the second quarter of 2020, reflecting an increase of $22 million compared to the second quarter of last year, driven by growth of Allstate Protection Plans and improved profitability at Allstate Roadside Services.

Allstate Protection Plans has outperformed expectations across each acquisition measure of success, established following the $1.4 billion acquisition in 2017. Those measures of success include rapidly growing new and existing domestic customers, raising profitability and returns on capital deployed and creating sustainable growth beyond U.S. retail. As you can see in the chart on the right, Allstate Protection Plans has grown rapidly. Policies in force increased fourfold over the last 3.5 years from less than 30 million policies in 2017 to more than 120 million in the second quarter of 2020, representing a compound annual growth rate of 53%. This growth trajectory reflects expansion within both the U.S. and international markets.

Allstate Protection Plans also began generating positive adjusted net income in the first quarter of 2018 and continues to experience upward trajectory with added scale, generating $35 million of adjusted net income in the second quarter of 2020 and $96 million over the latest 12 months. As you can see, Allstate Protection Plans has consistently grown customers, revenue and profits since the acquisition.

Slide 9 highlights Allstate's attractive returns and strong capital position. Allstate's capital position remains strong due to our diversified business model, substantial earnings capacity and proactive capital management. We continue to generate strong returns on capital with an adjusted net income return on equity of 17.9% as of the end of the second quarter. We returned $563 million to common shareholders in the second quarter through a combination of $391 million in share repurchases and $172 million in common stock dividends. Over the last year, we have repurchased 5.2% of outstanding shares, as you can see from the table. And as of June 30, there was $2.4 billion remaining on the $3 billion share repurchase authorization that is expected to be completed by the end of 2021.

Book value per share of $79.21 was 17.7% higher than the second quarter of 2019, reflecting strong net income and an increase in fixed income unrealized capital gains, partially offset by cash return to shareholders. Allstate's stock valuation metrics, however, have not kept pace with this continued strength and strong operating performance.

Moving to Slide 10. This quarter, we also entered into an agreement to acquire National General. This acquisition is financially attractive and will create a platform to drive profitable growth in the independent agent channel. National General will become Allstate's independent agent platform. We will essentially do a reverse merger of our Encompass and Allstate independent agent businesses into National General, which has a good technology platform, broad distribution and a management team that has substantial acquisition integration experience. The deal will increase Allstate's total personalized market share by over 1 point and create a top 5 competitor in the independent agent channel personal lines market. It also generates opportunities for growth and expense efficiencies. It gives us a strong presence in higher risk nonstandard auto insurance. Allstate's expertise in standard auto and home insurance will be used to leverage National General's independent agent relationships by broadening the product offering.

The acquisition is expected to be accretive to earnings and returns in the first year. We expect high single-digit earnings accretion in the first year post close, and adjusted net income return on equity is expected to increase by about 100 basis points. These impacts anticipate cost synergies but do not include the incremental revenue growth opportunity. The transaction will have no impact on Allstate's existing share repurchase program.

The second quarter was a busy one, where we continued to address the impact of the pandemic, earned good returns for shareholders and position Allstate for long-term profitable growth.
With that context, let's open up the line for questions.

Question and Answer

Operator

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

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

So my first question is just looking at the expense ratio, adjusted for bad debt and the payback improving by 50 basis points, maybe a little more with -- when you adjust for the ad spend. How much of that is from the transformative growth program? And how much is just simply COVID-driven?

Thomas Joseph Wilson
Chairman, President & CEO

Yaron?

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

Yes. Can you hear me?

Thomas Joseph Wilson
Chairman, President & CEO

Yes. [indiscernible]

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

So Tom, I think we're having difficulties hearing you. I was able to hear Mario and the others on the call, but I've not been able to really hear you. I'm not sure if there's somebody on the line -- if my line is open. I can't hear.

Mark Nogal
Head of Investor Relations

Your line is open. His line is definitely -- the phone is definitely not coming through clearly.

Glenn Thomas Shapiro
President of Personal Property-Liability of AIC

Mario, do you want to jump in on that one?

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

Why don't we do this? And then let's -- Tom, maybe if you could dial back in. Go ahead, Mario.

Mario Rizzo
Executive VP & CFO

Oh, you want me -- okay. Thanks, Yaron. So I guess what I'd say is, as we've talked about transformative growth, I'll just remind you, there's 3 core elements, as Glenn talked about. There's expanding customer access, enhancing the customer value proposition and continuing to invest in technology and marketing to support the broader transformative growth program. And improving our cost structure is a key part of how we're going to achieve that second objective of enhancing customer value. We continue to make really good progress on this front. Our underwriting expense ratio, as you indicated, is down 0.5 point once you adjust out the coronavirus impacts to 23 in the quarter, and it's down 0.8 point compared to last year.

And when you look at where the improvement came from, it's in acquisition-related expenses and operating costs. And that's an area that, as we've talked about, those are 2 of the areas that we're obviously focused on taking cost out. So we've been at this now for over a year. And I'd say our cost reductions, again, are a core part of transformative growth. So I'd say that's really what we're focused on doing as part of the plan. And we're -- we would expect to continue to take costs out over time. And we'll continue to look for ways to improve processes and enhance efficiency and through a variety of means that support the transformative growth program.

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

I guess what I was trying to get at is, how much of the improvement this quarter is sticky? And how much of that is just reduction in T&E and in office costs, given that we were in a shelter-in-place environment?

Mario Rizzo
Executive VP & CFO

Yes. And I guess what I'd say, Yaron, is we're going to look to continue to drive cost out of the system. So I don't think -- but the expense ratio may bounce around a little bit going forward as we invest in technology. You saw us -- we invested more in marketing in the quarter. But I guess the way we're thinking about it is our intent is to drive the expense ratio down over time, and that's what we're going to do.

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

Okay. My second question, I think in the past, you've said that you're not looking to cut rates, but we are seeing some of your competitors starting to cut more meaningfully here. Favorable frequency experience probably also helps. Are you holding to your decision?

Glenn Thomas Shapiro
President of Personal Property-Liability of AIC

Yes. So I'll jump in and take that one. This is Glenn, but thanks for the question, Yaron. I think, first of all, we're seeing -- there's one competitor that took some meaningful action more broadly. I don't think we're seeing a huge rush in that direction for one. Our competitors have been aggressive. And it's a competitive environment, but not irrational. And the second point I'd make is, we manage this on a local level. And I know I'm a broken record, I say this every quarter when we talk about how we manage the -- both the margins and our pricing. Over the course of the last 60 days, because it could look like with our flat rate environment that our product people have just sort of been hanging around and waiting for something.

We've actually made 180 filings over the last 2 months. And what we do is we're constantly, in each state and each market, looking at how we pull and push levers to be competitive in the environment. It's why we saw sequential growth. And we've continued to grow in spite of a tough environment. And those filings were things like making new business more competitive, making our telematics offering more competitive with some incentives in that area and across all 50 states pulling different levers like that.

So I would say that while we don't favor, as you said, sort of a broad base like we're just going to cut x amount everywhere. We do favor being very surgical, very detailed and very thoughtful about how we manage our competitive position and our margin in each market. And I think you know from over time that we react quickly, whether it was the frequency spike back in 2015 or it's the frequency decline now of 2020 that we move really quickly on these things, and we have a very responsive system. And we react market-by-market and make sure that we return a very good return to our shareholders. But at the same time, we stay competitive and we're able to grow profitably.

Operator

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

Elyse Beth Greenspan
Wells Fargo Securities, LLC, Research Division

Given the strong results that you've been seeing, obviously, pretty favorable frequency results in the quarter. Are there any plans for further rebates within your auto insurance book?

Glenn Thomas Shapiro

President of Personal Property-Liability of AIC

So this is Glenn. Thanks, Elyse. I'll take that as well. I think what we're looking at now, and as I mentioned in the last question to Yaron, we're looking at sort of sustainable and more sophisticated instruments. We're looking at how we get competitive with those as opposed to what I think was the right decision and a good way to go about it with the shelter-in-place payback at the moment. It needed a broad and blunt instrument because of the big move in frequency at that time.

But when you wrap in frequency and then the mix shift that moves severity and the expansion of coverage, the increase of bad debt because we get more flexible for customers in need, put all of those things together, I think the go-forward approach is going to be more in the lines of allowing our losses to flow into our rating as we always do, and to be more precise on a state-by-state and market-by-market basis versus a broad shelter-in-place payback. Things could change because depending on how the frequency and how the virus moves and all of that, but our thinking right now is to be more -- look at more sustainable tools than a shelter-in-place payback going forward.

Elyse Beth Greenspan
Wells Fargo Securities, LLC, Research Division

Okay. That's helpful. And then my second question, could you give us a sense of how frequency and severity trends have trended on -- in July kind of versus what you saw in the second quarter as we kind of -- as folks that started to go back to work and, et cetera, and we've seen a change in loss trends?

Mario Rizzo
Executive VP & CFO

This is Mario. Glenn can talk about the second quarter, but we're not going to talk about July trends at this point.

Glenn Thomas Shapiro
President of Personal Property-Liability of AIC

Yes. So I'll talk about the second quarter a little bit and just say, first of all, thanks for mentioning frequency and severity because they do tend to move in opposite directions with one another. And one thing I'll just proactively address is that I know some of our competitors report a recorded number on severity. We report a paid number. And paid calendar quarter is, I think, a more transparent and better metric to use in normal times, but we're in anything but normal times. So it's much, much more volatile and subject to mix shifts. So you'll see the number move more just because of the mix of what's being paid inside the quarter where you have fewer short-tail, small claims being paid in the period and everything. So that you'll see the 2 things move a little bit opposite one another.

But what we saw throughout the quarter, and we did disclose that June was less of a difference in gross severity -- gross frequency, excuse me, than the other months in the quarter, is that it has come down. It's starting to normalize in some places. There's a lot more variation by state early on like what we would see in April and May is that while there was some variation, pretty much all the states were down within a relatively close tolerance to one another. That has started to diverge more with a really rural state like Montana, for example, was actually up slightly in the year-over-year. And then you've got places that are more significantly down, particularly states that are more heavily concentrated with metro areas and that have had more spikes of the virus. So we're watching things on a very local level into how they're moving.

Operator

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

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

I'll -- I'm going to pivot and I'd like to get an update on your homeowners business. I was looking at some of the statistics that you provide, like on Page 17 of your supplement. And I was struck by the improvements in frequency, both gross claim and paid claim frequency, not just in the first and second quarters of this year, but it seems to be a longer-term trend. And I would be curious about your impressions about what's driving that and how we should think about those trends as we look beyond just this year and think about next year.

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

Greg, it's Don Civgin. I'll ask Glenn to answer it in more detail. And we've obviously worked hard on our homeowners business over the last number of years, and so we're pleased with the returns we're getting from that business. But Glenn, do you want to get into more specifics?

Glenn Thomas Shapiro
President of Personal Property-Liability of AIC

Yes. Yes, absolutely. Thanks, Don. So yes, as Don said, I'm always -- I always preach that -- look at the long term and look at the reported combined on home. We've got year-to-date an 88.6% combined ratio recorded. Our 12 months is 83%, and our 5-year is 87%. So we've sustained that. I think, Greg, the -- your point on the frequency is a tough one because it changes almost every quarter because the weather drives so much of it. So you'll have more caught up in catastrophes. And so it's sort of a lower underlying frequency, and then you'll have maybe a good weather quarter and you'll have few weather-driven and fewer cats. They move around a lot. What I would say recently, and this is probably an underreported part of the COVID impact, is that we've seen a shift in frequency severity on the home side because -- and it's pretty logical, is we're seeing fewer like death claims and break-ins because everybody's home. And those tend to be lower severity claims. And yet we're seeing about the same number of fire points, and those tend to be higher severity claims.

So we saw our frequency go down in the quarter. Our severity average go up because the ones that went away were smaller claims. And so we get into the details, and we look at all of those components, but I wouldn't necessarily draw a conclusion that there's something in home driving long-term frequency down that will be sustainable. I think it's been different factors each quarter.

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

Got it. And then I guess I'll circle back, your transformative growth plan and the integrated services platform. And as you guys know, I always like to track your agency data that you provide on Page 9 of your supplement. And so I was wondering if you could just -- from a big picture perspective, we're watching some directional changes in some of the numbers, whether it's a slight decrease in total Allstate agencies and LSPs, but we're also seeing an increase in the independent agencies and Encompass independent agencies. Can you walk us through what your view is on how that's going to change further as we continue to roll out these plans that you've mentioned previously?

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

Yes. Glenn, why don't you go ahead?

Glenn Thomas Shapiro
President of Personal Property-Liability of AIC

Okay. Great. So we -- it's a -- you're always into the detail, Greg. So you definitely picked up on the right trends there. We're focused on growing with agencies looking to invest. And this ties back to something Mario talked about, about the expenses. It's not that our acquisition costs have gone down because we don't want to grow and we don't want to invest in agents looking to grow. They've gone down because we've moved the money really in a way that incentivizes growth and it's more efficient to do it that way. So coming into this year, we moved some money that was incentivizing retention, and we moved it to incentivize new business. And -- or I should say renewal versus new business as opposed to retention because how it gets paid. That's one change. And that changed some agents who wanted to invest in that way, and some that didn't and perhaps voted themselves out on that one. We also increased our baseline performance requirements for, I'll call it, our lowest producing agency and required that folks sort of be more open for business than they have been. And so that has driven the number down a little bit.

And the other thing is integrated service, which you mentioned in the question. That number will start to look strange over time. We have about 500 agents in there right now. So those agents won't show staff members that are being augmented or provided by Allstate. And so it kind of moves the number to a different place because we don't report it in as part of the agency staff as licensed sales professionals because we're doing the work on the back end for them in those centers. So there's a number of pieces moving it. But I think the headline to take away is that we've grown in the agency plan. I mentioned in the prepared remarks that we've all-time high in Allstate brand auto policies in force. So the agency force has grown, and we want to grow in all of our lines. We want to grow Allstate agents. We want to grow our independent agent channel, which is the pending acquisition that we've got with National General, and we want to grow in direct, which is the combination of Esurance and Allstate direct.

Thomas Joseph Wilson
Chairman, President & CEO

Greg, this is Tom Wilson. I'm -- hopefully I've reconnected.

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

We can hear you.

Thomas Joseph Wilson
Chairman, President & CEO

All right. Let me highlight what Glenn just said. The transformative growth, so we're going to sell as much as we can through everybody as we can. So we want to have more Allstate agents, we want to have more independent agents. We want to sell more. You will see, over time, some increases and decreases and how much goes through each of those channels as we transition to a new [profitable] model. So -- and Glenn explained what we're doing on new business versus a retention. But we're really working on different ways we can get to customers. We may not need as much real estate in the future as we have today. That means local offices are different. So you'll see changes, and you're seeing some of that change now because we're not [indiscernible] new Allstate agents at this point as we build out these new models. So it's really about [indiscernible] very distribution force.

Operator

Our next question comes from the line of Mike Zaremski from Crédit Suisse.

Michael David Zaremski
Crédit Suisse AG, Research Division

Could you guys -- and maybe I missed it, did you guys touch on auto severity? I think we -- investors have expected it to increase during COVID. Maybe you can discuss whether we should expect the severity or you could talk about it, so we can maybe better understand whether it should continue? And I'm curious whether, like, the underlying severity trend is still kind of higher for longer due to issues we talked about pre-COVID? Or is there a change to that potentially post-COVID?

Thomas Joseph Wilson
Chairman, President & CEO

Mike, let me have Glenn answer that, but give you an overview first. In a time like this, where the numbers are changing rapidly in terms of the number of claims, they -- the statistics in the method you use for any individual component of loss costs bounce around a lot. So it's -- the best thing to do is to look at overall loss costs and say, are your loss costs still the right percentage of your premiums? We obviously have done attribution on severity, and Glenn can talk about that.

Glenn Thomas Shapiro
President of Personal Property-Liability of AIC

Yes. So it's a great question because, as Tom said, I mean, they do bounce around a lot. Overall, we feel very comfortable and confident with where we are on severity. PD severity, paid severity was reported at 20% up, which number jumps off the page. Let me give you just an example of why that is on a paid severity number like that. So paid severity is -- as you'd expect, it's a number of claims you settled and closed during that calendar period divided by the total number of claims, and you get your average. Well during the second quarter, we settled just as many 6-month-old claims as we would in any normal quarter because 6 months earlier, there was no COVID and there was no drop in frequency. We settled just as many 5-month-old claims and 4-month old-claims and 3-month-old claims, but we settled a lot fewer 3-day-old claims and 1-week-old claims because they just weren't there. They weren't happening with the same frequency.

And as you'd expect, the claims you settle in 3, 4 and 5 days are lower severity on average. They're quick. They're easy, and they're low cost. The ones that are 6 months are typically ones that have like they've gone through their own carrier.

The segregation comes over from that carrier, they average a much higher severity type of claim or they've been a total loss, and so they take longer to process and so on. So it's just a pure mix issue that drives that type of number.

When we get down underneath that, and we're able to look at the things that come in, in the quarter and how they're resolving and are estimating practices and what the true severity looks like, it feels like normal inflation that we've seen in the single digits that we're very comfortable with. And the claims team has done and the finance team a terrific job of getting underneath the data so that we understand where and if we have any pressures, but we've seen it run very predictably.

Michael David Zaremski
Crédit Suisse AG, Research Division

Okay. That's very helpful. And lastly, my follow-up. services segment, it feels like, driven by Allstate Protection, continues to do, I think, better than expected. And it's actually kind of moving the needle a little bit these days. You talked about diversifying into -- outside of the U.S. I mean, just since it's growing so fast, should we expect the rate of growth to temper? Any additional color there would be around what's going on would be helpful.

Thomas Joseph Wilson
Chairman, President & CEO

Let me provide just over your -- like why we talked about it, and then Don can talk about its future. So when we bought it, one of the things we said was, "We'll come back and talk to you about how we're doing every so often." And that's what we wanted to do here. And it's meeting and exceeding our expectations. I think there are a number of people. We're trying to understand why we were into that space, and you can see it's a huge growth. And we've had huge growth both domestically, and we're starting to get some good growth internationally. So it was really about coming back to you and saying, "We told you we'd come back, and here we are." And it happens to be a good news story, which Don can talk about.

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

Yes. Thank you. So first, thanks for noticing. The service businesses, I think, in total, have made a lot of progress and has improved the values that they provide to customers. And so I think across the board, they're doing a really good work, more specifically around the Allstate Protection Plans. I mean Mario laid out the 3 goals that we set and how we're doing against them. But I'd remind you, we set those goals the first quarter after we did the acquisition, and we communicated those, and we've been consistent about them. And we have had a really strong trajectory since we acquired SquareTrade, both on the top line and improvements in profitability all along the way. This particular quarter was good, but I'd remind you we expected to have a good 2020 to begin with. And that's because we were continuing to pick up new customers. We were doing a really good job working with our partners to make the product more available and accessible to their customers. And so we expect the growth not only for new business-to-business customers, but also more availability in existing customers. And our international business continues to grow substantially. So we expected 2020 to be good.

We have benefited from the virus in some ways, and top line is one of them. When you look at the partners that we do our largest business with, they tend to be the larger one-stop shops, which, as you would know, have been in favor in the retail world. Retail is doing mix these days. But if you're a large one-stop shop, we've done quite well. In the categories that we are particularly in, consumer electronics and so forth and home office have also done very well. So we benefited because of the virus with the top line. And then, obviously, the top line has a benefit to the bottom line with respect to scale of the expenses and so forth. So we're very happy with the results. The results would have been strong even without the virus. They have clearly been helped defy the virus, both on the top line and the bottom line. But we're still very happy with the underlying performance as well.

The only thing I'd add is, it's hard to tell what the impact of the virus is going to be going forward. And that's just going to depend on consumer behavior, where they buy, what they buy. So while we benefited from impacts from the virus at this point, it's hard to tell what's going to happen in the future. But all that said, the underlying business has been and continues to be quite strong, and we're quite bullish on it.

Operator

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

Jon Paul Newsome
Piper Sandler & Co., Research Division

I wanted to ask about bad debt trends within the quarter itself. And I guess I'm wondering whether or not we could see more when the Federal subsidies for unemployment go away or if maybe the bad debt is more tied to some of the state level moratoriums on -- that were in place. Just your thoughts on that would be great.

Thomas Joseph Wilson
Chairman, President & CEO

Mario, do you want to take that?

Mario Rizzo
Executive VP & CFO

Sure. Paul, this is Mario. So just to give you a little context of the driver of bad debt, as we mentioned earlier, one of the ways that we provided additional benefits to our customers during the pandemic was to offer them the opportunity to opt into a special payment plan, which essentially gives them 60 days of coverage without having to make a payment on the policy. That started in March. And we've -- as we've worked our way through the quarter, we've gotten more and more experience relative to how that subset of customers has performed and then the bad debt activity within that customer segment. Because as much as we had historical context around offering similar-type programs during catastrophes, this was obviously much more widespread and different. And you see the impact in the quarter where bad debt was $44 million.

We'll continue to get more and more experience on that customer set going forward. We'll continue to update our analysis, and then we'll update the numbers in the third quarter if we need to. But based on the experience we've seen so far through the end of Q2, that's what we recorded in the P&L.

Thomas Joseph Wilson
Chairman, President & CEO

And Paul, I would wrap that into just the overall pandemic impact, right? So we've obviously had lower frequency, which we've talked a lot about. This is another cost associated with the pandemic. And when we're thinking about what we're going to do in the future, we factor all this stuff in.

Jon Paul Newsome
Piper Sandler & Co., Research Division

Makes sense. Second question, I wanted to ask about whether or not you think the regulators will take into account sort of the, hopefully, one-time nature of the pandemic? Or if -- when we put through -- when you put through rate filings in the future, will you kind of have this middle of a python kind of situation where the unusual low frequency is embedded in what you can file for rates prospectively until that kind of rolls off through the system.

Thomas Joseph Wilson
Chairman, President & CEO

Well it's always hard for us, of course, to speak for somebody else as to what they will do. And of course, it varies by state, which oftentimes relates to the political environment in that state. What I can say is we were out early, no regulator forces to do shelter-in-place payback and/or expand coverage and all the other things we did. And so we got out ahead of it. I think we got positive feedback from people that we were doing what was not required, like no one had to come in and say, you must do this. And so I feel like we're on a good basis to work through like what's the right price. And if frequency were to stay at these abnormal lows, obviously, regulators, customers in the competitive market wouldn't have you charge the same amount. The good news is our loss cost would be a lot better.

So our focus, really, Paul, is on maintaining our overall competitive position and our margins. And we've been able to do that with regulators. I think there'll be a whole bunch of stories. But the good news is we have good math, an operating model that adjusts locally in a way in which we can continue then grow profitably. Glenn, anything you would add to that?

Glenn Thomas Shapiro
President of Personal Property-Liability of AIC

No. I think that covered it well.

Operator

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

David Kenneth Motemaden
Evercore ISI Institutional Equities, Research Division

Just a question for Tom and Glenn. Just thinking bigger picture, I'm just wondering how you guys are thinking about miles driven and accident frequency over the longer term. And I know there's a lot of uncertainty, but are you guys thinking -- how are you guys thinking about miles driven and accident frequency? Do you think that we'll ever get back to levels that we were at pre-COVID, especially given what seems like increasingly prevalent adoption of remote working arrangements? And relatedly, how are you guys going to adjust to potential lower frequency levels on a more sustained basis?

Thomas Joseph Wilson
Chairman, President & CEO

Let me start, Glenn, and then jump in. I'm going to start, David, at the most macro, which is of course, our strategy includes a couple of different components, the top oval, Property-Liability and then the bottom oval, other stuff. In the Property-Liability stuff, there's auto, big driver of that. And as -- and that's a key part of our both revenue and profitability. But the other thing is we have a really profitable homeowners business, much more profitable than other people. We're good at it. We're precise at it. We sell a bunch of other stuff. And then the circle of protection selling things like the service plans and everything is about making sure the company has multiple things we can sell to customers to protect them from whatever goes wrong in their life and leverage those customer bases. So we're dealing with -- because you had the same question that was about the same question about the future of auto was really around autonomous vehicles 3 or 4 years ago.

And so we've been on that path from a strategic standpoint as to how to deal with that. And, of course, what's happened is, actually, premiums have gone up, not down in the last 4 or 5 years, which people were afraid nobody was going to drive. So it's really hard to predict. What you can do is have multiple options and take advantage of those options and leverage your skills and capabilities.

As it relates to the auto insurance business, it's -- you want to have a broad-based approach. And that's what transformative growth really is. It's improve the customer value proposes, give people lots of access, connect to more, make your products more simple. And so we still have a lot of the share of that market we can pick up. And so even if you were to say fewer miles driven, lower average premium, we still think we can grow that business. Glenn, you might have -- want to have some -- that was obvious sort of macro and longer term. How would you react to the question on more really as it relates to personal Profit-Liability in the shorter term?

Glenn Thomas Shapiro
President of Personal Property-Liability of AIC

Yes. And it's a great question because, obviously, we think a lot about this. Let me take you into how the team works on this. And I'll go -- like Tom did, I'll go before even the virus. We had built out a model and assumptions for the change in frequency driven purely by the change in the car fleet out in the market. What does each component of ADAS, safety equipment on cars, what does each component do to change each type of loss? Like how many fewer sideswipes or rear ends or intersection actions are we going to have based on the blind spot warning or based on this autonomous feature or so on? And you add those up and you apply them to your fleet and how the fleet is changing over time, and we actually -- we've built into the model, our assumptions over what changes. But at the same time, we built the other side of it, which is the severity. Because all those cars getting into fewer accidents are a heck of a lot more expensive to fix when they have all that equipment on it. And so it goes to what Tom said about, really, it's hard to predict, but we go after it and we look at with as much specificity as we can, the component parts.

So now take that into the current scenario and the question you're asking. And we're looking at, so what percentage of the market works in jobs that don't have to commute? If you work in a restaurant or your dental hygienist or like -- but you're going to have to commute because those things cannot be done remotely. But there are a lot of jobs, most of us have jobs that can be done more remotely than they have been historically. So you get that percentage. And then you look at, well what percentage of people will do it? And then what percentage of your accidents occur in like high drive time? And you start making your assumptions and picks over what's going to change. And similarly, that then changes severity because one of the things we've learned is that the losses that go away quickest are the bumper-to-bumper accidents in high traffic, and those tend to be low severity. So while a 10% decrease in frequency is great, it's not necessarily a 10% decrease in loss costs.

And the reason I'm getting into or micro, since Tom took the macro on this and laid it out, is hopefully just to give you confidence that we look at this in a very detailed way and a thoughtful way, and our teams work through what the expectations are, and then we're able to move quickly on the fly when we're either above or below at with what our prediction is.

David Kenneth Motemaden
Evercore ISI Institutional Equities, Research Division

Great. I appreciate that. And if I could just sneak in just one more on just a quick numbers question. If I think about that 50 basis point improvement in the expense ratio, if I take out the one-time-ish items in 2Q, and then it was roughly 80 basis points in the first half versus the first half last year, is that -- and I know there are a lot of different moving pieces there, but is that the sort of level of year-over-year improvement that we should expect to see going forward?

Thomas Joseph Wilson
Chairman, President & CEO

Yes. I would say transformative growth is about reducing expenses. In part, it's just one component, but it's about reducing expenses so we can improve our customer value proposition with better prices without impacting our margins. But it's going to bounce around a lot by quarter. You got advertising. We're going to have -- we have new advertising. We're going to launch -- you have some technology spend. But you should expect the overall trend going down. I don't think we could predict how much it will change by every quarter because -- or set the target that way because then it leaves unnatural consequences. So -- but you should expect it to keep going down, yes.

Operator

Our next question comes from the line of Suneet Kamath from Citi.

Suneet Laxman L. Kamath
Citigroup Inc., Research Division

I wanted to go back to the frequency benefit issue, if I could. I get that you want to be more surgical in terms of how you're approaching this as opposed to more broad-based, which makes sense, but, I guess, the question is, do you -- are you comfortable or confident that you won't see an impact on policy growth to the extent that some of your competitors actually stick with much more of a broad-based approach?

Thomas Joseph Wilson
Chairman, President & CEO

Well it's always hard to tell what customers will do. We've always found that precision works for us on the long term, and that those people who rush to grow and not have precision to it end up having to fix it later. So if you look at homeowners, people trying to grow in homeowners are taking huge losses. Like we just don't think that's the right way to build the business because you get the customer for a price that's not appropriate, and then you either have to lose them or manage them to a much higher price. So all I can say is what we'll do.

But it's a reasonably -- it's a highly competitive market, but it's a thoughtful market, right? Like people are not crazy in this market and trying to use bad economics. So all of our major competitors understand their business well and why they might make different bets at different times. I feel like the basis of competition is still going to stay the same. Whoever is the smartest, win.

Suneet Laxman L. Kamath
Citigroup Inc., Research Division

Got it. Okay. And then I just wanted to ask one on the National General deal, if I could. I see that you're still guiding to this, I guess, high single-digit accretion, I think, was the original guidance. But when we were running the math, just based on where expectations were for Allstate and Nat General based on consensus, we were getting something close to high single digit or in a high single digits EPS accretion without factoring in any cost synergies. So I'm just trying to understand, is there any help that you can give us in terms of what you're building in with respect to cost synergies? I don't think you talked about on the last call, but any help there would be appreciated.

Thomas Joseph Wilson
Chairman, President & CEO

What I would say is we don't own it yet. So our projections haven't really changed. We do have cost saves in the middle of it that we figured out in terms of what we factored in when we bought -- when we agreed to pay the price we did. And it did lead to accretion, as you point out. But right now, we're working on -- Glenn and [Barry] are working hard on what is the transition program. So as we get more specifics on things that we can lay out for you that are -- here's our measurable goals, we'll do that. But right now, we're just like a month into it.

Operator

Our final question for today comes from the line Ryan Tunis from Autonomous Research.

Ryan James Tunis
Autonomous Research LLP

This might be a question for Glenn, but it seems like there's some decoupling between trends in miles driven and trends in frequency with, I guess, the latter declining quite a bit more. I guess my question is, what indicators that you're seeing in your book do you think are actually the best predictive indicators of what frequency is doing in this current environment?

Thomas Joseph Wilson
Chairman, President & CEO

That's a tough question. I will let Glenn do that one.

Glenn Thomas Shapiro
President of Personal Property-Liability of AIC

Thanks. So it's a good question. And you're right about the decoupling, so I'll give you a little background on that. Not all miles are created equal. If you're driving in a high-traffic environment, you are much more likely to get an accident because it's less forgiving. You take your eyes off the road. You're distracted driving, which, by the way, I don't recommend at any time. But if you're doing it in loose traffic and you make a mistake, you're less likely to bump into somebody than when you're doing it in high traffic.

So what we're seeing is with commuting miles being way down, that has a little bit of an exponential effect on frequency. So if miles came back to a new normal for noncommuting, but were lower only on commuting, it would have a disproportionate effect on the frequency. So hopefully, that answers your question. It's -- we're looking at the data in that way. And our -- with the partnership with Arity and the partnerships they have with a lot of the noninsurance companies out there, and they get a lot of miles-driven data on those, and that what they do for us with our own data, is extremely helpful in that.

Thomas Joseph Wilson
Chairman, President & CEO

And Ryan -- and Glenn's example also is goes for rural and urban too, right? So think of the same thing, not just time and day but also -- so Montana, the frequency is not down as much as it is in urban areas because there's fewer people. There's always less congestion. So it is a difficult question. But the good news is we're on top of it.

I know you all have another call. Thank you for participating and listening to our story. 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.