S&P Global
Market Intelligence

The Allstate Corporation NYSE:ALL

FQ2 2021 Earnings Call Transcripts

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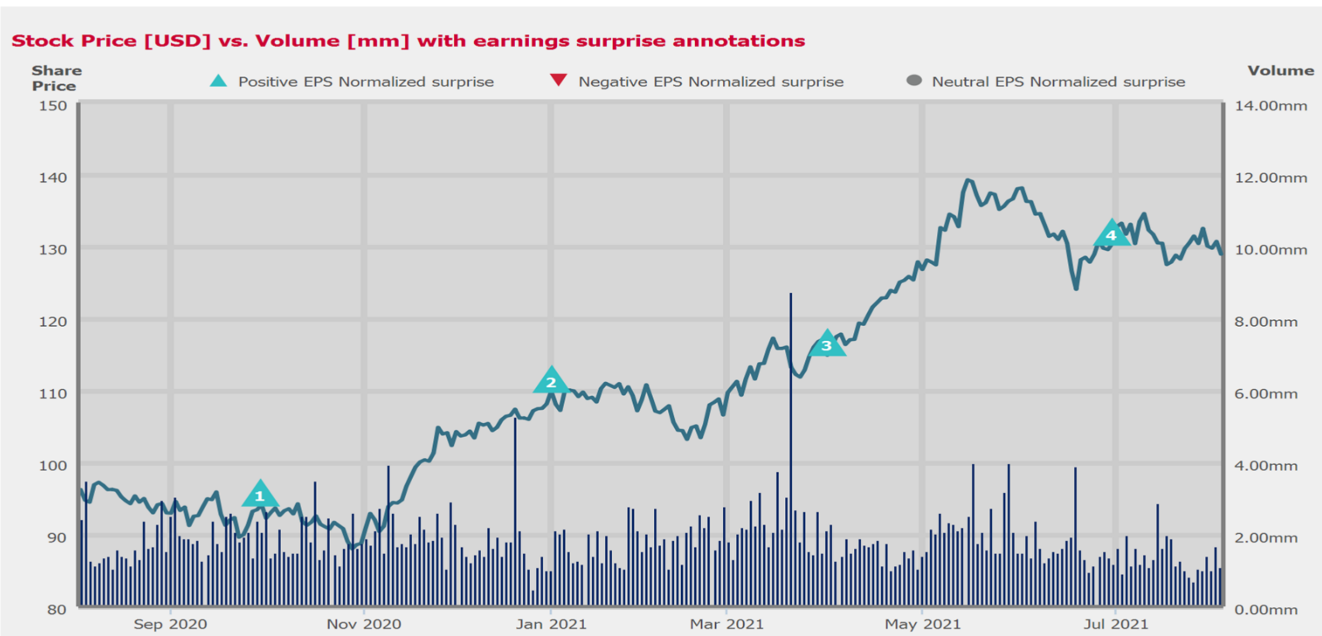
S&P Global Market Intelligence Estimates

	-FQ2 2021-			-FQ3 2021-	-FY 2021-	-FY 2022-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	3.16	3.79	▲19.94	2.85	16.22	NA
Revenue (mm)	10567.67	10444.00	▼(1.17 %)	10752.00	40244.17	NA

Currency: USD
Consensus as of Aug-05-2021 5:19 PM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ3 2020	1.76	2.94	▲1 67.05 %
FQ4 2020	3.82	5.87	▲2 53.66 %
FQ1 2021	3.94	6.11	▲3 55.08 %
FQ2 2021	3.16	3.79	▲4 19.94 %

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Presentation

Operator

Thank you for standing by, and welcome to the Allstate Second Quarter 2021 Earnings Conference Call. [Operator Instructions] As a reminder, today's program is being recorded. And now I'd like to introduce your host for today's program, Mr. Mark Nogal, Head of Investor Relations. Please go ahead, sir.

Mark Nogal
Head of Investor Relations

Thank you, Jonathan. Good morning. Welcome to Allstate's Second Quarter 2021 Earnings Conference Call. After prepared remarks, we'll have a question-and-answer session. Yesterday, on the close of the market, we issued our news release and investor supplement and posted related materials on our website at allstateinvestors.com. Our management team is here to provide perspective on these results. As noted on the first slide of the presentation, our discussion will contain non-GAAP measures for which there are reconciliations in the news release and investor supplement and forward-looking statements about Allstate's operations. Allstate's results may differ materially from these statements, so please refer to our 10-K for 2020 and other public documents for information on potential risks.

And now I'll turn it over to Tom.

Thomas Joseph Wilson
Board Chair, President & CEO

Good morning, and thank you for joining us today. Let's start on Slide 2. Today, we're going to link operating results and strategy in order to show how we expect to continue to generate shareholder value. So Allstate's strategy has 2 components: increase personal profit liability market share; and expand protection solutions, which are shown in the 2 ovals on the left. The Transformative Growth plan to increase market share and personal profit liability has 4 components. This strategy will drive market valuation by executing, innovating and focusing on long-term value creation. So in the first half of the year, we executed well for customers, we executed well financially and for shareholders, as you can see on the right-hand panel.

Property-Liability market share increased by approximately 1 percentage point due to the acquisition of National General. Allstate Protection Plans continue to grow rapidly by broadening the product offering to include appliance and furniture and expanding availability through Home Depot stores. Strong execution generated excellent financial results, with revenues increasing 23.8% compared to the prior year, adjusted net income of $3 billion and a return on equity of 23.8% for the last 12 months. Shareholders benefited from a 50% increase in the quarterly common dividend and a reduction in outstanding shares by 2.4% just this year under the current $3 billion share repurchase program. Yesterday, the Board approved a new $5 billion common share repurchase program, which represents approximately 13% of current market capitalization, and we expect to complete that by the end of March of 2023.

Let's continue on Slide 3. In addition to operating execution, we're innovating to create long-term value. The Transformative Growth plan to create a digital insurance company is making good progress. Today, we're going to spend time talking about the distribution component of that plan. Allstate is amongst the leaders in telematics capabilities with Drivewise in the industry's largest pay-per-mile product Milewise, which offers customers unique value. Arity, our telematics service platform company, recently launched Arity IQ, which, when combined with LeadCloud and Transparent.ly platforms, will integrate telematics information into pricing at the time of quote rather than at the times after the sale.

We enhanced our competitive position in independent agent channel by using National General to consolidate and improve our IA business model. We executed agreements to sell Allstate Life Insurance Company and Allstate Life Insurance Company of New York to redeploy capital out of lower growth and return businesses and reduce exposure to interest rates. Increasing market share, while maintaining attractive returns and expanding protection solutions through transformation, targeted acquisitions and divestitures will create shareholder value.

Slide 4 lays out the Allstate's strong second quarter performance. Revenues of $12.6 billion in the quarter increased 21.6% compared to the prior year, largely reflects the National General acquisition and higher net investment income. Property-Liability premiums earned and policies in force increased by 12.9% and 12.1%, respectively. Net investment income of $974 million increased by over $0.75 billion compared to the prior year quarter, reflecting $649 million of income from the performance-based portfolio. Net income of $1.6 billion was reported in the second quarter compared to $1.2 billion in the prior year. Adjusted net income was $1.1 billion or $3.79 per diluted share, as you can see from the table on the bottom. That's a 40% increase from the prior year quarter. Allstate's excellent execution and strong operating results in the quarter contributed to that return on equity, which I just mentioned, of 23.8% over the last 12 months.

Let's move to Slide 5 to discuss our progress on building Transformative Growth business models. So Transformative Growth, it's a multiyear initiative, and what we're working to do is build a low-cost digital insurer with broad distribution, and that's going to be accomplished through 4 areas: expanding customer access, improving customer value, increasing sophistication and investment in customer acquisition, and deploying new technology ecosystem.

In Transformative Growth, you wouldn't do it all in 1 day, of course, so it's got 5 phases, and substantial progress has been made in Phases 2 and 3. Phase 2 successes include improving the competitive price position of auto insurance, protecting margins by reducing costs. New advertising was launched with increased investment. We also are off to an excellent start with National General. And of course, the phases overlap, so progress is also being made in Phase 3. So we're transforming the distribution platform, including supporting transition of Allstate agents to higher-growth and lower-cost models, which we'll discuss on the next slide. Improving customer acquisition sophistication will lower cost relative to lifetime value. We continue to focus on lowering underwriting claims expenses to deliver lower-cost protection to customers, and we've designed a new technology architecture. We've coded much of the new applications. The next step for us is to launch an integrated system with one product in one state.

Turning to Slide 6. Let's review how we're transforming the Allstate agent, Allstate direct sales and independent agent distribution platforms to grow market share. The illustrative slides on the right side of the slide show -- provide a view into our growth expectations by channel over time. Starting with Allstate exclusive agents, we're making progress transitioning to a higher-growth and lower-cost model. This year, we changed agent compensation by increasing new business compensation opportunity and reducing of bonus paid on policy renewals. We expect to continue this shift from renewal compensation to new sales because it aligns with what consumers want. Consumers want assistance with purchasing insurance more than they want routine policy service. To lower cost for agents, we're digitizing processes, redesigning products to increase self-service and expanding centralized service support. We're also working to reduce agent operating expenses and real estate costs. These changes will improve the customer value proposition with lower cost and easier service.

Now of course, you're not going to do this in 1 day either, so a multiyear transformation -- transition program is in place to support existing agents. We've initiated it, and it has different levels of support based on agent performance. Given this transition, we reduced new agent employment last year, which has had a negative impact on new business levels. But as Mario will discuss next, this has been offset by higher productivity from existing agents. At the same time, we have 2 new agent models in market, which have personal touch but a lower cost structure. All of these changes are supported by more competitive auto insurance pricing and increased marketing spending, which is designed to continue to grow. But as you can see on the right, the net impact of these changes for the Allstate agent channel is to be flat to a slight decline in sales in the short term but increased growth thereafter.

The Allstate direct sales effort leverages the capabilities that we built for the Esurance brand, and we've shifted our advertising focus away from Esurance to be totally focused on the Allstate brand and utilizing the direct channel for Allstate-branded sales as well. And pricing is lower than the Allstate agent model since it doesn't come with the help of an agent. And as this business grows, we're improving our operational and marketing effectiveness. Direct sales now represent 29% of new auto business sales, and we expect that to continue to grow rapidly, as you can see on the right.

Independent agent distribution also represents an attractive growth opportunity. The acquisition of National General enhanced our capabilities in this channel, and it added 4 million policies in force. Additional growth is expected by broadening the product portfolio from high-risk drivers to middle-market auto and home insurance through the existing agent relationships. We also expect to increase the number of agents actively engaged in selling National General products. So when you combine this effective and efficient distribution with more competitive auto insurance pricing, enhanced marketing, advanced pricing and telematics and a digital experience, that's the Transformative Growth plan that will drive Property-Liability market share growth.

So Mario will now discuss the second quarter results in more detail.

Mario Rizzo

Executive VP & CFO

Thanks, Tom. Turning to Slide 7. Let's dive deeper into the near-term results on our multifaceted approach to grow Property-Liability market share. As you can see in the chart on the left side of the slide, Property-Liability policies in force grew by 12.1% compared to the prior year quarter primarily driven by National General and growth in Allstate brand new business. National General, which includes Encompass, contributed growth of 4 million policies, and Allstate brand Property-Liability policies increased in the quarter driven by growth in homeowners and other personal lines.

Allstate brand auto policies in force declined slightly compared to the prior year quarter but increased sequentially for the second consecutive quarter, including growth of 111,000 policies compared to prior year, and as you can see by the table on the lower left. The chart on the right shows a breakdown of personal auto new issued applications compared to prior year. We continue to make progress in building higher-growth business models as we look to achieve leading positions in all 3 primary distribution channels.

The middle section of the chart on the right shows Allstate brand impacts by channel, which in total generated a 6.7% increase in new business growth compared to the prior year. Modest increases from existing agents, excluding new appointments, and a 31% increase in the direct channel more than offset the volume that would normally have been generated by newly appointed agents, as we pilot new agent models with higher growth and lower costs. The addition of National General also added 481,000 new auto applications in the quarter.

Let's turn to Slide 8 to review Property-Liability margin results in the second quarter. The recorded combined ratio of 95.7% increased 5.9 points compared to the prior year quarter. This was primarily driven by increased losses relative to the historically low auto accident frequency experienced in the prior year quarter due to the pandemic. Increased losses were partially offset by lower pandemic-related expenses primarily shelter-in-place paybacks in 2020 as well as lower catastrophe losses. These are represented by the green bars in the combined ratio reconciliation chart on the lower left of the slide.

Shifting to the chart on the bottom right, we continue to make progress in reducing our cost structure. This enables improvement in the competitive price position of auto insurance and investments in marketing and technology, while maintaining strong returns. The total Property-Liability expense ratio of 24.7% in the second quarter decreased by 7.1 points compared to the prior year, again, driven by lower coronavirus-related expenses. This was partially offset by the amortization of purchased intangibles associated with the acquisition of National General, restructuring charges and a 0.7-point increase from higher investment in advertising.

Excluding these items, as shown by the dark blue bars, the expense ratio decreased by 0.4 points in the second quarter compared to the prior year period, decreased 1.7 points below year-end 2019 and 2.5 points below year-end 2018, reflecting continued progress in improving cost efficiencies. Claims expenses have also been reduced through innovations such as QuickFoto Claim, Virtual Assist and aerial imagery, which also improves the customer experience. These claim improvements are not reflected in the expense ratio but are in the loss ratio and also helped maintain margins.

Moving to Slide 9, let's discuss how our auto insurance profitability, which remains very strong and is still favorable to prepandemic levels despite pandemic-driven volatility. Allstate Protection auto underlying combined ratio finished at 91.8%. As you can see from the chart, the level remains favorable to 2017 through 2019 historical second quarter and year-end levels despite increasing by 9.4 points compared to the prior year quarter. The increase to the prior year quarter reflects a comparison to a period with historically low auto accident frequencies. The improvement relative to historical levels is driven by auto accident frequency remaining below prepandemic levels, partly offset by auto severity increases and competitive pricing enhancements.

To illustrate the pandemic-driven volatility, Allstate brand auto property damage gross frequency increased 47.3% from the prior year quarter but is 21% lower than the same period in 2019. Auto severity increases persisted relative to the prior year quarter and prepandemic periods across coverages, largely driven by the shift in mix to more severe, higher-speed auto accidents and rising inflationary impacts in both used car values and replacement part costs. The incurred severity increases are running higher than general inflation, which are reflected in the recorded combined ratio. To counteract rising severity, we are leveraging advanced claim capabilities, predictive modeling, advanced photo and video utilization and deep expertise in repair process management to enable a scaled response to inflation and supply constraints. Targeted price increases will also be implemented, as necessary, to maintain attractive auto insurance returns.

Now let's shift to Slide 10, which highlights investment performance for the second quarter. Net investment income totaled $974 million in the quarter, which was $754 million above the prior year quarter, driven by higher performance-based income as shown in the chart on the left. Performance-based income totaled $649 million in the second quarter, as shown in gray, reflecting both idiosyncratic and broad-based valuation increases in private equity investments and, to a lesser extent, gains from the sales of real estate equity. Market-based income, shown in blue, was $3 million above the prior year quarter. The impact of reinvestment rates below the average interest-bearing portfolio yield was mitigated in the quarter by higher average assets under management and prepayment fee income.

Our total portfolio return in the second quarter totaled 2.6%, reflecting income as well as higher fixed income and equity valuations. We take an active approach to optimizing our returns per unit risk over appropriate investment horizons. Our investment activities are integrated into our overall enterprise risk-and-return process and play an important role in generating shareholder value. We draw upon a deep and experienced team of roughly 350 professionals to leverage expertise in asset allocation, portfolio construction, fundamental research, deal leadership, quantitative methods, manager selection and risk management.

While the results for this quarter were exceptionally strong, particularly for the performance-based investments, we managed the portfolio with a longer-term view on returns. At the right, we have provided our annualized portfolio returns over a 3-, 5-, and 10-year horizon. As disclosed in our investor supplement, our performance-based portfolio has delivered an attractive 12% IRR over the last 10 years, which compares favorably to relevant public and private market comparisons. Our performance-based strategy takes a longer-term view, where we seek to deliver attractive absolute and risk-adjusted returns and supplement market risk with idiosyncratic risk.

Moving to Slide 11. Protection Services continues to grow revenue and profit. Revenues, excluding the impact of realized gains and losses, increased 27.1% to $581 million in the second quarter. The increase was driven by continued rapid growth in Allstate Protection Plans and expanding marketing services at Arity due to the integration of LeadCloud and Transparent.ly, which were acquired as part of the National General acquisition. Policies in force increased 15.5% to $147 million, also driven by Allstate Protection Plans and supported by the successful launch with the Home Depot in the first quarter. Adjusted net income was $56 million in the second quarter, representing an increase of $18 million compared to the prior year quarter driven by profitable growth at Allstate Protection Plans and profits at Arity and Allstate Identity Protection. Allstate Protection Plans generated adjusted net income of $42 million in the second quarter and $155 million over the past 12 months.

Now let's move to Slide 12, which highlights Allstate's attractive returns and strong capital position. Allstate continued to generate attractive returns in the second quarter with adjusted net income return on equity of 23.8% for the last 12 months, which was 5.8 points higher than the prior year. Excellent capital management and strong financial results have enabled Allstate to return cash to shareholders, while simultaneously investing in growth. We continue to provide significant cash returns to shareholders in the second quarter through a combination of $562 million in share repurchases and $245 million in common stock dividends. We announced the acquisition of SafeAuto in June, leveraging National General's success in integrating companies to accelerate growth.

The current $3 billion share repurchase program is expected to be completed in the third quarter. And yesterday, the Board approved a new $5 billion share repurchase authorization to be completed by March 31, 2023. This represents approximately 13% of our current market capitalization. This new authorization continues Allstate's strong track record of providing cash returns to shareholders and reflects, in part, the deployable capital generated by the sale of our life and annuity businesses.

Moving to Slide 13. It should be clear that Allstate is an attractive investment opportunity. When you invest in Allstate, you get ownership of a company with advanced capabilities and a clear strategy, delivering superior financial results relative to peers and the broader market. The table below shows Allstate across key financial metrics over the past 5 years compared to the S&P 500 and property-casualty insurance peers with a market cap of $4 billion or more. As you can see by the 4 measures on the top, operating EPS, operating return on average equity, cash yield and total shareholder return, Allstate is consistently ranked in the top 2 or 3 amongst its peers.

In the case of operating EPS and cash yield to common shareholders, Allstate is in the top 10 and top 15%, respectively, compared to the S&P 500. Moving down one row, Allstate's top line revenue growth relative to peers and the S&P 500 is in the middle of the pack. We are committed to accelerating top line performance through Transformative Growth and innovating protection, while continuing to deliver excellent financial results. Moving down to the price-to-earnings ratio. Allstate is well below average, 8 out of 10 P&C peers, and in the 10th percentile amongst the S&P 500. This is an attractive valuation given our market-leading capabilities, excellent returns, future growth prospects and commitment to accelerate growth.

Now let me turn it back over to Tom.

Thomas Joseph Wilson
Board Chair, President & CEO

I've turned to Slide 14. Let's finish where we started with a more macro and longer-term view of Allstate's execution, innovation and long-term value creation. And this is the whole report card. This is what you get by investing in Allstate. Empowering customers with protection is a core part of our shared purpose. We provide a broad set of protection solutions with over 180 million protection policies in force. You see our name whether you're watching TV, you're in Walmart, you're in Target, you're in Costco, you're in Home Depot. Allstate is ubiquitous out there protecting customers. We constantly achieve industry-leading margins on auto and home insurance and have attractive risk-adjusted investment returns. As a result, the adjusted net income return on equity has averaged 15.6% from 2016 to 2020, ranking #2 in our peer group. This has led to a 14.9% annualized total shareholder return over the last 5 years.

We have a history of innovation. Transformative Growth is a multiyear personal, Property-Liability strategy to build a digital platform that offers low-cost, affordable, simple and connected protection solutions. We're simultaneously innovating protection by expanding through telematics, product warranties and identity protection. In telematics, we've taken a broad and aggressive approach with the insurance offerings and the creation of Arity, a leading telematics business. Allstate is also innovating in corporate citizenship, focusing on climate change, privacy and equity. For example, we used an underwriting syndicate for our $1.2 billion bond offering last year that was exclusively minority women and veteran-owned banking enterprises. Long-term value is also being created through proactive capital management and strong governance. Over the past 5 and 10 years, we've repurchased 25% and 50%, respectively, of outstanding shares. Among the S&P 500, Allstate is in the top 15% of cash provided to shareholders.

At the same time, we've successfully invested over $6 billion in acquisitions, including Allstate Protection Plans, Allstate Identity Protection and National General. And of course, strong governance is key to delivering those results. Allstate has an experienced and diverse management team and Board with relevant expertise. This is acknowledged by the leading proxy advisory firm that awarded Allstate the top score for governance. Execution, innovation and long-term value creation will continue to drive increased shareholder value.
With that context, let's open the line for your questions.

Question and Answer

Operator

[Operator Instructions] Our first question comes from the line of Greg Peters from Raymond James.

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

So I'd like to go back to Slide 5, Tom, and -- where you lay out the Transformative Growth strategy. And in the Phase 2 area, you report on substantial progress being made in terms of improved competitive price position in auto insurance. When I went to your supplement, I observed that the average gross premium in the auto brand continued to be lower relative to prior quarters. And I'm just curious how you think about pricing today given the increase in frequency and certainly the increase in severity in the context of your strategy to have an improved competitive price position.

Thomas Joseph Wilson
Board Chair, President & CEO

Okay. Let me start, and then I'll get Glenn to jump in. First, in terms of Transformative Growth, we made a conscious strategic decision to improve the competitive position of auto insurance. When we looked at our cost structure, we looked at where other people were, we decided we needed to be more competitive on price. And so we've been working on that. We've reduced our costs. We reduced price. We know we're more competitive in the market, not because -- you can't really look at the average prices, Greg, because they -- everybody starts in a different place. So if you were at 100 and I'm at 95, and you go down 2%, it doesn't make you -- really, it makes you more competitive but not competitive.

So we look at close rates, and we know our -- we look at the -- when people come to us, they quote what percentage do we close. And when the close rate goes up, you assume you're more price competitive, and you have a better value proposition. And in fact, that's been true this year, which is one of the reasons why our new business is up. Now we do that, of course, with great surgical precision. So let me maybe provide an overview of auto insurance profitability because it was the focus of so many of the reports issued last night, and then Glenn can jump into what we've got going forward. But -- and I'll start with the analytical structure that I use to evaluate our performance in ways that hopefully will be helpful from an investment perspective.

The headline would be to evaluate starting with the current absolute number, don't use one analytical method to assess the future and build on your margin for error. So the current combined ratio for auto insurance this quarter generated an attractive return on capital. When you look at the number, it's a good return on capital. Looking forward, of course, is what I need to do and investors need to do. And the forecasting challenge is that the volatility of the components is so high that it's hard to do a quarterly forecast that's accurate enough to make an important decision. So for example, let's say the percentage is up and down. They're really hard to evaluate. The outcome of 50% decrease and a 30% increase is a 65%. A 45% decrease and a 35% increase, it sounds pretty similar, right, but it's a 74%. That small 5-point difference on each side creates a 9-point difference on margins. There are typically less than that.

So given the volatility of the percentage changes, we build in margins for error. So as it relates to our projections, the forecast so far this year has been pretty good. Severity was higher than expected. But given the volatility of those percentages in the environment, we made sure there was enough margin in pricing and reduced expenses. So as a result, our absolute level of profitability was good and better than many of our competitors' reported sales. So the overall goal, of course, is profitable growth. And the best way to manage that total is then you focus on the components, whether that's state by state, line by line or inside the actual cost structure.

So Glenn has established goals for the rest of the year on price increases, severity control and expense reductions. And we have the processes, the math, the state managers that are -- enable us to achieve and adapt, which we have a consistent track record of doing. So I think when I see people making percentage changes over each quarter, looking at the percentage change of us versus the percentage change of competitors, I'm like, when you got the numbers moving around this fast, you really have to go back to the absolute and say, "Did you make money? How did you make money? And how do you make sure you keep making money going forward?"

With that, let me turn it over to Glenn, who can talk a little bit about what he's going to -- got planned for the rest of the year.

Glenn Thomas Shapiro
President of Personal Property-Liability of AIC

Great. Thanks, Tom. And Greg, if I go to the first part of your question on price position, the best measure of price competitiveness is our close rate, and our close rates are up. So we've seen good result on the fact that, for a few years, as Mario covered earlier, we've taken expenses out of the system. We've taken those expenses and essentially allowed customers to get better value from us, and that's improving our close rates, which has helped. The second part, when you talked about going forward with frequency and severity, as Tom said, we had a pretty good forecast on frequency, and it's continued to be lower when you go on a 2-year basis. The 1-year comparisons right now are interesting on just about everything. But on a 2-year basis, they're prepandemic, they're -- continue to be meaningfully lower. Some of that will be just the new different world that we're in, with fewer people working in office buildings and traveling in rush hour.

Some of that will revert back over time. But we've had really good forecast on that. The frequency has been higher -- I'm sorry, the severity has been higher with inflationary factors. And so we're looking at that and where we have to take pricing, we will. And I guess, when you put them together, the key is in how we've been forecasting and when we look at when the line will cross, and what I mean by that is we knew that -- what severity is -- compounds over time. So once you're a couple of years in, which we are now when you're comparing to 2019, you've got a couple of years of severity increases. At some point, it's going to be greater than the benefit that is persisting on frequency, and you cross that line.

And so we're pretty good at forecasting about the time we're crossing that line. We moved prices slightly down. In some places, we're still good with those down. We still have opportunity to even be more competitive. In other places, we're going to have to take them up. But we don't have wild swings happening in terms of our pricing. We've been pretty careful and cautious to do things that we thought were sustainable, and we're going to continue to do things that we think are sustainable. So as we take expenses out, continuing to do for the remainder of the year, the loss cost management that the claims team is doing and our pricing actions, we think there's more ground we can make up from a competitive position standpoint.

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

That was a very thorough answer. I was going to ask a question on expenses, but I got to just follow up on your point on severity and crossing the line. As you know, there's so much oxygen going on around inflationary pressures in the marketplace. And some of it's viewed maybe perhaps being transitory, some of it being structural and longer term in nature. And I guess, what I'm looking for from you guys is what's your view on the severity trends. And can you give us some perspective on that crossing-the-line analogy that you used, Glenn?

Thomas Joseph Wilson
Board Chair, President & CEO

Well, Greg, we don't do forecast, combined ratio or the components of a combined ratio. But I think when you look at -- and interesting, though, when you look at the supplement, you'll see the paid on property damage is down. We -- that's not related to the way we're booking. They just happen to be paid, and there was some timing. So when you look at severity, you have to be clear on the difference between what you paid and what you think you're going to pay eventually. And so we think severity -- we know severity is up this year. We booked it up both first quarter and second quarter, even a little more. And -- but so Glenn's got it factored into his pricing.

Glenn, anything you want to say about -- maybe talk about -- a little bit about severity control, things like that.

Glenn Thomas Shapiro
President of Personal Property-Liability of AIC

Yes. And just to the point about what's transitory and what's in there, I think you have to look at both frequency and severity in that way, like they're -- components of frequency. Like we get really detailed into looking at the miles driven. It isn't just what are the total miles driven out there. It's by state. It's urban versus rural. It's commuting time versus not. It's weekend versus weekday and night/day. So when we look at all of this, we have a view on what we believe is transitory and what is more sustainable on frequency as well as on severity. But the controls that we have from a claims standpoint, we have a really strong claims team. And they use, first of all, proprietary models that we have that escalate claims that either need to be expedited, moved faster or need to be prepared for defense in terms of injury claims, that tell us the likelihood of litigation, the likelihood of representation, things like that.

We leverage our scale really well in that we have long-term pricing deals on a lot of the parts and labor that are out there for whether it's auto or home. So some of that acts as a hedge towards inflation, and it's not perfect because we're in the same inflationary environment that others are in. But we do, with our buying power, have good long-term deals that we've negotiated that help to hedge that to some degree and then really strong quality processes that we manage across the system. So we feel good about our ability to manage within the environment, but also we have to price for it as it moves. And I guess I'll close by saying if anything our history has been proven, I would say, we do a really good job managing to our returns. And Mario and Tom talked about those in the opening quite a bit. We will manage to produce the right returns. And when we need to take price to do that, we do it.

Operator

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

Paul Newsome
Piper Sandler & Co., Research Division

A little bit more of a key off of the last questions. But one of the questions I'm getting a lot is whether or not there will be sort of regulatory issues with auto, in particular, if we need to get more rate. And I'd love to hear your thoughts on how that gets managed at Allstate.

Thomas Joseph Wilson
Board Chair, President & CEO

Let me maybe start with a little macro, and then Glenn can talk about anything that we're doing specifically. Paul, I think the first place I would start is the regulatory reaction tends to start with what the consumers think, and consumers are in a pretty good place. Our customers are in a pretty good place. We gave them $1 billion back last year. There's plenty of -- if you look at savings rates and cash and bank accounts and all that kind of stuff, consumers are not -- have some pricing built -- there's not a lot of pricing pressure coming from consumers these days. So we can -- the kind of percentages increase that we need are not so large. You're not talking about double-digit price increases that caused everybody to call their insurance regulator and say, "Hey, I don't like this world." So we don't see a lot of consumer pushback.

When you look at the regulators, we have a good relationship with our regulators. I mean we were 10 days in last year, I mean, I think it was like 10 days into March, we were like, "Oh my gosh. We got to do something about this." So we went out proactively to regulators and said, "Hey, we don't have a requirement to do this. We have no contractual requirement to do it, but we know you want us to do it. So we're going to do it in advance, upfront," and we led the industry in doing that. So we feel like we have good relationships with them. We've been balanced as to how we approach it. And we've been able to earn the economic rents in the marketplace by -- and compete successfully.

Now Glenn, anything you want to talk about in terms of specifics?

Glenn Thomas Shapiro
President of Personal Property-Liability of AIC

Well, first, I think it's a really good point with some of the credibility we earned last year because it's not only the SIPP, the return of the money, but the fact that we went out there and proactively had the idea to say we're just going to waive the requirement that you have an endorsement to do deliveries, let's say, with your car and turn your car into an economic vehicle for you -- for people that were out of work.

They appreciated the fact that we were thinking about the way people were having to live their lives and not having to have to go buy an endorsement to do it, and we just gave it away for free and filed that across 50 states in a matter of days, and special payment plans allowing people more time to pay. So I think we did build a lot of credibility with that. But I think the core of this is the regulators have actuaries, and we have actuaries, and they are math-based. So this is -- sometimes you get into some emotion with it, but it's really a fact-based and math-based situation. So when severities go up or loss ratios move, their actuaries see what our actuaries see, and we have a great relationship working through that one.

Thomas Joseph Wilson
Board Chair, President & CEO

Yes. When rent-a-cars go from $50 a day to $100 a day or used car prices to go up 40%, regulators know you've got to make -- you've got to collect more money to take care of it.

Paul Newsome
Piper Sandler & Co., Research Division

Makes sense. And I'd like to ask a homeowners' question. I tend to think that people underestimate the variability and impact to the home business. Can you just talk a little bit about what's going on there from a pricing and competitive perspective and whether or not the outlook is more favorable over time? Or -- but it does seem to be -- if anything, it seems like that you're selling more of it. So it seems like it's a lead product for you at the moment.

Thomas Joseph Wilson
Board Chair, President & CEO

Well, Paul, thank you for recognizing how successful we've been in homeowners. I mean there are days when I feel like people think the only thing we sell is auto insurance, and I'm like we make a lot of money in homeowners insurance. We're really good at it. It does require lower margins than auto insurance because you got to put up a lot more capital because of the volatility, and you don't get a lot of investment income. So we've been very good at it.

Glenn, do you want to talk about how we're doing this year?

Glenn Thomas Shapiro
President of Personal Property-Liability of AIC

Yes, boy, do I. I appreciate that, Paul. We feel really good about where we are in homeowners. So I'll give you a quick number on the last 5 years. 89 combined ratio, that's recorded combined ratio, not underlying. And we've made just over $4 billion in the past 5 years of underwriting profit. So we're good at this. I don't mind being bold enough to say that we -- I think we have a sustained and systemic advantage in homeowners that we've proven over a long period of time, and it goes to the claims capabilities, the cat management capabilities, our reinsurance system that we have, our risk selection, our product capability and pricing. So it's a pretty deep skill that's been honed over a long period of time that we're able to leverage. And so when you look at -- there's no question that inflation is hitting the homeowner side hard, and you got weather events. And you look at what it's doing to the industry more broadly than us, and there's going to be folks taking a lot of rate out there, and I think you've heard that from them.

And our product is such that, like, year-over-year, we're at 6% up on average premium, even though we took only 3.5 points of rate because built into it, there's some inflationary factor. So we're really well positioned to continue to make money at it, protect a lot of people. And last point is, it goes to what Tom talked about earlier about Transformative Growth. You look at the independent agent system. And we bought National General in -- primarily to really have a ticket into that system where they have great systems, a lot of appointments, great relationships, and they're good at some products. Well, we're really good at home. You get that home product into the IA channel, and I think it's going to sell well. We're going to protect a lot of people. We're going to help IA's growth.

Operator

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

David Kenneth Motemaden
Evercore ISI Institutional Equities, Research Division

I had a question just on frequency and I guess just a question, maybe you could clarify how that trended throughout the quarter by month and maybe just talk about what you're seeing today. And should we be thinking about frequency being more flat with 2019 combined with the 14% to 15% severity increase versus '19 that you guys called out in the 10-Q?

Thomas Joseph Wilson
Board Chair, President & CEO

Well, David, I'll get Glenn to answer the question on frequency. I'm not sure where the 14% to 15% came from. But -- so -- and how you're factoring -- what period of time your focus is. Is that 2 years, is that 1 year? Because you can't take a 2-year trend and extrapolate it onto annual trends, but maybe that's what I heard.

But Glenn, do you want to talk to us about frequency?

Glenn Thomas Shapiro
President of Personal Property-Liability of AIC

Sure, yes. No, I would not -- the short answer would be, I would not say you should just expect a 0 frequency trend relative to 2019. While we don't publish any forecasting on frequency, I think, broadly, people in the industry have talked about the fact that safer cars have tended to have a little bit of a tailwind for frequency. Even take away the pandemic for a moment that, year-over-year, we've had a long-term steady decline in frequency. And so you've got a couple of years of that as you compare to 2019.

On top of that, we see -- and I alluded to this a little bit before, we see a really material change in the way people are driving. So even when you see the aggregate number of miles driven coming back, still lower, but closer to 2019 levels, who is driving, when they're driving and how they're driving is changing materially. So you see about a 4- or 5-point difference between the net change of urban driving being down more than rural driving. So you look at an Allstate book of business where we sell predominantly through exclusive agents, our exclusive agents are in more populated markets, that tends to favor the way the frequency comes through.

You look at the type of driving that's done. I mentioned before, commuting is down significantly more than noncommuting. So a quick stat for you, as we look at a lot of these details, weekend driving is actually higher right now than 2019 was. People just want to get out. With day driving, it's materially lower. And so -- and particularly in rush hour. So when you see less congested roads in the time period when the predominance of accidents happen in those morning and afternoon commutes, that is helpful to, particularly in our book of business, the way frequency comes through. So there are elements that will come back. It will come back differently. The only thing I'm confident in saying is that the world will look exactly the same after the pandemic than before, and that will mean that people drive and move differently. But we see some nontransitory or temporary impacts to frequency as well as severity.

David Kenneth Motemaden
Evercore ISI Institutional Equities, Research Division

Got it. Okay. And Tom, yes, yes, I was referring to just Page 63 of the 10-Q, which is, yes, that 14% to 15% is over 2 years. So you're right, it's about 7% on average per year.

I guess just a follow-up just on the rate actions that you're thinking about taking. I just saw I think it was like a 5% rate increase that you filed in Georgia recently. Maybe could you just talk about how widespread the rate increases are that you want to put in? And maybe just talk a bit more about how you think that might impact the growth trajectory going forward.

Thomas Joseph Wilson
Board Chair, President & CEO

Well, we don't -- we've got plans for the rest of the year as to where we think we need to increase price, but we don't give those out for competitive reasons, and we also need the regulators to agree. So I would just say that we think we will -- you should rely on the fact, David, that we know how to make money, and we're focused on making money. As to the competitive position, I think it depends what other people do. So you heard yesterday, if you listened to the Progressive call, they're all-in on raising prices, cutting advertising, changing underwriting and stuff.

So we think that gives us room to adapt and continue to grow and make money and make sure that we can recover costs as they go up. Other competitors are in different places, but we feel good about where we're at. Like Transformative Growth like, if you start off and said, "Would you want to have a pandemic and a huge drop in frequency for a year to do Transformative Growth," you probably would say, "I don't know. Like it's a lot of volatility to manage through." On the other hand, I think in our particular case, it's worked well for us.

David Kenneth Motemaden
Evercore ISI Institutional Equities, Research Division

Got it. Is it your sense that the rest of the industry is going to start raising prices?

Thomas Joseph Wilson
Board Chair, President & CEO

I think if you look at what they've done as your -- that we can really focus on, and there have been more rate increases this year, then I think, probably, people would have predicted if you asked them in the fourth quarter last year, and that would include us. But if you just said, what do we think everybody was going to do this year, we wouldn't have thought they had to go up as much as they did. But we also didn't think severity was going to be as high as it is. So we're increasing ours, and they're increasing theirs. But we think our relative advantage, given our sophistication and pricing, given our reduction in expenses, given what we're doing on a long-term basis to get expenses down even further puts us in good place. So we don't see anything happening that tells us we can't still be on the path to grow market share, that the specific roads we go down might be a little different, but we're still feeling like that goal is still there or the objective is still achievable.

Operator

Our next question comes from the line of Meyer Shields from KBW.

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

I wanted to dig in a little bit to Allstate direct. I just want to understand the thought on the pricing strategy. And what I mean by that is, I think we've got demographic trends favoring direct distribution, but also 2 massive competitors. And I wanted to know whether the competitive posture is that you have to be in line with where Progressive and GEICO are. Or can you benefit enough from these demographic trends to achieve your growth goals?

Thomas Joseph Wilson
Board Chair, President & CEO

I'm trying to sort through, Meyer. I heard the first. Direct should be priced for what you get, like you should get what you pay for. So when you buy Allstate direct, it's, I think, going on average about 7% lower than if you buy from an agent because it doesn't come with help. Like -- and so that's -- you get what you pay for. And there are people -- there are some demographic shift to that. But some of it's not -- there are some young people who want help and some older people who don't want to help. And so we're there focused not as much on demographics of those channels but -- as the customer value.

As it relates to our competitive position in each channel, we believe you should have a competitive price position in each channel like-for-like. So if you're buying from GEICO or Progressive and you're buying direct and you're buying from Allstate and you're buying direct, you should -- it should be the same kind of value. Now it gets a little dicier when you figure out what price is because of what the limits are all kinds of -- it gets complicated fast. But the conceptual approach would be, be competitive in channel based on the value you deliver to shareholders -- or to customers.

Glenn, how would you -- is there other things you would add to that?

Glenn Thomas Shapiro
President of Personal Property-Liability of AIC

Yes. Going to the point about what do we get out of just the demographic shift versus being more competitive. Clearly, it's a growing channel. So if you are sitting in the boat and the current is taking you in a certain direction, so there's something to it, you really should be there, and that's why we're there. That's why Transformative Growth, why we want to be in all channels and where customers want to buy. So I think there's some benefit to that.

But the bigger benefit is 2 other things. One would be being competitively priced. That's why we're going after expenses, why we did the pricing differential that Tom talked about. And then the third one, which, frankly, maybe even the most important, is just your execution, and it's a fact that we have used the capabilities of the Esurance, but we're still newer at being a large national player with the brand we've got at Allstate doing this. It's building the capabilities, whether it's web, sales processes, marketing sophistication, integration of marketing into it so that we are winning our fair share there because you got to get the price to be competitive, but you also have to be great at the process itself.

Thomas Joseph Wilson
Board Chair, President & CEO

So if you go back to that slide where we show the 3 different channels, direct is up. As we said, it's now 29% of sales. We expect it to continue to go up, as Glenn said, as we get better. There are some shifts to that channel if you just look globally. Some of that's because more people feel comfortable buying over the web and not going through some of that. Some of it is just because direct does a whole bunch of advertising, and it drives people to it. But we're, as Glenn pointed out, in that boat and increasing our capabilities.

But that doesn't mean we're waving the flag on people-to-people exchange. And so the key part of Transformative Growth is there are people who want help. We just need to give it to them at a lower cost, and that's what we're working on. So people were more than happy to pay a lot of money to -- it sure is not a lot, but to be -- pay for the help to buy the insurance. They just don't want to pay 10% for ongoing service when they can do self-service, if there's not much to be done or you can do it at a lower cost centrally.

So that's our shift in transformative. We're not waving the flag on person-to-person sales. In fact, we're leaning in and saying we have a great position there. We have a great brand. People know us. We just need to do it more effectively and create higher-growth models. So that will take us some time to transition, as we talked about. Like I don't expect the Allstate agent business to jump up the way you'll see the direct business increase over the next 12 months. But I do think it's got great long-term potential, and we're investing heavily in making sure those agents can deliver what people want if they want help buying products.

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

Okay. That was very, very helpful. A quick follow-up, if I can. Has the -- I guess, recent severity issues in both auto and home, have those changed the time line for rolling out the standard products on National General's platform?

Glenn Thomas Shapiro
President of Personal Property-Liability of AIC

Short answer would be no. We think we can be really competitive in that market, and we're excited to get into the independent agent channel and do it as quickly as we can. We'll have some of our middle-market products this year on the NatGen platform, branded as National General, an Allstate company. So we'll get the benefit of the endorsed brand. And then over the next 2 years, we'll be rolling that out as quickly as we can.

Operator

Our next question comes from the line of Michael Phillips, Morgan Stanley.

Michael Wayne Phillips
Morgan Stanley, Research Division

In your introductory comments on severity, you talked about some other ways to counter it besides the targeted price increases. Could you expand upon how those -- maybe how those will help severity issues? I didn't quite get all the list you were talking about. Maybe go through those in a little more detail and talk about how they can help you counter severity besides price.

Glenn Thomas Shapiro
President of Personal Property-Liability of AIC

Sure. Thanks, Michael. It really is about claims capabilities and paying what you owe and being fair to folks, but making sure you don't pay more than owe as things move. So we have inflationary factors, for example, say, on materials for homeowners. Having purchasing power and having really good deals in place over the long term on flooring, on roofing and other products used in home repair helps hedge that inflation. And with our size, with our buying power and with the capabilities of our claims team, we've been able to do that, and it helps hedge it.

Again, I'm not suggesting it eliminates the problem of inflation, but it does help mitigate it, so that not all of that cost is passed through to your customers because when I do the job to our customers, obviously, we got to put them back to where they were. We've got to charge people an appropriate price and give them the best value possible, and part of that is mitigating the cost of claims. So that was in the purchasing power. The proprietary models I mentioned before is we've just invested a lot in our analytics and data capabilities over the years in order to flag claims that were at risk for accelerating costs, so that we could get it into the right experts' hands at the right time and it allows us to do a better quality job on those and also manage the costs.

Michael Wayne Phillips

Morgan Stanley, Research Division

Okay. One other quick one, if I could then. A lot of talk on the direct-to-consumer channel for auto. And clearly, that's a growth area. What's your view on that channel longer term for the homeowners market?

Thomas Joseph Wilson
Board Chair, President & CEO

We think it's good. I mean I think people do want sometimes a little more help on their home because they care more about their home. But we think that those people who are comfortable using advanced technology, bots, chat apps that you can get online now, should be able to buy more homeowners direct.

Thank you for taking time. Let me just close on a few things. First, on investment results, I totally understand the view that one would not fully count the huge increase in performance-based income. But when I read some of the reports, I'm like, I think it's fair to say it was an outsized quarter, but that doesn't mean that our long-term results should be dark. We're good at investments. We've had good results. Our acquisitions are performing well, whether that be Allstate Protection Plans, which we didn't really get questions on today. I just want to remind you, we bought that company 4 years ago, $1.4 billion. It's now over $1 billion in revenue. It's growing at 27% a year. It made $155 million, which means we paid 9x earnings for a business that has grown 27%. And so we think it's worth a lot more than that.

National General, we also think we'll be highly successful. We're off to a really good start there. You can see that in the current numbers. And it's not just the 4 million policies we have. By the way, when you look at the net cash we had to lay out after statutory capital, I do not believe we could have acquired 1% market share by putting a couple of billion dollars into advertising. So we think it was also just an economic growth opportunity straight up, forget the strategic potential of further growth. And then share repurchases, we continue to really do well. This is the biggest share repurchase program we've ever announced, both in dollars and percentage of market capitalization, not to be overlooked.

So thank you for participating today. We had great results this quarter. We look forward to talking 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.