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Call Participants

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Presentation

Operator

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

[Operator Instructions]

As a reminder, please be aware this call is being recorded. And now I'd like to introduce your host for today's program, Allister Gobin, Head of Investor Relations. Please go ahead, sir.

Allister Gobin

Thank you, Jonathan. Good morning. Welcome to Allstate's Third Quarter 2024 Earnings Conference Call. Yesterday, following the close of the market, we issued our news release and investor supplement, filed our 10-Q and posted related material on our website at allstateinvestors.com. Our management team will provide perspective on our strategy and update on results. After prepared remarks, we will have a question-and-answer session.

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 2023 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 understanding the value creation potential of Allstate. I'm going to provide an overview of results. Mario and Jess will walk through the operating performance, and then we'll address your questions.

So let's begin on Slide 2. Allstate's strategy has 2 components: increase personal Property-Liability market share and expand protection provided to customers, which are shown in the 2 ovals on the left. We now have more than 200 million policies in-force. On the right-hand side, you can see Allstate's performance for the third quarter. Total revenues of $16.6 billion were up 14.7% compared to the prior year quarter. Allstate generated net income of $1.2 billion and adjusted net income of $3.91 per share. Return on equity was 26.1% over the last 12 months.

The Property-Liability business is now positioned for growth. Execution of the auto profit improvement plan has restored auto margins. Near-term auto insurance policy growth will require us to improve customer retention and increase new business levels, both of which Mario will discuss. The homeowners business had good returns and is growing. The Transformative Growth initiatives to build a low-cost digital insurer with affordable, simple and connected protection will ensure that this growth is sustainable.

Proactive investing also benefited income as the decision to lengthen duration at the right time increased portfolio yields. In addition, higher insurance prices and increased reserve levels create a much larger investment portfolio, which also raises income. Protection Plans continues to profitably grow, and we recently did a small acquisition to expand mobile device protection capabilities.

Let's move to Slide 3. Here, you can see the operational execution generated excellent financial results. Revenues increased to $16.6 billion, as you can see on the upper left. Property-Liability earned premiums were up 11.6%. Net investment income for the quarter was $783 million, that's 13.6% higher than the prior year quarter. Net income was $1.16 billion. Adjusted net income, as I mentioned, was $3.91 per share. And then you can see on the lower right that the return on equity was 26.1%. This shows that Allstate's operational excellence enabled us to dramatically improve results from last year.

Now let's hear from Mario on Property-Liability results.

Mario Rizzo
President of Property & Liability and Director

Thanks, Tom. Before I go into my remarks on the quarter, I want to call out a change we made to our disclosures. You'll notice that we simplified our Protection segment disclosures this quarter to focus on products and channel instead of brand. For the past several years, we've provided detail on both the Allstate and National General brands separately to create transparency into National General's performance and allow you to evaluate the acquisition. National General has been a highly successful acquisition, since it is now twice its size, generates excellent returns and gives us strong competitive position in both independent agent distribution and nonstandard auto risk.

We're now building on this success by combining operations such as expanding the sale of nonstandard business under the Allstate brand. As a result, performance should be evaluated for the Protection business in total and by distribution channel versus by brand, and that's why we made the change. So in keeping with this approach, my commentary today will be focused on performance on total auto and homeowner lines and production by distribution channel.

With that as background, let's start on Slide 4. On the top of the table on the left, you can see Property-Liability earned premiums of $13.7 billion increased 11.6% in the third quarter, driven by higher average premiums. Underwriting income of $495 million improved by $909 million compared to the prior year quarter as improved underlying margins more than offset higher catastrophes. The expense ratio of 21.5 was 0.3 points higher than prior year due to increased advertising as we continue to accelerate growth investments in rate adequate states and risk segments.

The chart on the right depicts the components of the 96.4 combined ratio. The catastrophe loss ratio, shown in light blue, includes losses of $1.7 billion and was 2.8 points higher than the prior year quarter. The underlying combined ratio of 83.2, in dark blue, improved by 8.7 points compared to the prior year quarter. The improvement was driven by higher average earned premium and improved loss cost trends.

Prior year reserve reestimates, excluding catastrophes, had only a minor impact on current quarter results as favorable development in personal auto and homeowners insurance was more than offset by increases in personal umbrella and runoff business primarily related to asbestos-related claims, which was recorded this quarter as a result of our annual third quarter discontinued lines reserve review.

Now let's dive deeper into auto insurance margins on Slide 5, where you can see the success of the auto profit improvement plan. The third quarter recorded auto insurance combined ratio of 94.8 improved by 7.3 points compared to the prior year quarter as average earned premiums outpaced loss costs. Average underlying loss and expense was 4.8% above prior year quarter, reflecting higher current year incurred severity estimates, primarily driven by bodily injury coverage, offset by lower accident frequency as well as higher advertising investments to drive new business growth.

Physical damage severity increases continue to moderate, while bodily injury severity continues to trend above broader inflation indices. Our claims team continues to focus on operational actions to mitigate the impact of inflationary trends. As a reminder, we regularly review claim severity expectations throughout the year. If the expected severity for the current year changes, we record the year-to-date impact in the current quarter, even though a portion of that impact is attributable to previous quarters.

For 2022 and 2023, the bars in the graph reflect the updated average severity estimates as of the end of each of those years to remove the volatility related to intra-year severity adjustments. Similarly, in the third quarter of 2024, the full year claim severity estimate went down, so there was a benefit from prior quarters included in the third quarter's reported results. This benefit was worth 0.8 points in the third quarter, with the adjusted quarterly combined ratio of 95.6, as shown on the far right bar.

Now let's review homeowners insurance on Slide 6, which generates attractive returns and growth opportunities. Allstate is an industry leader in homeowners insurance, generating a low 90s combined ratio over the last 10 years, as you can see in the chart on the left. This performance compares favorably to the industry, which experienced an underwriting loss and a combined ratio of 103 over the same time period.

Moving to the table on the right. Allstate Protection homeowners written premium increased by 10.8% compared to prior year, reflecting higher average gross written premium per policy and policy in-force growth of 2.5%. The third quarter combined ratio of 98.2 resulted in $60 million of underwriting income compared to a $131 million loss in the prior year quarter. The underlying combined ratio of 62.1 improved by 10.8 points due to higher average premium and lower non-catastrophe loss costs.

For the first 9 months of 2024, homeowners insurance generated an underwriting profit of $249 million despite $1.2 billion of catastrophe losses in the third quarter.

Let me provide insight into the growth potential of the Property-Liability business, starting on Slide 7. In the chart on the left, you see the composition of the Property-Liability book. Homeowners, in medium blue, represents approximately 20% of policies in-force. Homeowners insurance policies in-force increased by 2.5% as retention has improved by close to 0.5 point compared to last year and new issued applications are close to 20% above prior year, as you can see in the right-hand column. We view homeowners as a growth opportunity.

Auto policies, in the dark blue, account for approximately 2/3 of Property-Liability policies in-force. As you can see on the right side of the page, overall policies in-force declined by 1.5%. This reflects a decline in customer retention to 84.7%, which is 0.2 point below the prior year quarter, but much lower than historical levels. We did have a 26% increase in new issued applications which offset some of the retention losses.

Now let's go through each of these components to give you insight into how to assess growth prospects.

Let's start with customer retention on Slide 8. This chart shows Allstate brand auto insurance retention over a 10-year period, which is primarily standard auto insurance risks. There's a couple of key points I want to make on this slide. First, raising prices leads to lower retention as customers shop for other options. Second, the large increases in the last several years have led to a significant decline in retention since 2022, which has negatively impacted policies in-force. This has, however, recently leveled off as price increases have moderated.

Let's look at the 3 periods with the arrows. In 2015 and 2016, we raised auto insurance prices, which you can see from the dotted line, because of an increase in the frequency of accidents. The graph shows how this led to lag declines in retention from 88.2 in 2014 to 86.7 in 2017. Over the next 3 years, price increases were relatively modest and retention recovered, reaching 88.3 by 2019. Now there are lots of factors impacting retention, such as the amount of new business you write, the risk type of that business, number of bundled policies and specific actions taken in big states like California and Florida, as well as customer satisfaction levels, but the biggest driver is price.

Increased advertising and price competition had a modest negative impact over the next several years, with retention hovering around 87%. You can see this in the most recent period, where retention has declined by 2.7 points over the last 10 quarters, which reflected rate increases of 36% on a cumulative basis. Looking forward, we expect lower rate increases given the profitability of auto insurance. This year, for example, Allstate brand rates have been increased by 6.3% compared to 9.5% in the first 9 months of last year. Lower price increases should translate into higher retention. To help you model this out, every point of retention is worth approximately 350,000 policies in-force each and every year, or 1.4% of the current policy count.

Moving to Slide 9, let's discuss the success we've had in increasing new business levels this year. We continue to invest in Transformative Growth while we executed the profit improvement plan. These foundational investments enable us to go to market with a multichannel distribution strategy that serves customers based on their personal preferences and has resulted in a 26% increase in new business in the third quarter, shown in the far right column at the bottom. While profit actions previously restricted our new business appetite, rate adequacy has now been achieved in the vast majority of states. Third quarter advertising spend was roughly 60% higher than the same quarter in 2021.

In the Allstate Agency channel, the compensation structure was also changed to improve growth and agent productivity at lower distribution costs. Allstate Agency new business was up 16% over the prior year quarter, with bundling rates at point of sale at all-time highs. The National General acquisition enabled us to grow independent agency new business by 14% over the prior year quarter. In the direct channel, we are back to 2022 levels with fewer underwriting restrictions, increased advertising and the new affordable, simple and connected auto product, which is currently available in 25 states.

New business is 56% over prior year, and we expect to increase -- to continue increasing volume in this channel, which now represents 31% of total auto new business. This level of new business will drive future growth. Every 5% increase in new issued applications above the current run rate increases policies in-force by approximately 250,000 items, or 1% of policies in-force.

Looking forward, the Property-Liability business is positioned for growth. Margins are attractive, fewer rate increases should improve retention and the components of Transformative Growth are working, including new products, increased advertising, lower expenses and expanded distribution. This will enable us to achieve our strategic goal of increased Property-Liability market share. And now I'll turn it over to Jess.

Jesse Edward Merten
Executive VP & CFO

Thank you, Mario. Let's shift to Slide 10 to review investment performance. Our proactive approach to portfolio management that optimizes return per unit of risk across the enterprise generated strong returns this quarter. Our disciplined approach includes comprehensive monitoring of economic conditions, market opportunities, interest rates and credit spreads. The chart on the left shows the fixed income portfolio yield and assets under management trend over the last several years.

Fixed income yield shown with the orange line, has steadily increased as we repositioned into higher-yielding, longer-duration assets. Based on interest rates in the third quarter, our fixed income yield is now generally in line with market yields. In the gray bars, you can see growth in the portfolio book value. Since the fourth quarter of 2021, book value has increased by 14% or $9.1 billion, reflecting the impact of higher underwriting cash flows attributable to increased premiums and reserve levels, as well as portfolio cash flows that increased because of higher coupon rates.

Growth in assets and higher yields benefited net investment income, as shown in the chart on the right. Net investment income totaled $783 million in the quarter, which is $94 million above the third quarter of last year. Market-based income of $708 million, which is shown in blue, was $141 million above the prior year quarter, reflecting the impact of a fixed income yield that is 60 basis points above the third quarter of last year. Performance-based income of $143 million, shown in black, was $43 million below the prior year quarter, reflecting lower real estate investment results. While this quarter's result is lower than our long-term expectation, our returns continue to be strong, and volatility on these assets from quarter-to-quarter is as expected.

Slide 11 highlights strong results in the Protection Plans business, which is 1 of the 5 companies in the Protection Services segment that also includes Arity, Roadside, Dealer Services and Identity Protection. The Protection Plans business provides warranties for consumer electronics, computers and tablets, TVs, mobile phones, major appliances and furniture through strong domestic and international retail distribution relationships. Revenues for this business totaled $512 million in the third quarter and increased 23.1% compared to the prior year, reflecting growth in international markets.

Profitable growth resulted in adjusted net income of $39 million, a $19 million increase compared to the prior year quarter, as strong operational execution increased margins and enabled successful implementation of the strategy to expand distribution relationships and product offerings. We continue to invest in this fast-growing business. In October, Allstate Protection Plans acquired Kingfisher to enhance capabilities in mobile phone protection.

Now let's transition to Slide 12 to focus on the terms and accounting treatment of the sale of the Employer Voluntary Benefits business. As we announced in August, Allstate finalized an agreement to sell the Employer Voluntary Benefits business, which I will also refer to as the EVB business, for a purchase price of $2 billion to StanCorp Financial. The transaction is expected to close in the first half of 2025, pending regulatory approvals. As a reminder, the EVB sales is the first step in a strategic decision to pursue divestiture of the Employee Voluntary Benefits, Group Health and Individual Health businesses to capture value through greater strategic alignment.

The EVB transaction is economically and financially attractive for shareholders. Allstate retains the economics of the business until closing, and results continue to be reflected in net income and adjusted net income. In the quarter, $3.2 billion of assets and $2.2 billion of liabilities related to the EVB business have been classified as held for sale. As you can see on the right of the slide, we're estimating a $600 million gain and had previously disclosed that we expect the transaction to generate approximately $1.6 billion of capital.

Moving to Health and Benefits results for the quarter. Premium and contract charges for the segment increased 5.2% or $24 million compared to the prior year quarter. Individual and Group Health businesses saw strong growth, with premiums and contract charges up by 8.1% and 20.2%, respectively. This growth was partially offset by a modest decrease in the EVB business.

Adjusted net income for the segment of $37 million in the quarter was $32 million lower than the prior year quarter as increased benefit utilization across all 3 businesses impacted profitability. Underwriting and rate actions are being taken to quickly address the benefit ratio trends and restore margins to historical levels. The process to evaluate disposition of the group and individual businesses is progressing.

Let's wrap up with Slide 13 to recap Allstate's strategy and path to value creation. Operational excellence ensures that we react to changing business conditions and maintain margins at target levels. Transformative Growth investments are being made to create sustainable growth, and Allstate delivers attractive returns.
With that as context, we'll open the line for your questions.

Question and Answer

Operator

Certainly. And our first question for today comes from the line of Jimmy Bhullar from JPMorgan.

Jamminder Singh Bhullar
JPMorgan Chase & Co, Research Division

So first, just had a question around your confidence and outlook for PIF growth in the auto business and what you're seeing in terms of competitor behavior, both on prices and on advertising. It seems like most competitors are turn -- shifting to a growth mode now that margins have recovered. But are you confident that we can see PIF growth turn positive over the next few quarters?

Thomas Joseph Wilson
Chairman of the Board, President & CEO

Jimmy, let me make a couple of comments, and Mario can jump in. First, we don't give growth projections. So we're not going to comment on that. We gave you -- we put the numbers in there, so you can do your own analysis of how you think we'll do in retention and how you think we'll do in new business. We obviously believe we can grow market share, which is what our whole strategy is about.

When you look at the competitive environment, you continue to see progressive advertising aggressively. GEICO has gotten back into the market, but perhaps not as aggressively as they have in the past, and State Farm continues to try to grow. But as you know, they have an underwriting profitability challenge that -- I suspect they will take on, but we'll only see. But I would also not just focus on those big players, but there's a whole bunch of other players that are more moderate size or smaller that either don't have the firepower in advertising to compete or don't have the pricing sophistication.

Mario, do you want to make comments about how you're feeling about growth?

Mario Rizzo
President of Property & Liability and Director

Yes. Thanks for the question, Jimmy. At its highest level, obviously, to turn positive PIF growth requires that we keep more of our existing customers, which is the retention component, and then we drive increased levels of new business. Maybe I'll talk about each of the pieces individually. Like we pointed out in the presentation, obviously, a lot of the rate actions and the profit improvement plan that we've implemented over the last couple of years has had a pretty negative impact on customer retention.

Now going forward, we would expect, just given where our margins are in auto, all other things being equal, we would expect to take less rate going forward, which will have a positive impact on retention as it has in the past as we create less disruption in the book. But the other side of it is we're not just going to rely on that. We've got actions in place in a number of areas, both in terms of improving the customer experience, working with our customers, both through our agents and our contact centers to help identify opportunities to improve affordability and really kind of mitigate shopping activity from our own customers.

So we're focused on retention improving going forward, both kind of organically, I'll say, through less rate, but we're also not sitting back. We're taking proactive actions to help offset some of the headwind that we've seen in retention.

On the other side, on the new business standpoint, just to give you some context, we talked about the vast majority of markets being open for business, somewhere between 75% and 80% of our premium volume. When you look at it nationally, those are markets that we are open for business. We're accelerating investments, and we've really seen some good production trends across all distribution channels. Our agents are productive. They're bundling at all-time high levels, which also will help retention. We believe, over time, we are continuing to see really good traction on the direct business, and we think there's ongoing opportunity there.

And then as I mentioned earlier, the National General acquisition and what we've been able to do both in the nonstandard auto market as well as in the independent agent space more broadly is generating some good production trends. So we feel good about that. We're focused on improving retention while continuing to build on the growth momentum from a new business perspective, which has improved sequentially over the course of the year. And when those 2 things come together, that's what will drive positive growth.

Thomas Joseph Wilson
Chairman of the Board, President & CEO

Jimmy, let me add just a couple of things on a longer-term perspective, what Mario talked about. So when auto profitability went negative, we said first priority, get the rate, don't be too specific about it. And what Mario was talking about is going back in now and saying, "Okay, well, we got the total rate. how many more people should be using Milewise? How many more people should be using telematics? Those are great opportunities for us to leverage our innovation and keep more customers. So there's a bunch of good work going on there.

So with the priority that we gave to the team was we need to make money in auto insurance. And we've done that. Now we're ready to go back in, and which should drive retention. The other thing I would say is on distribution. If you look at our historical growth, this is the first time really we have 3 fully functioning channels. Like we've got 3 horses here all ready to run. You can see the growth. And direct is up a lot this versus last year. But that's because direct was the first place we shutdown to when it came to how do we get profitability up in auto insurance.

We said, well, first, if we're losing money on it, we shouldn't write it. Rather than take that hit in volume to the Allstate Agent channel, which needs to be maintained in terms of its revenue and growth, we said let's just do it to direct. So the direct bounce back is just where we are now. But in that pause, we really built out our capability. So we're feeling good about having 3 horses to drive growth.

Jamminder Singh Bhullar
JPMorgan Chase & Co, Research Division

Okay. And then on capital, obviously, your balance sheet is a lot stronger with the improved profitability. You've got the pending sale of the Benefits business as well. How should we think about uses of capital as profitability continues to recover and once the sale closes between sort of your priorities for acquisitions, potential buybacks, dividends?

Thomas Joseph Wilson
Chairman of the Board, President & CEO

Well, a very appropriate question. I'll channel Jess for a minute here and just say, we've always had a lot of capital. I know not everybody believes that, but we've always been financially very strong. But as we think of our capital, it is something we take very seriously. It's really one of the key things we do for shareholders, and we feel like we've been good stewards of that. As you look forward, we think the best and first place to put our money is organic growth, particularly when you look at the kind of ROEs we're running at. And if you look at our growth in premiums, you look at the growth potential, we think that will be the first and best place to maximize shareholder value.

There's lots of other ways we use it, right? So the share repurchases, I know a number of analysts brought that question up. I may just go right to that. So we're no stranger to share repurchases. Since we went public, we bought back 83% of our shares outstanding for about 42 billion. Last 10 years, it was 20 billion. In the last 5 years, it was about 10 billion and 1/4 of the shares outstanding. So we know how to and do share repurchases when it makes sense.

In this particular case, we think the growth opportunities outweigh the value of doing share repurchases. And that's because the returns are so high that. Now if we don't -- if you're keeping extra money around and you're putting it in the bond portfolio, you're getting 5%, then obviously, you should not be doing it. We do have other places we've used the money historically and places we might use it in the future.

So as you know, we dialed down our equity allocation back when we didn't think the risk and return was right. If we feel like that's appropriate, we'll dial that equity allocation up. Again that uses capital -- if we've also looked at acquiring growth, so the National General acquisition, Mario talked about it. And the reason we kept breaking it up, so you can all see it, is that business just wrapped it's -- twice its size.

And the same thing is true with our Protection Plans business, which is 9x or 10x its size since we bought it. And that was a little longer ago, 7 years, but we paid $1.4 billion, and it's making over $120 million a year. So we're feeling really good about that business and its growth potential. So we just know we always have our shareholders' best interest in mind. We think about it broadly, and we'll continue to do that.

Operator

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

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

I'd like to, for my first question, focus on Slide 8, which is your retention slide. And in your comments, you mentioned changing of agent compensation. If I'm not mistaken, some time ago, you lowered agent compensation on renewals and I'm wondering if that's having any spillover effect on retention? And obviously, the new apps are doing strong, so your competitive position looks good. Also, is part of Transformative Growth. I think you've been streamlining some claims costs, some claims functions. Curious if you're seeing any impact of that on retention?

Mario Rizzo
President of Property & Liability and Director

Thanks, Greg. This is Mario. Let me take your questions in order. First, on retention, when we isolate and look at -- we look at retention a whole bunch of different ways. When we look at retention in the agency channel, it's actually up year-over-year. So what's happening and what you see on Page 8 is predominantly a function of price increases, which I think have the biggest impact on retention. The -- just from an agent compensation perspective, as you mentioned, we kind of changed and it has been transforming the model for them to really align with what both we want to do strategically, but also the value that customers see from agents.

So we've incented agents to drive more new business, deepen relationships with customers, and we see that with kind of all-time high levels of bundling. And agents were really pleased with the performance of our agency force and how productive they are, and they're going to be a key part of our growth plan going forward. But that's really not the driver of retention that you see on the page.

In terms of the claims organization, that's an area where even though the -- when you look at the ratio, it's pretty flat. That's a function of just having a higher average premium. We're investing in claims. We actually have been adding staff so that we can continue to build on our claims capabilities, pay what we owe, drive a higher level of customer satisfaction. And again, we look at those as growth levers every bit as much as profit and severity management levers. But nothing really from a claims standpoint, driving the retention numbers.

And as I said, as a matter of fact, we're adding resources and dollars in claims to help both support the growth that we want to achieve going forward, but enhance customer satisfaction and effectively continue to manage severity loans.

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

I guess as my follow-up question, just looking at the homeowners business, it looks like it's really performing well at a 62.1% underlying combined ratio. I'm -- you're growing that business. I assume you're not growing just a stand-alone homeowners business with the policy in-force growth. It's part of a bundle, but maybe you can provide us some perspective on how you're able to grow that business considering all the rate you've thrown in that line of business?

Thomas Joseph Wilson
Chairman of the Board, President & CEO

I'll start and then Mario can jump in. So first, you're right, and Mario called that out, we're just really good at homeowners. And we've made a lot of money in it. And because we've repositioned the business really over almost a 10-year period, everything from how do we underwrite to what's covered by the policy to how we price, to our specificity and sophistication and pricing and the way we settle claims. So we're doing quite well there. You see we are growing. Some of that is, as Mario talked about, our agents are really good at bundling. And that leads to better lifetime value for us and cheaper prices for customers. So that's good on both sides.

We do think that there is more growth potential there. Some of that is many people, because of the industry numbers that Mario quoted, have now decided not to grow in homeowners. And that gives us more opportunity, not just to the Allstate agents, but in particular, to the independent agents. And I think we should be able to crack the code on direct. Nobody's really cracked the code on direct yet and selling homeowners, but I think there's great potential there. So I think there's growth in homeowners across all 3 channels.

Obviously, Allstate agents are doing well. The independent agent business, Mario might want to talk about what we're doing with Custom360. And then direct, I think we could be an industry leader. And my logic is people buy houses off the web. If you're buying a house off the web, you should buy your homeowners insurance off the web. So we'll have to sort that one out. So we're feeling good about it.

I would just -- the other thing I would say is not really yet in market, but coming soon is ASC, affordable, simple, connected homeowners. Mario has talked about affordable, simple, connected auto, which is in market in 25 states, Mario?

Mario Rizzo
President of Property & Liability and Director

Yes.

Thomas Joseph Wilson
Chairman of the Board, President & CEO

25 states now. And ASC homeowners is even better. And it's got some really nice features to it, sophistication, which will leave us behind in our classic product. And our classic product is far ahead of the industry. So we think it's another leap forward.

You want to talk about like 360 or how you view homeowners maybe by state or something?

Mario Rizzo
President of Property & Liability and Director

Yes. So Greg, again, I'd just reiterate where Tom started. We're really good at homeowners. And we think there is a real opportunity for us to grow homeowners in part right now because of the disruption that exists in the market. There's just fewer competitors out there that are wanting to write new business, and we want to take advantage of that opportunity. We feel good about where our pricing is. As you mentioned, average premiums have gone up pretty consistently at a double-digit clip over the last several years to keep pace with inflation.

But when you look at our profit trends, and you pointed out our underlying combined ratio, which is currently in the low 60s, I think that's reflective of our ability to stay on top of loss trends and write new homeowners business at an attractive margin. We target low 90s, which generates really strong returns on capital. We think we can do that and grow the business across all the distribution channels. And I'll just end with the opportunity with Custom360 in the independent agent channel because I think that becomes additive to Allstate agents and our ability to grow direct in the Allstate brand.

We're in, I believe, 24 states with Custom360 currently. That's a standard and preferred auto offering along with homeowners that leverages Allstate's data and mid-market capabilities to price and really design that product. So it's intended to be the same product that we go to market with in the Allstate brand. As you can imagine, in the independent agent space, we're getting really good traction on our ability to lead with homeowners, which enables us to not just write the homeowners, but also capture the auto opportunity from a package perspective.

So we feel really good about the go-forward opportunity in the independent agent space, which I think from a National General perspective, becomes additive to the great success we've had in growing the nonstandard auto business and is really another way that we can leverage our homeowner capabilities broadly across all 3 horses. I'll use Tom's term to really grow that business and generate really attractive returns going forward.

Thomas Joseph Wilson
Chairman of the Board, President & CEO

And Greg, let me make sure we fully answer your question. Price sensitivity. You referenced the rate of increase. And it is high. It's higher than auto insurance, right, at this point, not necessarily over the last 3 years, but pretty high. But that's -- it's just less price sensitive than auto insurance is. There's a whole bunch of reasons. Some of that people like their house a lot. Second, people know their house is actually worth more. And so when we're charging more, they know their house is worth more, not so much on cars.

So we had raised auto insurance prices because the houses -- the cars became worth more. But people didn't really think about it that way. They do think about their home value. So we're comfortable with where we're at.

Operator

And our next question comes from the line of Yaron Kinar from Jefferies.

Yaron Joseph Kinar
Jefferies LLC, Research Division

I actually have 2 on renewal ratios. First, maybe conceptually, just looking at the Slide 8. As the company grows in nonstandard auto and in direct, 2 areas where I think -- and then correct me if I'm wrong, renewal rates as for the industry have tend to be a bit lower. Is it fair to think of a run rate renewal rate that would be a bit lower than the, call it, through cycle 87.5 or so that I see in the slide?

Thomas Joseph Wilson
Chairman of the Board, President & CEO

Insightful question. Mario, do you want to take that?

Mario Rizzo
President of Property & Liability and Director

Yes. The first, just to be clear, the numbers you see on the page are Allstate brand. So there's just not that much nonstandard auto. There's more direct, but at least currently, again, not a meaningful impact in the trends. On a go-forward basis, I guess I'd broaden the statement a little bit, Yaron, and say, the more new business we write, that first renewal period or the first policy period tends to be lower than the book overall. So the more new business volume we write, there will be some downward pressure on the overall retention rate. Current volumes aren't meaningful enough to really drive a significant impact.

But you're right from that perspective. And then certainly, in the nonstandard auto space, we've seen it with National General as we broaden the risk appetite in the Allstate brand and kind of do the opposite of what we're doing at homeowners, take advantage and leverage National General's nonstandard auto capabilities in the Allstate brand. That will have an impact on retention. Again, magnitude, we'll have to call that out for you when we see it. But certainly, that business tends to retain at lower levels because those customers just tend to shop more. So those things will have an impact on retention going forward. But I would say what you see in Page 8, pretty much a muted impact on those items at this point.

Yaron Joseph Kinar
Jefferies LLC, Research Division

Great. And then just thinking about the renewal ratio from here on. I think at times, you see a little bit of a breakdown of that inverse correlation between rate increases and the renewal ratio. And we saw a little bit of that a bit earlier in this current cycle. Obviously, we're seeing that pick up now. But I guess, bottom line, is there a bit of a lag currently between the rate increases and the renewal ratio, one that we -- I don't think was as pronounced in prior years?

Mario Rizzo
President of Property & Liability and Director

Yes, Yaron, this is Mario again. There is almost certainly a lag. When you think about implementing a rate increase in auto, it takes 6 months to -- for that to be implemented across the entirety of the book, and then you'll earn it over the 6 months after that. So there is a lag in terms of the rate we've taken or the industry takes and the impact on retention, and you see that in our numbers.

One of the things, though, that I'd point out is -- and we've been clear on this, we believe we will need to take less rate given where profitability is. But again, this is a state-by-state, market-by-market business. So when we need to take prices up to keep pace with loss trends, we're going to do that. And what you saw in the third quarter, about 70% of the rate that we took was in 3 states. It was in New York, New Jersey and an increase we implemented in Texas.

So we're going to continue to take rate where we need to. We just think there's going to be less of it. And again, we'll look to manage retention alongside that.

Yaron Joseph Kinar
Jefferies LLC, Research Division

But I guess what I'm trying to get at here is I think the big rate increases that we saw in the beginning of the year were really first quarter-weighted, California, New York, New Jersey. I would have thought that the full impact of the -- those rates taking effect in the first quarter would have been in the second quarter. And by the time we came out of the third quarter, call it, August, September, we'd see a little less of that pressure?

Mario Rizzo
President of Property & Liability and Director

Yes. The California rate was in the first quarter. New York and New Jersey were actually implemented in the third quarter. So -- and I believe it was over 18% in New York and 13.7% or 13.4% in New Jersey. So again, there's some pretty meaningful rates that we've implemented currently, again, to get those markets back to where they need to be from a margin perspective, so we can open up to write new business.

Thomas Joseph Wilson
Chairman of the Board, President & CEO

So Yaron, I would just say that the lag is muted and it kind of goes up and goes down, right? Like not everybody shops the minute they get the price. It's late, they get the bill, they just pay the bill, then they decide after a couple of months, geez, I should really think about this. So it's not a simple on renewal that happens.

Operator

And our next question comes from the line of Bob Huang from Morgan Stanley.

Jian Huang
Morgan Stanley, Research Division

My question also kind of follows around that line of business. So if we think about your combined ratio and growth, right? In auto, you typically target a mid-90 combined ratio. Understanding that pricing has a lagging effect and then retention and growth also does. But if we just look at the combined ratio, is the current level good enough for you to really step on the gas for growth? Or do you feel you probably need 1 or 2 point more on the auto combined ratio side before you're fully comfortable with fully ramping up that growth going forward?

Thomas Joseph Wilson
Chairman of the Board, President & CEO

We think that the auto profit improvement plan has been successfully completed. That's why we dialed up advertising by 60% from 2021. That's not just up, that's way up over last year. It's like we're not even in the state ZIP code. So we spend the money and are investing the money because we think it will -- it's -- there are good returns.

And there's like things that happen in every state. So sometimes you get a space, sometimes you back off. Mario's team is constantly doing that. But when you just look in total, we're feeling good about it in total. If you look at a couple of states, there's still some work to do.

Jian Huang
Morgan Stanley, Research Division

Okay. That's super helpful. Second question is around the homeowner side. I understand that you kind of said there are a few competitors now. The technology really makes it easier potentially for homeowner insurance to really grow from here. But isn't it fair to say that the states where there are opportunities, there are also states where people are trying to pull out? So growth -- wouldn't that be geography related? Can you maybe talk about what regions do you think it's more attractive on the homeowner front? Or where do you think the opportunity lies in the growth on that space?

Thomas Joseph Wilson
Chairman of the Board, President & CEO

So let me go up and then turn it over to Mario. First, we think homeowners is a good business. There is a challenge of increased severe weather and what it does to increase catastrophe losses, which you referenced, like why go right where there's a bunch of catastrophes. I mean, if you can get the right price, it's fine, and then you just buy reinsurance for risk you don't want. So -- and when you look at increased losses from weather-related events, there are 3 drivers: one, just more storms and more severe -- mostly more severe storms actually. Two is houses are worth more. And three, people are building houses in places that are risk to your other point.

Those latter 2, you can know, like those are known knowns. And you can factor those into your pricing, you can factor those into your growth opportunities. You can factor it into where you try to get new customers. It's the third one. But the third one tends to be -- is the smallest, according to a couple of external studies of the drive attribution and increased catastrophe losses. So the unknown known of what will happen to the severity of storms is the smallest driver of the increase in catastrophe losses.

So we feel good about it in total from a macro standpoint. And then we execute it obviously at a -- not even -- much below a state level, you get east of Sunrise Highway, we get different standards than if you're west of Sunrise Highway on Long Island.

So Mario, do you want to talk about where you see growth opportunities?

Mario Rizzo
President of Property & Liability and Director

Yes. Maybe I'll start with where we don't because I think it gets to the first part of your question. And 2 states, in particular, Florida and California, obviously, really challenged homeowner markets that there's been a lot of pullback across the industry. Those are not states that we're looking to get bigger in. So certainly, those would not be where we focus our growth efforts.

And then we'll continue to manage P&L and coastal exposure to be within our risk appetite. But then once you kind of get away from that, really, the rest of the country, particularly the middle part of the country is -- there's real opportunity for us to continue to grow homeowners. And that's not where you get the hurricanes or necessarily the wildfires. It's more of the severe weather, tornadoes, hail and so on. And what we found is a lot of competitors have pulled back in those states given severe weather experience.

I think that's where our capabilities from a product, a pricing, risk management perspective really enable us to take advantage of the disruption in the market and grow pretty broadly geographically and not have to kind of grow where, I guess, where we can because nobody else wants it but actually grow where we think we can generate attractive returns. And that, geographically, is the vast majority of the country.

And again, that's why I think being good at homeowners and having an effective system and operating model to write it and write it profitably, it is a real competitive advantage for us. And I think you see that in the growth trends really over the course of this year.

Thomas Joseph Wilson
Chairman of the Board, President & CEO

And I said, we grew 2.5% from the last year, and we did grow in 2 giant markets that Mario talked about, which I'm going to guess are 15% to 20% of the homes in the United States. So we did quite well there.

Operator

And our next question comes from the line of Hristian Getsov from Wells Fargo.

Hristian Getsov
Wells Fargo Securities, LLC, Research Division

Mario, you said 75% to 80% of your auto premiums are currently open for new business. So is it safe to assume that auto policies grew quarter-over-quarter in those states in the Q3?

Mario Rizzo
President of Property & Liability and Director

Yes. I won't go into any state specific detail. But what I will say is we're open broadly. The 26% increase in new business that you saw was not concentrated in a handful of states. It was pretty broad as well. But so were the retention decline that we have. So really, it's a combination of all those things kind of working together. There's markets that grew in total. There's others that did not, but we're focused on having all of them turn positive at some point.

Hristian Getsov
Wells Fargo Securities, LLC, Research Division

Got you. And then -- so with the auto retention being down 1 point sequentially and then PIFs were down 50 bps, this is auto. Like is the majority of the declines in those metrics driven by California, New York, New Jersey, just given like the big rate increases we saw that were implemented -- I guess, approved in December, they were kind of implemented throughout the year. And then when would you kind of expect -- I guess, excluding those 3 states, right, did PIF improve quarter-over-quarter? Just trying to get a sense of how big of a drag those 3 states have.

Mario Rizzo
President of Property & Liability and Director

Yes. The quarter-over-quarter change in retention, I know, came up across a number of reports that came out. Let me just comment on that because there's really 2 things going on. Some of the decline, probably about 40% of the decline is attributable to a handful of states. It's the California as well as New York and New Jersey that are having a meaningful impact quarter-over-quarter. And again, that's driven by some of the larger rate increases that we've implemented this year. There's another portion of it that I think reinforces why we made the disclosure change we did, which is about 60% of that sequential decline in retention is attributed to we're migrating some legacy Encompass books of business in some reasonably large states to National General. One of those states is California. And what that does is it drags down the Allstate brand renewal ratio.

But as those policies -- as those customers opt to take a National General policy, it shows up the National General's number. So that's where we're looking at it by brand is -- I'm sorry, it was Esurance. I misspoke. I said Encompass. They are legacy Esurance customers. But that's why looking at it by brand, you just see as we operate the business in total with multiple brands, some of those brand metrics get distorted. So we just think it's more constructive to look at the total.

Thomas Joseph Wilson
Chairman of the Board, President & CEO

And I think look at the long-term number, we're down 2.7 points. We think it should be able to go up from there. So quarter-to-quarter, we'll do full attribution. We're happy to talk about it, but it's the real drivers who just raised prices a lot. So a lot of people want to shop.

Operator

And our next question comes from the line of David Motemaden from Evercore ISI.

David Kenneth Motemaden
Evercore ISI Institutional Equities, Research Division

I was wondering if you could just comment on your expectations for the timing of the retention ratio improvements? I know that you mentioned leveling off of rate increases should help retention. So I'm wondering, are you seeing any evidence of that here in October? Or is it still too early to tell?

Thomas Joseph Wilson
Chairman of the Board, President & CEO

First, obviously, sooner is better than later. So we're all on it. The whole team is on it. There's a whole bunch of stuff we're doing that Mario mentioned to make a move. And you can see benefits in individual states. So we have some pretty large states that it's actually up. So we have confidence that we know how to manage our way through this. But we haven't really done a projection on that we're comfortable giving to everybody to say, "Here's the number you should count on."

What we do know is, as Mario pointed out, is we expect to grow market share in Personal Property-Liability, and that's by doing Transformative Growth. In the near term, we have to get retention up and continue to expand our new business. But then longer term, all the work we're doing there is just even more sustainable. So rolling out ASC Auto, ASC homeowners, all that work will drive long-term growth.

David Kenneth Motemaden
Evercore ISI Institutional Equities, Research Division

Got it. And it definitely feels like you guys are pretty confident around just -- or feel optimistic that the tempering rate increases should help improve that retention. I mean, from your standpoint, is it really just we're sort of just having this timing impact from these 3 big states that need to just sort of work their way through and like we're on the cusp here of a turn? Or I mean, I'm just trying to understand how you guys are thinking about it internally.

Thomas Joseph Wilson
Chairman of the Board, President & CEO

We're thinking about we need to do a better job for our customers. So we're charging them a lot more. They expect more. They deserve more. Some of that is because our cars and stuff and bodily injury claims are higher, but like we need to do a good job for them. So it's not just -- let's wait this out and not take a bunch of price increases and it will bounce back. We're actively working on -- this year alone, we have a goal on double-digit millions of improving the customer experience, individual transactions.

We'll have another goal for next year that will be similar, but different. We're working on how do we get more precise on the price. So if you're an elderly person, you don't drive much, you should have Milewise.

You'll cut your price in half. So we're not -- it's not like we just think, oh, we're through this. I think this is just provide our -- use our operational excellence and capabilities to go back in now and fine-tune the fact that we had to raise prices a lot, so we can keep more customers.

Operator

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

Joshua David Shanker
BofA Securities, Research Division

Two questions, 1 whimsical and 1 numbers. You talked about sort of cracking the code on how to get people to buy homeowners insurance online. How far away are we from being able to call Allstate and getting into an AI conversation with Dennis Haysbert or Dean Winters that knowledgeable about what you can do to save money by switching to Allstate and the way you can do for your policy?

Thomas Joseph Wilson
Chairman of the Board, President & CEO

I love whimsical questions. But I would say that 1 is probably not whimsical, really. We have -- it was called sales sidekick, which will help people do a better job of interacting with customers. It's going to dramatically change the way that the people interact with other people, which is why Mario was talking about how we have to reposition the Allstate agents. It gives us an opportunity to do that at lower cost. So work they had to do before or they couldn't do or they had lower close rates because they didn't know some stuff, we'll increase their productivity and make them even better. So we're feeling really good about where that might go. And I think if you look at our web stuff on ASC, that's quite sophisticated too.

So Mario, what would you add?

Mario Rizzo
President of Property & Liability and Director

Yes. The only other thing I'd add, Josh, that makes it not as whimsical as you might think is we have a lot of data on homeowners, both in terms of customers we've insured in the past and just on the homes across the country in general, which I think facilitates our ability to do what you described and be really efficient at intelligently being able to price and manage the homeowner risk. So that's the other component, I think, that gets us and creates the ability to do what you suggested.

Joshua David Shanker
BofA Securities, Research Division

And then the numbers, look, ad spend is way up as you look to grow the business. I'm multiplying your number on that by premium and seeing it's up substantially. You also gave us a lot of data around new issued applications and we can make some guesses around gross new customers. The ad spend is up significantly more than the new customer acquisition. Can you talk a little bit about what is sensible acquisition cost per customer, how we should think about it? And clearly, are you getting the kind of tack on new business that you can make a return over a 2- or 3-year period on that investment?

Thomas Joseph Wilson
Chairman of the Board, President & CEO

A bunch of questions in this. Let me end on this one. First, advertising is a little bit like driving a car. When you -- first when you hit the gas pedal, it doesn't take off right away. It takes a while to get to 60. So you've seen us do that. We like the performance we see in terms of brand consideration. We like the number of quotes that have gone up, and we like our close rate. So -- but if you said, do we get back every dollar we spent economically as we're ramping it up? No, you're kind of investing some for the future.

That said, we have highly sophisticated metrics around it. And it's both upper and lower funnel. If you're breaking into upper funnel, being kind of brand imagery stuff, lower funnel being, I send you -- I got a specific lead and I buy that lead and I know you're shopping. So we have highly sophisticated math around that. It continues to be a sophistication gain.

We think we're pretty good in it. Outside people tell us we're pretty good at it. That said, you can always be better. And when you're spending billions of dollars, you ought to be really good at it. So we're feeling good about the investment to date. We think we can continue to spend more and that will drive economic growth. But if it doesn't, we have the ability to just dial it down whenever we want. It's not really that complicated.

So thank you all for this as well -- our goal, of course, is to increase Personal Property-Liability market share, which we've talked a lot about today. Also, broaden our protection offerings. We're well capitalized. We have good shareholder returns. And we look forward to seeing 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.