The Allstate Corporation

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Earnings Call

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Call Participants

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Presentation

Operator

Good day, and thank you for standing by. Welcome to Allstate's Fourth Quarter Earnings Conference 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, Brent Vandermause, Head of Investor Relations. Please go ahead, sir.

Brent Vandermause

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

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

And now I'll turn it over to Tom.

Thomas Joseph Wilson
Chairman of the Board, President & CEO

Good morning. We appreciate you taking the time and spending your effort to explore why Allstate is an attractive investment. So I'll begin with an overview of our strategy and results, and Mario and Jesse are going to go through the operating performance. Then we'll have time for your questions at the end.

Let's begin on Slide 2, which depicts Allstate's strategy to increase shareholder value. So we have 2 components of the strategy: increase personal property-liability market share and expand protection provided to customers, which are shown in the 2 ovals on the left. On the right-hand side, you can see the highlights for the fourth quarter. We generated net income of $1.5 billion. The strong results reflect our actions to improve auto insurance profitability and mild weather conditions, which was a welcome reprieve from the elevated level of weather-related losses in the first 3 quarters of the year. The proactive approach to increasing bond duration also contributed to strong results with higher income from the market-based portfolio.

To further increase shareholder value this year, we remain focused on improving auto insurance profitability. There is more work to be done, but we're well on our way. Additional shareholder value will then be increased by increasing policies in force across all of our businesses. The transformative growth initiatives to drive property liability market share growth can be implemented in more states this year now as auto margins have been improved.

We're also focusing on expanding protection offerings to Protection Services businesses, which are shown in the lower oval as Protection Plans, Identity Protection, Roadside And Arity, all have good growth prospects. As you know, we started the process to sell the Health and Benefits business and that process is proceeding on schedule.

Let's review the financial results on Slide 3. Revenues of $14.8 billion in the fourth quarter increased by 8.7%. That reflects a 10.7% increase in the Property-Liability earned premium, and that was due to rate increases in 2022 and -- mostly in 2022 and then 2023 in both the auto and homeowners insurance.

Net investment income in the quarter was $604 million, an 8.4% increase, reflecting higher fixed income yields and duration extension, which is partially offset by lower performance-based income. The strong profitability in the quarter generated adjusted net income of $1.5 billion or $5.82 per diluted share. Annual revenues of $57 million were up $5.7 billion or 11.1% over the prior year. Strong fourth quarter earnings resulted in positive adjusted net income for the year.

Slide 4 summarize the status of the 4-part auto insurance profit improvement plan. Strong execution resulted in 6.7 percent -- point improvement in the combined ratio in 2023. Starting with rates. Since 2022, the Allstate brand implemented a rate increase of 33.3%, which included 16.4% in 2023 and 6.9% in the fourth quarter driven by the recent approvals in California, New York and New Jersey.

National General implemented rate increases at 10% in 2022 and an additional 12.8% in 2023. Looking forward, we will pursue rate increases in 10 states to improve margins and in other states to keep pace with increases in loss costs.

Expense reductions were initiated in 2019 as part of the transformative growth plan to become a low-cost provider of protection. Being early in this effort helped offset the rapid inflation and loss costs. The underwriting expense ratio decreased 1.1 points in 2023 compared to the prior year when you exclude the large decline in advertising that was directly linked to lower profitability. Looking forward, further cost reductions will improve efficiencies and our competitive price position.

Given the significant improvement in prospective auto margins, we'll increase advertising investment this year. In addition, we implemented underwriting actions to restrict new business where we were not achieving target returns. We're removing some underwriting restrictions as rate adequacy is achieved.

Finally, enhancing claim practices in a high inflation and increasing litigious environment are required to deliver good customer value. This includes accelerating the settlement of injury claims and increasing in-person inspections. This program has positioned us to increase new business levels and begin to grow policies in force and states, where acceptable margins have been restored.

Now I'll turn it over to Mario to discuss Property-Liability.

Mario Rizzo
President of Property & Liability and Director

Thanks, Tom. Let's start on Slide 5. Property-Liability earned premium increased 10.7% in the fourth quarter, primarily driven by higher average premiums from rate increases, partially offset by a 2% decline in policies in force. Underwriting income of $1.3 billion in the quarter improved $2.4 billion compared to the prior year quarter due to increased premiums earned, improved underlying loss experience, lower catastrophe losses and operating efficiencies.

The chart on the right highlights the components of the 89.5 combined ratio in the quarter, which improved 19.6 points from the prior year quarter. The impact of catastrophe losses and prior year reserve reestimates on the combined ratio, as shown in light blue and gray, materially improved compared to the prior year. Catastrophe losses of $68 million were $711 million or 6.3 points lower than prior year, due to the mild weather conditions experienced in the quarter and favorable loss development from prior period events.

Prior year reserve reestimates, excluding catastrophes, were unfavorable and totaled $199 million, representing a 1.6 point adverse combined ratio impact in the quarter and a 0.9 point favorable impact compared to the prior year quarter. Approximately $148 million related to personal auto, driven in part by costs related to claims and litigation and adverse development in National General. The underlying combined ratio of 86.9 improved by 12.3 points compared to the prior year quarter due to higher average premium and the favorable influence of milder weather conditions on accident frequency.

Despite the favorable results in the quarter, the full year combined ratio of 104.5 was significantly impacted by elevated catastrophe losses, primarily from events in the first 3 quarters, resulting in a catastrophe loss ratio that was 4 points above the 10-year average from 2013 to 2022.

Now let's move to Slide 6 to review Allstate's auto insurance profit trends. The fourth quarter recorded auto insurance combined ratio of 98.9, improved by 13.7 points compared to the prior year quarter, reflecting higher earned premium, lower underlying losses, lower adverse prior year reserve reestimates and expense efficiencies.

The chart shows the underlying combined ratios from 2022 and 2023, with quarterly reported figures adjusted to reflect the estimated average severity level as of year-end for each year. As you can see, the underlying combined ratio decreased each quarter in 2023, reflecting the benefits of the profit improvement plan Tom discussed earlier.

As a reminder, we continually reassess claim severity expectations as the year progresses. If the current year expected severity increases or decreases, the year-to-date impact of that change is recorded in the current quarter, despite a portion of that impact being driven by reassessment of the prior quarters.

In 2023, the full year estimate of claims severity decreased in the fourth quarter so there was a benefit from prior quarters included in reported results in the fourth quarter. When you adjust for this, the reported underlying combined ratio of 96.4 as shown in the table, would be 98.2 as shown in the bar on the graph. The 3 preceding quarters all benefit from the adjustment, including Q3, which improved from 10.5 in the presentation shown last quarter to 99.9, reflecting the latest severity estimate.

While loss cost trends remained historically elevated, the rate of increase moderated in the second half of the year, mainly in physical damage coverages. Allstate brand weighted average major covered severity expectations improved from 11% as of the end of the second quarter to 9% in the third quarter and now the 8% to 9% at the end of the year. As a reminder, this trend reflects our current best estimate for the year-over-year increase in average severity.

Slide 7 shows the impact of our profit improvement actions across the country. As shown on the left, Allstate brand rate increases have exceeded 33% over the last 8 quarters, including larger increases in California, New York, New Jersey and Texas, reflective of the elevated loss trends in these states. These 4 states comprised 36% of Allstate brand auto total written premiums in the U.S. during 2023.

As you know, increases were approved in California, New York and New Jersey in December, so we have yet to see this in our premiums. The chart on the right shows states with an underlying combined ratio of below 100, shown in the light and dark blue bars, were 65% of the total in 2023, more than doubling from the percentage at year-end 2022. Excluding California, New York and New Jersey, the Allstate brand auto insurance underlying combined ratio was 95.9 in 2023.

The Slide 8 shows improving profitability had a negative impact on policies in force during 2023. On the left, you can see that total protection auto policies in force decreased by 2.9% compared to prior year as the Allstate brand decline of 6.2% more than offset a 13.3% increase at National General. Allstate brand auto policies in force decreased due to reduced new business volumes and lower retention. National General growth of 581,000 policies in force was mostly driven by nonstandard auto insurance and, to a lesser extent, the rollout of new middle market standard and preferred auto insurance product launches for the Custom 360 product.

The chart on the right shows total personal auto new issued applications for 2023 decreased 6% compared to prior year and the accompanying drivers. Targeted profitability actions within the Allstate brand resulted in a decline in new auto and issued applications of 20% compared to the prior year. The first 2 red bars reflect the impact of lower new business volume in California, New York and New Jersey as well as the direct channel decline in the remainder of the country, which was most directly impacted by the reduction in marketing investment last year.

Outside of the 3 states where profit actions significantly reduced new business, Allstate exclusive agents increased production by 6% driven by higher productivity, showing the response of Allstate agents to the changes we've made to incent growth and the opportunity to continue to grow with our agency owners as part of transformative growth.

The acquisition of National General strategically positioned Allstate to grow in the independent agent channel with new business applications, increasing 12% in 2023. National General continues to grow nonstandard auto and generate higher volume from the Custom 360 product launches.

Slide 9 covers homeowners insurance results, which generated significant profits for the quarter, while full year results were impacted by elevated catastrophe losses in the first 3 quarters of the year. On the left, you can see net written premium increased 13.3% from the prior year quarter, primarily driven by higher average gross written premium per policy in both the National General and Allstate brands and a 1.1% increase in policies in force.

National General net written premium grew 19.6% compared to the prior year quarter, primarily due to policy in force growth driven by the Custom 360 offering and higher average premiums from implemented rate increases. Allstate brand net written premiums increased 12.5%, driven by average gross written premium per policy increases of 12.2% compared to the prior year quarter and a small increase in policies in force. Allstate agents continue to bundle auto and homeowners insurance at historically high levels.

Catastrophe losses of $21 million in the fourth quarter were low by historical standards, reflecting milder weather conditions and favorable development from prior events, contributing to a 62 combined ratio and $1.2 billion of underwriting income for the quarter. Milder weather in the fourth quarter also favorably influenced the underlying combined ratio due to lower noncatastrophe claim frequency.

For the full year, higher catastrophe losses drove the combined ratio increased in 2023 compared to 2022. Full year catastrophe losses of $4.5 billion were higher than our historical experience and translated to a catastrophe loss ratio that was 17 points higher than prior year and roughly 14 points above the 10-year average from 2013 to 2022.

As you can see from the chart on the right, the full year underlying combined ratio declined from 70.3 in 2022 to 67.3 in 2023, reflecting higher average premiums from rate increases, partially offset by higher claims severity due to materials and labor costs. With an industry-leading product, advanced pricing, underwriting and analytics, broad distribution capabilities and a comprehensive reinsurance program, we will continue to leverage homeowners as a growth opportunity and remain confident in our ability to generate attractive risk-adjusted returns in this line.

Moving to Slide 10. Let's discuss how we're advancing transformative growth to provide customers low-cost protection through broad distribution. We remain focused on 4 key elements of this multiyear initiative, as you can see on this slide. We have improved our cost structure to enhance our competitive price position.

In the current environment, with most competitors taking large rate increases, it's difficult to pinpoint competitive position. That said, our relative competitive position likely deteriorated in 2023. But as many of our competitors continue to implement rate increases and our expenses decline, we believe our competitive position will improve, enhancing growth opportunities as part of transformative growth.

Redesigned affordable, simple and connected products currently available for auto insurance in 7 states with plans for further expansion this year, both improved customer value and deliver a differentiated customer experience. National General independent agent growth prospects will be further enhanced by expanding Custom 360 products, which were live in 16 states as of year-end 2023 and expect to be in nearly every state by the end of 2024.

Expanding customer access will also support market share growth, and we have made good progress in all 3 channels. Increasing sophistication and customer acquisition continues to advance and will improve the effectiveness of increased advertising spend in 2024 as we look to grow in more states. A new technology ecosystem is also being deployed to improve the customer experience, speed to market and reduce costs for legacy technology platforms.

Let me turn it over to Jesse now to talk about expense reductions and other operating results.

Jesse Edward Merten
Executive VP & CFO

All right. Thank you, Mario. Slide 11 delves deeper into how we're improving customer value through expense reductions. As shown in the chart on the left, the Property-Liability underwriting expense ratio decreased 2 points from 2022 to 2023 as we continue to focus on lowering costs to provide more value to customers and saw the benefits of higher earned premium growth relative to fixed costs.

The right half of the chart provides additional context on the drivers of the 1.3 point improvement in the fourth quarter compared to the prior year quarter. The first red bar shows the 2-tenth of a point impact from increased advertising spend, reflecting the slight increases driven by seasonal investment changes and growth investments in rate adequate states. The second green bar shows the 1.4 point decline in operating costs, which was mainly driven by lower employee-related costs and the impact of higher premiums relative to fixed costs in the quarter.

Shifting to the longer-term trend in the chart on the right, we remain committed to reducing the adjusted expense ratio as part of transformative growth. As a reminder, the adjusted expense ratio starts with our underwriting expense ratio, which I just covered and excludes restructuring, COVID-related expenses, amortization and impairment of purchased intangibles and advertising expense. It then adds our claims expense ratio, excluding costs associated with settling catastrophe claims. Those expenses are excluded because catastrophe-related costs tend to fluctuate.

Through innovation, process improvement and strong execution, we've driven significant improvement in expenses for the fourth quarter and year-end 2023 adjusted expense ratio of 24.7%. This reflects decreases in both the underwriting expense and non-cat claims expense ratio compared to the prior year quarter.

Now moving to Slide 12, I'll cover investment results. This quarter showed how our proactive approach to duration management benefits results. The chart on the left shows changes we made in the duration of the bond portfolio in comparison to bond market yields. From the fourth quarter of 2021 through the third quarter of 2022, lowering fixed income duration mitigated losses as rates rose.

Beginning in Q4 of 2022, we began to extend duration, which when combined with higher yields has increased market-based income. Our fixed income yield shown in the table below the chart remains below the current intermediate corporate bond yield, reflecting an additional opportunity to increase yields as we continue to reinvest portfolio cash flows into higher interest rates.

The bar chart on the right shows the income and total return benefits of these decisions. As you can see in the table below the chart, the total return of our portfolio was 4.6% in the fourth quarter and 6.7% for the year. Portfolio returns in both periods reflect income earned as well as higher fixed income valuations due to the decline in market yields in the fourth quarter.

Net investment income totaled $604 million in the quarter, which was $47 million above the fourth quarter of last year. Market-based income of $604 million shown in blue was $140 million above the prior year quarter, reflecting repositioning of the fixed income portfolio into longer duration and the benefit from higher yielding assets that sustainably increased income.

Market-based income also benefited from higher fixed income balances. Performance-based income of $60 million shown in black, was $87 million below the prior year quarter due to lower valuation increases and fewer sales of underlying assets. As we've stated previously, the performance-based portfolio is expected to enhance long-term returns as demonstrated through our 5- and 10-year internal rates of return of 12%, and volatility in these assets from quarter-to-quarter is expected.

Slide 13 covers results for our Protection Services businesses. Revenue in these businesses increased 11.8% to $719 million in the fourth quarter compared to the prior year quarter. This result is mainly driven by growth in Allstate Protection Plans, which increased 19.6% compared to the prior year quarter, reflecting expanded product breadth and international growth.

In the table on the right, you will see adjusted net income of $4 million in the fourth quarter decreased $34 million as compared to the prior year quarter. This decrease is attributable to the results of a state income tax examination and increased the effective of state tax rate that we apply, which increased deferred income taxes by $43 million in the quarter for future tax payments in Protection Services, largely related to dealer services. The impact of the tax change on the enterprise was a net benefit of $6 million. We do not anticipate that these tax adjustments will have a significant impact on our ongoing operations.

Shifting now to Slide 14. Our Health and Benefits businesses continued to generate profitable growth. For the fourth quarter of 2023, revenue of $630 million increased by $50 million compared to the prior year quarter, driven by growth in individual health, group health as well as fees and other revenue. Adjusted net income of $60 million in the fourth quarter of 2023 increased $2 million compared to the prior year quarter as individual health revenue growth partially offset higher benefit ratios in group health.

As you know, late last year, we announced the decision to pursue the divestiture of our Health and Benefits business, following the successful integration of Allstate's Voluntary Benefits business in National General's group and individual health businesses. We continue to anticipate the transaction will be completed in 2024.

We'll close on Slide 15 by reviewing Allstate's financial condition and capital position. Allstate's proactive capital management approach provides the financial flexibility, liquidity and capital resources necessary to navigate a challenging operating environment, while providing support for long-term value creation.

Fourth quarter results demonstrated the company's capital generation capabilities with statutory surplus and holding company assets of $18 billion, increasing by $1.6 billion compared to the prior quarter. Assets held at the holding company also increased to $3.4 billion. The increase to the prior quarter primarily reflects a return of capital from National General's statutory entities, partially offset by common shareholder dividends. Additionally, GAAP shareholders' equity of $17.8 billion increased $3.2 billion compared to the prior quarter, reflecting $1.5 billion of GAAP net income and the improved unrealized position on fixed income securities of $1.9 billion.

We continue to proactively manage capital, make progress on the comprehensive profit improvement plan and invest in transformative growth. We remain confident that these strategic actions will generate attractive shareholder returns.
With that as context, let's open it up for your questions.

Question and Answer

Operator

[Operator Instructions] And our first question comes from the line of Jimmy Bhullar from JPMorgan.

Jamminder Singh Bhullar
JPMorgan Chase & Co, Research Division

So I had a couple of questions. First, can you talk about rate adequacy in California, New York, New Jersey? The new business that you're issuing there now, is that adequate to price for normal profitability? Or are you assuming that you're going to need another sort of stab at it in 2024 to get to normal profits?

Thomas Joseph Wilson
Chairman of the Board, President & CEO

Thank you, Jimmy. I'll let -- there's really 3 different stories. Mario will take you through those. And then we'll do a follow-up question. And I would just remind everybody, we'd like -- ask one question with a follow-up hopefully related to the first question. But -- so we can make sure we get to everybody's call. So Mario, you go for it.

Mario Rizzo
President of Property & Liability and Director

Yes. So Jimmy, the first thing I'd say is we talked a lot last quarter about the actions we needed to take in the 3 states, California, New York and New Jersey. I'd start with a view that says, look, our objective is to meet the protection needs of as many customers in as many states as possible. When that can happen, we think customers are served well, markets operate effectively, and we can operate our business to achieve the appropriate levels of returns.

We had rate pending in all 3 of those states, and I'll just spend a minute kind of giving you the story in each one of those because I think it's slightly different. In California, you remember, we filed a 35% rate. We got approval for 30%, but we got approval earlier than our expected effective date.

So effectively, we filed our full rate need and got approval for our full grade need. As of yesterday, we're writing business in California, again, across all channels, and we feel comfortable writing business in California, given the rate level that we're operating at.

Now of course, having said that, we've got to stay on top of loss trends going forward, and we'll do that, but we're comfortable with the rate level we've got in California have opened up that market. In New Jersey, it's kind of the opposite story. We filed for 29 points of rate. We got approval for just under 17%.

And as a result of that, we're going to continue to take the more restrictive underwriting actions that we have been taking in New Jersey, which means we'll continue to get smaller in New Jersey, while we plan on filing additional rate. As a matter of fact, we have to rate pending with the New Jersey department. And depending on how those things shake out, that will inform future actions we take in New Jersey. But as of right now, we will continue to get smaller in New Jersey, just given the lack of rate adequacy.

And then New York is kind of somewhere in between. We got approval for a 14.6% rate in December. We've implemented that, that helps, but we still need more rate. We're actively engaged with the department and intend to file our full rate need going forward and do that in a reasonably short order. And again, depending on how that plays out, that will inform the next set of actions we take in New York.

Jamminder Singh Bhullar
JPMorgan Chase & Co, Research Division

Okay. And then just a follow-up, maybe slightly related and slightly unrelated. In those 3 states, if you're raising prices a lot, it's reasonable to assume that you would suffer in terms of discount or at least at a minimum, it wouldn't grow. But how is your PIF faring in the states, where you're not taking any outsized rate actions versus what some of your peers are taking? And just trying to assess whether you think it's reasonable to assume that your overall discount stabilizes at some point this year for the company as a whole and potentially grows this year later in the year or next year.

Thomas Joseph Wilson
Chairman of the Board, President & CEO

Jimmy, this is Tom. I'll start and then Mario can give -- we can add on to that. I would say that the current competitive environment is still in flux. So we've raised our rates 30 points in California. State Farm gets another increase somewhere after that. So it's too early to tell what impact that will have on volume in 2024. We do -- our goal, though, is obviously to, one, make good money for our shareholders as first part. And as just said, the other part is need to grow. So we're -- we think we've got transformative growth in place, which is differentiated and a long-term growth plan as well as some of the short-term things you're talking about here.

Mario, what would you add to that?

Mario Rizzo
President of Property & Liability and Director

Yes. I think specifically on retention, Jimmy. As Tom mentioned, in the 3 states we talked about, those markets are still in a bit of a state of flux. One state I'd point to, to kind of kind of tell the story about retention and how taking outsized rates and then kind of lapping that impacts retention is Texas. We took significant rates in Texas in 2022 and earlier in 2023. And we showed you last quarter, there was a pretty substantial hit to retention in Texas.

As we lap those rates, we've seen a nice bounce back, which contributed to the sequential improvement in the fourth quarter retention level in auto relative to Q3. So once the rate need stabilizes, that certainly has a positive impact on retention going forward. And hopefully, as we in more and more states are really just keeping on top of loss trend, we would expect the headwind that we faced in retention to diminish going forward.

Operator

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

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

Okay. For my first question, I'd like to focus on transformative growth, and it's kind of counterintuitive, right, because you're talking about lowering expenses at the same time, growing your policy count. So when I think of like some of the headwinds going forward on expenses, I think of increased agent commission because profitability is going up, I see maybe the potential for increased advertising expense. So maybe you can help us pull together on how you see growth emerging at a lower expense base.

Thomas Joseph Wilson
Chairman of the Board, President & CEO

Greg, I'll start and then Mario can jump in. So I don't know that I think there is counterintuitive that as you grow, your expenses can't go down. And I would point out, if you look at National General, its growth has helped drive more scale and as broad as expenses done. So that's just a scale-related comment to it. As you look at the programs we have in place on transformative growth, it's really across the board everywhere we're at we have programs that are -- we've been working on for 3-plus years. And they're rolling out as we go, for example, to become -- we're cutting costs by becoming more digital.

By becoming more digital, we can move more jobs, either get rid of the jobs or move them offshore. That's a multiyear thing. You don't just take first notice of loss and change it in the 3 months. So the benefits of those programs, which we've been working and rolling those out the last 18 months really, still we'll get more of those benefits as we go forward in 2024, just based on the work we've already done.

In terms of agent commission, Mario mentioned this, we've changed the agent commission structure such that it pays more for new business and less for renewals. And that was one of the core parts of transformative growth, was how do we distribute our products at a lower price and still give people the value of an agent. And people want an agent to buy this stuff. They don't necessarily want to pay as much for retention.

One of the underlying assumptions we validated with transformative growth, which quite honestly, a number of analysts and other people were not so sure, but you're going to keep agents ahead in the game. And the answer is yes. Look at the productivity numbers that Mario showed. Do they like having renewal compensation go down? No. Do our customers like having a better priced product? Yes. And so we choose to do what our customers want, and they work through that. So we have a series of things that go on.

Now we do spend money, but like we're doing our expenses to first, take care of our customers. Second, build long-term value. We're not running our expenses to make a particular P&L number in a quarter. We just don't do that. We cut advertising, as you pointed out, because there was no sense growing if you're losing money on the product.

It wasn't because we were trying to make some combined ratio target. It certainly helped that, but we're like, why go out and advertise if you're going to write it at a 105% combined ratio? So we think about it economically first and in terms of creating long-term value.

Mario, do you want to talk about how you're thinking about expenses and where you go this year?

Mario Rizzo
President of Property & Liability and Director

Yes. So Greg, I think when you combine the pieces that Tom talked about, I think you can get comfortable that we can continue to improve our expense ratio and our cost structure to get more competitively priced and invest in marketing at the same time. So when I think about the broad areas where we're looking to get more efficient and where we've gotten more efficient over the last several years.

First, distribution costs. So when you look at the progress we've made on creating a lower cost, but more productive Allstate Agency distribution system, we're really happy with the progress we've made there. And I talked a little bit earlier about the increases in overall production. But underneath that, the even more significant increases in average productivity as we have fewer agents producing more volume today than was the case a couple of years ago.

And within our expense ratio, the distribution cost component of our expense ratio continued to come down while we've been able to do that. So I'm really optimistic that as we move forward and look to grow in more states that our Allstate Agency force is going to be a core part of that. And we'll continue to be able to do that, but do that at a lower distribution cost overall.

On the operating cost side through the combination of becoming more digital, outsourcing, offshoring, just improving processes, we've seen pretty significant reduction in operating costs going forward. And we're going to continue to hammer on that one.

We've also seen similar improvements on the claims side. Although I will say we're going to continue to invest in claims as part of profit improvement plan to get more effective on a number of processes. And I think the combination of the efficiencies we'll get in those 3 areas will help fund the marketing investments that we want to make and will make as we look to accelerate growth.

Thomas Joseph Wilson
Chairman of the Board, President & CEO

But if we need to spend money to grow on advertising, and we like the profitability, we're going to spend more money on advertising.

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

That makes sense. Can you just help remind me how the transformative growth plan moves over and touches National General? Or is National General sort of in its own ecosystem in terms of how you're thinking about expenses?

Mario Rizzo
President of Property & Liability and Director

No. National General is a core part of transformative growth. The reason we acquired National General was to first and foremost, improve our competitive positioning in the independent agent channel, and we've done that. With the business, we got a very well-run nonstandard auto business that we've continued to grow and grow profitably over the last several years. We're in the, I'll say, early stages of rolling out what we call Custom 360, as I mentioned, that's the standard and preferred auto and homeowners offering. So we think there's significant opportunity in the independent agent space.

When you look at the size of the National General business when we bought it, compared to what it is now. Our total IA presence, say, at the beginning of 2021 was a little over $5 billion, which included National General plus the Allstate independent agent business as well as the Encompass business, it's over $9 billion currently. So we've had a lot of success in that channel.

And we think there's just a ton of opportunity both in nonstandard auto, but in standard preferred homeowners in the IA channel. And we expect to continue to capture that opportunity, and that's a core part of how we're going to grow in a core part of the transformative growth strategy.

Operator

Our next question comes from the line of Yaron Kinar from Jefferies.

Yaron Joseph Kinar
Jefferies LLC, Research Division

I want to stay on the line of growth, if I can. So based on the expectation that Allstate will be better competitively positioned in '24, how quickly and aggressively can you pivot a growth? And is it more a matter of improving the retention rates, which I would think would be pretty quick? Or is it more about the ability to pivot to new business?

Thomas Joseph Wilson
Chairman of the Board, President & CEO

Well, how quickly it will depend what happens in the marketplace. So I fully expect that Progressive and GEICO, they spend more money in advertising and seeking to grow this year based on where their profitability is. State Farm has also been aggressive in trying to grow, although they still have to improve their price position so that they're earning profit. But I expect it to continue to be a competitive environment.

But you're right about the -- and then it will just be how effective are we versus them. We feel -- Mario showed you the numbers where 2/3 of the country were like all systems go. When you add in California, that's another big chunk. So we think we've got plenty of open field, so to speak, to run in and to compete with transformative growth.

We've validated a lot of the underlying assumptions, but we've yet to bring it to market in a consolidated way in particular states with all of our channels, that's on Mario's list to do this year. So we feel good about those opportunities. So we'll grow as fast as we can and still make sure we have a good combined ratio.

Mario, what would you add to that?

Mario Rizzo
President of Property & Liability and Director

Yes. No, I think that's a comprehensive answer, Tom. And I think the short answer, Yaron, is it's going to be pulled through retention and new business acquisition. And certainly, as we said earlier, as more states get into the right zone from a margin perspective, we would expect the amount of rate we need to take in those states to diminish. That's really, again, as Tom said earlier, is going to be a function of what the future loss trend looks like. But having to take less rate is a good thing from a retention perspective, and we'll continue to focus on that.

And then in terms of new business, as we begin to invest in more states and do things like unwinding some of the restrictive underwriting actions we had to take to limit growth, invest in marketing and take full advantage of the broad distribution capabilities we've built across the Allstate exclusive agency system direct and independent agent.

We think we can fully leverage all the things we've been building with a better competitive position to help drive growth. But timing will be dependent on state by state, market by market and influence in large part by the competitive marketplace we're going to be operating in.

Yaron Joseph Kinar
Jefferies LLC, Research Division

And then maybe as my follow-up, tying the appetite to grow as much as you can profitably the question of capital. You talked in the past and then even on this call about the -- about maybe selling the Health and Benefits business. You talked about the stop loss that you were looking to maybe purchase last year. Do you need to take any of these actions or other strategic actions in order to satisfy the growth appetite? Or do you have all the capital you need to grow as much as you want today?

Thomas Joseph Wilson
Chairman of the Board, President & CEO

No, we don't have to take any of those actions. We have plenty of capital and do -- we have plenty of capital today. When you look at our earnings power, we'll have plenty of capital to fund whatever growth we think we can achieve.

Operator

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

Elyse Beth Greenspan
Wells Fargo Securities, LLC, Research Division

My first question is on the holdco cash. It did go up in the quarter. Did you guys take a dividend out of AIC or another entity in the third quarter?

Jesse Edward Merten
Executive VP & CFO

Elyse, this is Jesse. So as it relates to holdco cash, you could see that it went up from the prior quarter. And this is really in accordance with our normal practice of moving capital around to maximize flexibility. So what we did do is move some capital up from a statutory legal entity. It was not AIC, but we moved some money up from some statutory legal entities as well as a few dividends out of noninsurance companies into the holding company.

I know when we talked in prior quarters, we had a few insurance companies that had a fair amount of capital in them and didn't have risk because the risk was all reinsured into the Allstate Insurance company. So sort of in the normal course of creating flexibility, we looked at those entities and moved some of that surplus up to the holdco in the quarter.

Elyse Beth Greenspan
Wells Fargo Securities, LLC, Research Division

And then my second question is on policy growth, but on the Nat Gen side, right, you guys have been showing its growth slowed within the Allstate brand. You've been showing pretty strong growth within Nat Gen policies in force. Just hoping to get some color there as you kind of put way through bolts books, like what's been driving the growth within Nat Gen? And how should we think about that continuing from here?

Mario Rizzo
President of Property & Liability and Director

Yes. Elyse, it's Mario. So most of the growth that we've been experiencing in National General has been in the nonstandard auto space. And as you know, that's a part of the market that's had a lot of disruption competitively where a lot of carriers have really either pulled out or certainly slowed their growth.

With National General, we've taken the same approach from a profit improvement perspective as we have in Allstate. We've taken almost 23 points of rate over the last 2 years in National General. The nonstandard auto book tends to turn over quickly so you can reprice the book on a continual basis. And so we've stayed in that market, we've generated meaningful growth in nonstandard auto, and we're comfortable with the margins that we're experiencing in that book of business and look to continue to grow that.

On top of that, as I said earlier, we're rolling out the Custom 360, which is the going upmarket in the IA channel to write standard preferred auto and homeowners. Again, early stages there. The good news is that, that product is in 16 states. We're getting good traction. It accounts for -- in the fourth quarter, it was about 70% of our standard auto and preferred new business production in the IA channel. We'll expand that into additional states throughout the course of 2024 and into 2025.

So we think that will be an additive opportunity in the IA space. But we're comfortable with what we've been writing nonstandard auto in National General, and we think there's an additive opportunity as we look to really leverage Allstate's capabilities in the middle market to expand National General in that space in the IA channel.

Operator

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

Jian Huang
Morgan Stanley, Research Division

Just a quick question on the capital side. Obviously, your capital now seems to be very sufficient. Curious as to how you think about the path to resuming buybacks, especially given the material rebound in capital level so far?

Thomas Joseph Wilson
Chairman of the Board, President & CEO

So this is Tom. Let me start with -- our capital has always been sufficient. So it just like to reiterate what the position we've had. As it relates to buybacks when we're looking at capital we generate, we start with, first, making sure we have enough capital to run the business and to grow the business. And we have had put aside more capital for growth given the dramatic increase in premiums and the risk. And we think with transformative growth, we will continue to have opportunities to deploy capital and high ROEs in that growth. So that's the first thing we do is like how do you drive shareholder value.

And so I think looking forward, with those opportunities, we will have less capital than -- for share buybacks than we had historically. That said, we have a strong track record of buying shares back. I think -- I don't know, since I've been CEO, maybe it's $30 billion worth of shares we bought back. Like if we don't have a good use for the capital, then we will give it back to shareholders because there's no sense hold on to extra capital.

But between growth in the Property-Liability business, growth in some of our Protection Services business, they tend to be a little lighter in terms of capital needs. And then our investment portfolio, we derisked our investment portfolio last year because of what we didn't see as great market opportunities. And if we saw there was opportunities to put more risk into the investment portfolio, that would be another use of capital. So I think -- thing about capital is, we're always trying to manage and maximize shareholder value, and we'll do whatever format is best.

Jian Huang

Morgan Stanley, Research Division

That's very helpful. And apologies for misstating the capital side of thing. So my second question really is on the expense. So one thing we hear typically from litigation lawyers is that well, social inflation is an issue because the insurance companies carriers tend to underfund claims department and often have inexperienced claim staffing.

As you think about expense save going forward and as we think about repivoting back to growth, can you maybe help us think about what areas within expenses are you cutting? And what are the areas where it is very critical and then the things that you're not going to cut on the expense side, is it possible to provide some colors?

Thomas Joseph Wilson
Chairman of the Board, President & CEO

Let me maybe address the litigation piece. Mario can talk about expenses in claims. And then we -- if you want, we can go above that in claims, I mean sure if you're just focused on claims. I'm not shocked that the lawyers would say that the only reason they exist is because we don't have good people settling claims. They're just not true. We -- while the injury claims are where our customers get into an accident and hurt somebody else, we take those very seriously. We try to resolve those quickly. We try to make sure people get a fair amount.

So I don't think I've seen any systemic changes either in the way we do it or the way the industry does it. I will say there have been a couple of things that have led to increased number of suits and litigation. First is they're just more severe accidents. So during the pandemic, people start driving faster, they keep driving faster. And so when you look at the severity of the accidents, severity is up. And when severity is up, people tend to get hurt more. And when people get hurt more, they tend to have more damages and that leads to a greater increase in the use of lawyers to help them resolve their claims. So that part seems completely natural to me.

There's obviously been a big change in the way those litigation firms go to market, I don't know, obviously. But if you look at their advertising spend today, it's over $1 billion a year. So they're out looking for customers. Some of those are people who need their help because they've been in severe accidents, and they're more of them. Some of them are the people that maybe don't need as much help.

They've also gotten much more sophisticated in the use of data and analytics and trying to hunt down claimants and possible clients. Some of that would be good. Some of that, we're not so sure they're actually doing what they're supposed to be doing.

So I think it's just a process like we want to make sure people get the right amount. We don't want them to get too little, and we don't want them to get too much. We work to do that. You saw -- we mentioned in the release for sure that we've also been settling claims faster. I guess we mentioned it in the presentation as well.

So to counter that, what we have found is that if we can put more resources on a claim, settle it faster than people are less likely to feel and need to go get a lawyer, they're happy, we're happy, and it's cheaper for everybody because nobody has to pay the 30% to attorneys.

Mario, do you want to talk more about claims, maybe bodily injury, other claim expenses?

Mario Rizzo
President of Property & Liability and Director

Yes. I guess where I'll start is as we talked over the last really couple of years about our profit improvement plan, it's multidimensional. And one dimension that we've continued to focus on is just improving claim operational execution. The fact is as much as continuing to reduce our cost structure improves our competitive position, really operational excellence in claims is another way to make sure that we pay what we owe, but that also will translate into a better competitive position over time.

So we're focused on really, I would say, all elements of the claim process. It's people process, it's technology, analytics, and we're going to invest in the claims process moving forward across all those dimensions to just continue to invest in terms of people, making sure we have the right adjust their capacity. We went through pretty significant turnover. It was really in 2022. That has largely subsided.

So we have much more stability in terms of claims staffing, but we're focused on training claims staff and providing them the tools both in bodily injury and in physical damage to operate in a way that, again, we pay what we own, but we ensure that we eliminate any leakage in the system.

And again, that's been a core part of the profit improvement plan going forward. We're investing in people to provide more oversight and get more eyes on cars in the physical damage side to do a much more effective job in terms of total loss evaluation on the injury side.

Tom mentioned, we're paying claims faster. We've reduced our pending inventory on the casualty side to the lowest level it's been since well before the pandemic. We think that continues to reduce reserve risk going forward.

So I would say the -- really, the answer is we're going to continue to invest in claims broadly because we just do believe it's a core part of enabling us to be more competitive and ultimately translate into growth.

Thomas Joseph Wilson
Chairman of the Board, President & CEO

Let me link this to Greg's question as well because I think sometimes when we set goals out there and we talk about specific line items in the P&L, we don't always show the subtleties of how they are linked together. So we clearly have a goal to reduce expenses related to transformative growth, so we can be a low-cost provider.

That said, we -- that's not our primary goal. Our primary goal is to treat our customers really well to build a great long-term business platform and to settle our claims and run our business properly. So if it means we have to spend more money on claims personnel so that we lower -- so loss costs come down, and we think that's in the best interest of our shareholders and our customers, then we're going to do that even if expense -- the expense number goes up. So we put those numbers out there to help you say we're -- let you know we're managing them, but we're not captured by just that one line item.

Operator

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

Joshua David Shanker
BofA Securities, Research Division

Once upon a time, you used to give us combined ratio guidance, and now you talk more about ROE guidance, which is sensible. But I look at the results in homeowners, and they are quite volatile and good this quarter. I want to know where we stand in terms of pricing adequacy broadly for the homeowners line. But more importantly, I want to assume pricing adequacy for bundlers. I assume that you have a pricing adequacy for monoline drivers and it's different for the bundlers. Are we at a point where you are very happy to take on bundlers at a nice level of profitability today?

Thomas Joseph Wilson
Chairman of the Board, President & CEO

I'll let Mario take on the bundling question because we're really happy about that. Let me just -- in terms of the homeowners business, we really like the business. It's -- you see, look at our 6-year combined ratio before this year, was 92%. That's a really high return on equity. It's a great combined ratio. If you look at our underlying combined ratio this year, which excludes catastrophes, it's come down from last year. Obviously, we had a bad 2 quarters, but bad 2 quarters doesn't make a bad business. So we still really like the business. We've raised prices in the low teens this year from a variety of different ways. So we like that business.

If cats is the first 2 quarters are indicative of where we go in the future, our cats were up $2.5 billion this year versus the prior year. So if that's the case, I am confident we have a business model, which will adapt to it. We might not catch it before. You won't catch it before it happens, but we have a really great go-to-market business model. So we're really happy with the homeowners business.

Mario, do you want to talk about returns in the homeowner business and then the bundling question?

Mario Rizzo
President of Property & Liability and Director

Yes. So Josh, in terms of overall rate adequacy, obviously, through the combination of the rates we've taken over the last couple of years plus the inflation in replacement values in homes, that's really fueling a pretty consistent and significant low-teens increase in average premium. So this quarter, that was about 12.5%. So we're seeing price flow through the system. And that doesn't include because, as you know, with the 12-month policy, it takes 24 months to turn in all that rate. So a lot of the rate we took in 2023, we've yet to earn, and we're going to keep at it in terms of staying on top of loss cost.

The underlying combined ratio for the year was 67%. It improved by about 3 points. Mid-60s is where we'd like that number to be. So we're getting closer to that. We have more rate that's going to earn in. And as Tom mentioned, we feel really good about our capabilities and homeowners, and we're going to continue to lean in and look to grow that business.

From a bundling perspective, just 80% of our homeowners customers have a supporting line or bundled. That's a pretty meaningful number. And that could have a discount at upwards of 15%. And again, but we think with that pricing the lifetime value of that bundled segment is substantial, and we will write bundled customers all day long.

Our agents are writing bundled business at an all-time high level, north of 70% of new business. We're incenting agents to write that. We're seeing more bundled business come through our call centers and our direct business. And as I talked earlier, Custom 360 going upmarket is both an auto and home offering.

So I think we're well positioned across all 3 channels to continue to attract bundled business that we can be even more competitively priced in because of the discounting element, but also it's a segment that we think generates substantial lifetime value, and we're good at it. So we're going to keep at it.

Thomas Joseph Wilson
Chairman of the Board, President & CEO

Josh, I know you're a student of our competitors. So you see both GEICO and Progressive talking more about bundling in their advertising. They obviously see also good customers there. Our difference is we expect to make money in homeowners.

Joshua David Shanker
BofA Securities, Research Division

And if I just close a little bit on that, even though we're going to see some modest decline in auto policy count due to price increases and turning the book a little bit, are you net growing bundlers every day?

Thomas Joseph Wilson
Chairman of the Board, President & CEO

I think we probably don't give that number out. But let's just say we have a high focus on bundling. Our agents are doing more bundling these days because we've changed the way in which we reward and compensate them. So we're continuing to hunt that one down.

I think we have time for 1 more question.

Operator

Certainly. And our final question for today comes from the line of Andrew Kligerman from TD Cowen.

Andrew Scott Kligerman
TD Cowen, Research Division

Quick -- maybe some quick questions here. With regard to the impacts of unwinding the restrictions and increasing advertising, could you give us a sense of the impacts of each on the combined ratio?

Mario Rizzo
President of Property & Liability and Director

Well, I think the first principal impact of unwinding underwriting restrictions will be to kind of increase the aperture of the types of risks that we'll be willing to write. Again, now that in the states that we're going to do that, we feel better and good about our rate adequacy. And that's true across segments, right? So we have a pretty sophisticated approach to pricing, where the prices accurately reflect the specific risks of each individual segment. So as we write business, it's going to be written at what we believe to be a rate adequate level.

Now from a new business perspective, as we increase the volume of new business, that does tend to right run a higher loss ratio due to renewal relativity going forward. So it will have some impact on our overall combined ratio going forward. But we take that into account in terms of how we manage the business.

But we don't open the underwriting restrictions until we're comfortable with the rate level we're at. We price each risk according to its unique characteristics. Having said that, there is a new business penalty associated with higher new business volume. But again, we factor that in, in terms of how we manage the overall combined ratio in the business.

Andrew Scott Kligerman
TD Cowen, Research Division

Got it. And then with regard to [Barry], just to make sure I'm clear on it. You talked about 8% to 9% in 2023. Is that what you're anticipating for 2024? And how are you thinking about frequency as well going into the year?

Thomas Joseph Wilson
Chairman of the Board, President & CEO

We don't do forecast for either frequency or severity on a go-forward basis. I would say is whatever it is, we'll make sure we get priced for it.

Thank you all for spending time with us this quarter. Obviously, with the sunshine a little bit and a few less cats, it gave you the opportunity to see the benefits of all the hard work the team has been doing to improve profitability in auto insurance and making sure we keep our homeowners business strong. We didn't really get to our other businesses, but they also continue to do quite well, and our investment portfolio and team had a great year when you look at our total returns.

So we feel good about where we're going forward. Thank you, and we'll see 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.