S&P Capital IQ

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The Allstate Corporation NYSE:ALL

FQ1 2013 Earnings Call Transcripts

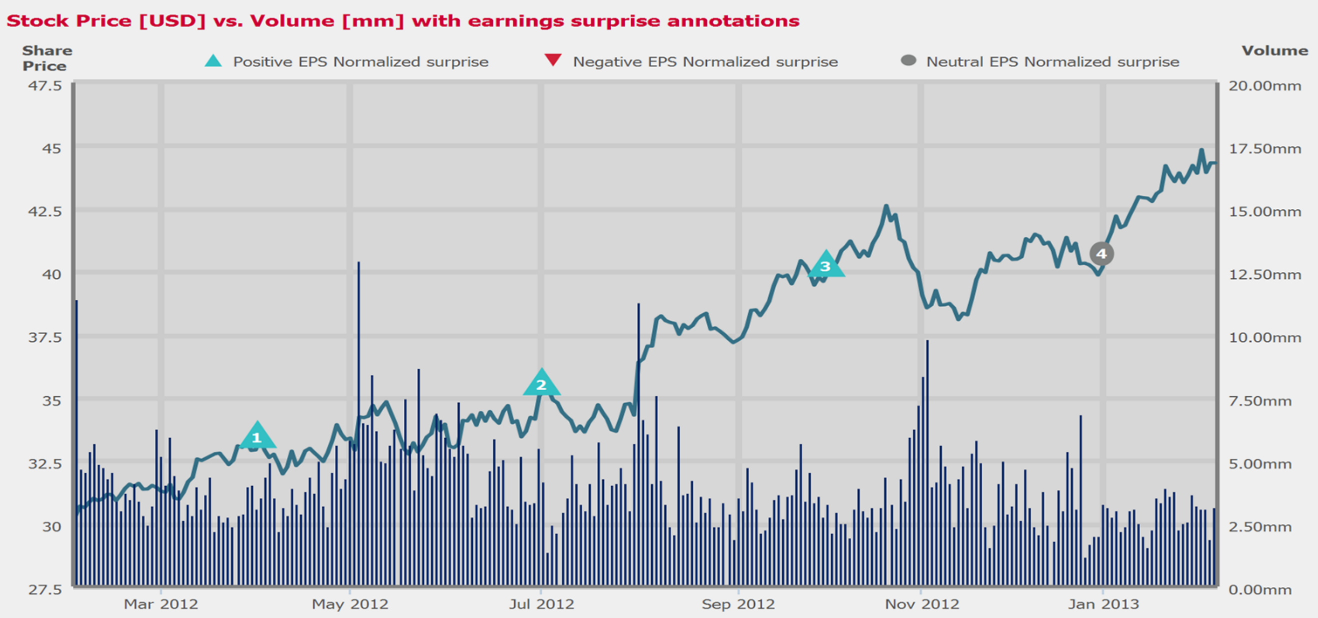
Thursday, May 02, 2013 1:00 PM GMT

S&P Capital IQ Estimates

	-FQ1 2013-			-FQ2 2013-	-FY 2013-	-FY 2014-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	1.29	1.35	4.65	1.16	4.78	5.17
Revenue (mm)	6770.35	6770.00	(0.01 %)	6810.62	27522.74	28075.17

Currency: USD

Consensus as of May-02-2013 12:23 PM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ1 2012	1.10	1.42	29.09 %
FQ2 2012	0.57	0.87	52.63 %
FQ3 2012	1.12	1.46	30.36 %
FQ4 2012	(0.06)	0.59	NM

Call Participants

EXECUTIVES

Don Civgin
President of Emerging Businesses - Allstate Insurance Company

Donald J. Bailey
Former President of Emerging Businesses

Judith Pepple Greffin
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Matthew E. Winter
President and President of Allstate Insurance Company

Robert Block

Samuel H. Pilch
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Steven E. Shebik
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Presentation

Operator

Good day, ladies and gentlemen, and welcome to The Allstate Corporation First Quarter 2013 Earnings Conference Call. [Operator Instructions] As a reminder, this conference call is being recorded. I would now like to introduce your host for today's conference, Mr. Robert Block, Senior Vice President, Investor Relations. Sir, you may begin.

Robert Block

Thanks, Matt. Good morning, everyone. Thank you for us joining today for our First Quarter 2013 Earnings Conference Call. We will begin with some brief commentary from Tom Wilson, Steve Shebik and me on our results. A question-and-answer session will follow that. Also on the call today are Don Bailey, Head of Emerging Businesses and Encompass; Don Civgin, Head of Allstate Financial and Insurance; Judy Greffin, our Chief Investment Officer; Sam Pilch, our Controller; Matt Winter, Head of Auto, Home and Agencies.

Last night, we issued our press release and investor supplement, filed our 10-Q for the first quarter 2013 and posted a slide presentation to be used in conjunction with our prepared remarks. These are available on our website.

Referring to our first slide, this discussion may contain forward-looking statements regarding Allstate's operations. Allstate's results may differ materially from those statements, so please refer to our 10-K for 2012 and our most recent press release for information on potential risks.

Also, this discussion will contain some non-GAAP measures for which there are reconciliations in our press release and on our website. We're recording this call, and a replay will be available following its conclusion. I'll be available to answer any follow-up questions you may have after the call.

Now let's begin with Tom Wilson. Tom?

Thomas J. Wilson
Chairman & CEO

Well, good morning. We appreciate your interest in Allstate. I'll cover our results for the first quarter relative to our strategy and our priorities for 2013, then Bob and Steve will provide more color on the business results, investments and capital, and of course, we have our entire management team here to answer any questions you have.

First quarter operating financial results reflect our progress in executing our strategy to create both sustainable and profitable growth. As you know, Allstate's strategy is to serve the 4 unique consumer segments with competitively differentiated products and services.

So if you go to Slide 2, we show the high-level results for the 4 consumer segments. The 3 brands where we underwrite risks, that being Allstate, Encompass and Esurance, all generated net written premium growth over prior year in the first quarter, while Answer Financial grew it's non-proprietary premiums.

In the consumer segment served by the Allstate brand, that's customers that prefer local advice and presence and branded products in the lower left, units continued to decline as expected, largely reflecting efforts to improve the homeowners returns. We did have an increase over the prior year quarter in new business for standard auto. This is primarily the result of new pricing tactics and improved agency productivity. Standard auto retention also increased, and profitability remains strong as we've masked rate increases with loss-cost trends for auto and homeowners. As a result, margins stayed at levels achieved at the end of last year.

Encompass, which serves the advice-seeking, brand-neutral customers, that's in the upper left, grew net written premiums 7.2% and units 6.1% over the first quarter of 2012 on the strength of its unique package policy and increased engagement of independent agencies. Profitability is not at target levels, but reflecting the runoff of the non-package auto business. Now we also have some work to do on pricing and underwriting in packaged auto, although the combined ratio there is below 100.

Esurance, which serves the self-directed branded consumer segment, that's the lower right, continued to produce excellent growth results, with net written premiums up 30% and units up over 36% from a year ago. The combined ratio of 116.7 remains elevated, as we invest in marketing to acquire profitable lifetime value customers. These results demonstrate that our strategy of providing differentiated products and services to unique customer segments is working.

We had a solid quarter in terms of operating results, as shown on Slide 3. On a consolidated basis, we produced net income of $709 million and operating income of $647 million. Both were less than the first quarter of 2012 due to higher catastrophe losses this year. The underlying property-liability combined ratio of 87.7 was 0.4 points better than the first quarter of 2012 and slightly better than our full year 2013 outlook range of 88 to 90. Book value per diluted share increased 12.7% from a year ago. Returns on net and operating income were 11.3% and 11.9%, respectively.

Over the last earnings call, we talked about we have 5 operating priorities for 2013, as is shown on the bottom. That's grow insurance premiums, maintain auto profitability, raise returns in homeowners and annuities, proactively manage investments and reduce our cost structure. The results from the first quarter are on pace to achieve those objectives.

Now I've already covered the premium growth of property-liability. At Allstate Financial, premiums and contract charges increased 4.7% over prior year, with Allstate Benefits realizing 11.8% growth in the quarter.

We also made progress on our second goal of maintaining auto margins. The Allstate brand's standard auto combined ratio for the first quarter was 94.2. That's 1 point better than the prior year. And the underlying combined ratio was 93.5. That's 1.4 points better than the first quarter of 2012. The overall auto combined ratio was 96.1.

We continue to raise returns from the homeowners business with an Allstate brand homeowners combined ratio of 85.1 despite over 18 points of catastrophe losses. The underlying combined ratio was improved 1.2 points year-over-year. That's the 65.8. It is pretty close to where we ended last year's fourth quarter.

Annuity returns declined in the first quarter due to reduced limited partnership income and continued low interest rates. Raising annuity returns remains a challenge, particularly given the slow interest rate environment.

Proactively managing the investment portfolio is our fourth goal. We had a total return of 1.2% for the quarter. We also sold long bonds in the property-liability portfolio to reduce our exposure to higher interest rates. Continued low interest rates and these risk reduction strategies will reduce net investment income as we move throughout the year.

We added a fifth priority this year, to reduce our cost structure. The expense ratio was up this quarter, reflecting accelerated investments in technology and a restructuring charge for future employee reductions.

Finally, there have been a couple of articles written about Lincoln Benefit Life, which comprises about 1/3 of Allstate Financial's total reserves, and is one of several legal entities providing proprietary life and annuity products through Allstate agencies.

Lincoln Benefit also serves consumers that are advice-seeking and brand-neutral through independent agencies, which is at upper left in our 4-quadrant market segmentation. As you know and would expect, our practice is not to comment on these rumors.

Let me turn it over to Bob.

Robert Block

Thanks, Tom. In the first quarter, on a consolidated basis, we generated $709 million and $647 million in net and operating income, respectively, shown on the top of Slide 4. These results were less than the first quarter 2012, as we recorded more catastrophe losses this quarter.

Property-liability recorded $616 million in net income, $79 million less than the first quarter of 2012, primarily due to the higher level of catastrophe losses this quarter. Earned premium of $6.77 billion increased 2.1% over prior year, with a recorded combined ratio of 93.2, including 5.3 points of catastrophe losses.

The $100 million increase in recorded catastrophe losses in the quarter was driven by lower favorable prior year reserve reestimates this year versus the first quarter of 2012.

The underlying combined ratio was 87.7, 0.4 point lower than the prior year and slightly less than the full year 2013 outlook of 88 to 90.

Allstate Financial net income was $146 million in first quarter 2013, up $34 million or 30.4% from prior year, as you can see on the top of the slide. This was driven by realized capital gains this year versus realized capital losses last year in the first quarter 2012.

Operating income of $144 million was slightly less than the first quarter 2012, as investment spread declined, which was partially offset by an increase in the benefit spread.

Now I'll review our performance on our operating priorities for 2013 that Tom just discussed. The first quarter saw real progress on the priority of growing insurance premiums. On Slide 5, total property-liability net written premium of $6.6 billion, grew 2.5% from the first quarter of 2012, with all the brands contributing to this positive result. Total policies in force of $32.8 million declined slightly from year-end 2012 and 0.7% from March of 2012. This figure excludes 1.1 million Good Hands Roadside members, which has almost doubled the membership as of March 2012.

Within the Allstate brand, standard auto net written premium was up 1.2%. While units declined, the rate of decline slowed in the quarter, and we experienced increases from the first quarter 2012 in new issued applications of 7.3% and retention of 0.6 point to 89.3%. We continue to seek rate changes as appropriate, introducing new pricing structures and products like Drive Wise into the marketplace. Allstate brand homeowners also recorded a small increase in net written premium, while units declined as expected, albeit at a slower rate.

Net written premium increases were recorded in our Emerging Businesses, Canada, Encompass and Esurance. Canada, Encompass and Esurance also had increases in unit growth from prior year.

We maintained auto profitability in first quarter 2013 with a standard auto recorded combined ratio of 96.1, 1.2 points better than the first quarter of 2012. This result includes all 3 brands.

On Slide 6, we provide some details for the Allstate brand's standard auto, which represents about 90% of the earned premium for this line.

The trend in gross frequencies for bodily injury and property damage are shown in the upper left. Both coverages recorded declines in the quarter from prior year. In the upper right, the trend for calendar year paid severities for bodily injury and property damage are displayed.

Property damage declined 1% year-over-year. Bodily injury increased 7.4%, a result heavily influenced by the timing of payments and geographic mix. Adjusting for these 2 factors, the underlying severity trend for bodily injury is in line with CPI growth.

When you include all the coverages in auto, the chart in the lower left shows the underlying loss trend improving from the first quarter 2012, while average earned premium continued to increase as we benefit from approved rate changes. The result was a consistently favorable combined ratio trend, shown in the lower right. We continue to successfully maintain auto profitability.

Raising returns in homeowners is an important goal. Slide 7 provides the details on our progress in achieving this priority, specifically for Allstate brand homeowners.

The underlying combined ratio was 65.8, 1.2 points better than the prior year, with a recorded combined ratio of 85.1. Loss-cost trends remain relatively benign, with gross frequency increasing slightly, while paid severity declined. The underlying margin trends continue to improve, as shown in the chart in the lower left. The chart in the lower right shows the continued improvement in the underlying combined ratio since mid-2011. We will continue to seek rate changes as necessary, utilize underwriting techniques to improve the quality of the book, roll out the new house and home product to more markets, and broker business in higher-risk markets where appropriate.

Raising returns in annuities remains a challenge as the low investment results continue to pressure returns. Shown on Slide 8, contractholder funds declined as we continue to shift away from spread-based products. Operating income return on attributed equity for Allstate Financial declined slightly from year-end 2012 due to higher net capital levels and lower operating income. The decline in the return for immediate annuities reflects lower investment income from limited partnerships.

Now let me turn it over to Steve to talk about investments and capital.

Steven E. Shebik
CFO & Executive VP

Thanks, Bob. First quarter investment results reflect strategic actions focused on balancing income, risk and return in the current low interest and uncertain economic environment.

In the first quarter, we continued rate risk reduction actions in our property-liability portfolio, maintained alignment with Allstate Financial's changing liability profile and began repositioning our public equity portfolio from a passive to a more targeted strategy.

On Slide 9, you see the carrying value of our total portfolio ended the first quarter at $97.4 billion, a slight increase over year end.

Core debt, which includes fixed income, securities and loans, represents the vast majority of our portfolio. We continue to increase the equity and owned component of our portfolio, including limited partnerships, real estate, public equities and other alternative assets. We expect these assets to generate higher returns over time, however, earnings from these assets will be more variable on a quarterly basis.

Net investment income totaled $983 million in the first quarter, and total portfolio yield was 4.5%, representing declines from both the prior quarter and first quarter of 2012. The magnitude of the decline was mitigated somewhat by income related to bond calls and mortgage loans repaid at a premium, as well as litigation proceeds, which added an aggregate of $42 million to net investment income.

Turning to the total portfolio return chart, we had a positive return of 1.2% for the first quarter, with net investment income the primary driver. Valuation price changes contributed less than in prior year quarters, as an uptick in interest rates was substantially offset by tighter credit spreads, moderating returns on the core debt portfolio. Equity and owned investments contributed to the total return through income from partnerships, equity dividends and increases in valuation.

Slide 10 depicts the dynamics and impact of the different investment strategies we are employing for the Allstate Protection and Allstate Financial business units. As mentioned previously, during the first quarter, we continued to reduce interest rate risk in our property-liability portfolio, positioning it to be less sensitive to a rise in interest rates by targeting a shorter maturity profile. This repositioning involves shifting out of longer-term municipal and corporate bonds and shorter-term lower-yielding treasuries into intermediate-term bonds, as shown in the scheduled maturity graph in the upper right. The sale of longer-term, higher-yielding securities pulls forward future income through the realization of gains.

As you can see in the graph in the top left, the earned yield on our property-liability core debt portfolio has been declining and was 3.3% for the first quarter of 2013. The current yield on intermediate corporates, our targeted reinvestment proxy, is approximately 1.3%. Given this differential, maturity and sales activities have and will continue to result in a decline in net investment income for core debt.

For Allstate Financial, you can see at the bottom of the page that both net investment income and the portfolio have declined as a result of the managed reduction of spread-based liabilities. The majority of investment cash flows have been used to fund liability outflows rather than being reinvested, so the portfolio yield has not been impacted as much as with the property-liability portfolio. Future investment income will depend on the pace of the liability outflows and reinvestment activity.

Looking forward, there are 3 factors influencing our investment income, arising from the market environment and investment strategies we have put in place since the financial crisis. First, the yield on our core debt portfolio. This is trending down as proceeds from maturities and the shortening of the property-liability maturity profile are reinvested at current lower rates. Second, income related to market refinancing activity, such as bond calls and mortgage loan prepayments, as well as litigation settlements, may be significantly lower or may not recur in the future. And third, limited partnership investments, which offer attractive long-term returns, will have income which may vary significantly from quarter-to-quarter.

For the first quarter, income on the core debt portfolio continued to decline as we expected, given maturities and rate risk reduction, while the other 2 items were at the high end of recent quarterly experience. To provide a better understanding of these trends, we added analysis on Pages 42 and 47 to the investor supplement to create more transparency of our investment results.

Slide 11 shows our capital position at the end of the first quarter of 2013. We remain in a strong capital position, with shareholders' equity of $20.6 billion comparable to year-end 2012. Statutory surplus remained at $17.2 billion, and deployable assets at the holding company level increased to $2.7 billion. Our book value per diluted share increased 12.7% from March 2012 and 2.5% from year-end 2012. We repurchased 14.3 million shares of our stock in the quarter, 5.1 million shares in the open market and 9.2 million shares under a $500 million accelerated share repurchase agreement. We have $1.33 billion remaining in our share repurchase programs.

Our operating ROE was 11.9% on a trailing 12-month basis, up 6.9 points from a year ago but down 0.5 point from year end. The drop from the year end reflects both higher average capital and a lower first quarter operating income compared to first quarter last year.

We're off to a good start in 2013. Our first quarter results are solid, and we continue to execute effectively on our consumer-focused strategy and our 2013 operating priorities.
Now let's open it up for your questions.

Question and Answer

Operator

[Operator Instructions] Our first question is from Jay Gelb of Barclays.

Jay H. Gelb
Barclays PLC, Research Division

For the underlying combined ratio of 87.7 in the first quarter, already being below or better than the outlook for the full year '13, is there any reason that you think that that's not able to continue?

Thomas J. Wilson
Chairman & CEO

Jay, this is Tom. We still feel comfortable with 88 to 90. That's a full year number. That's one quarter. A lot of the quarters bounce around just because of weather, but we're still comfortable with 88 to 90.

Jay H. Gelb
Barclays PLC, Research Division

Okay. And then turning to the contribution from investment income. On Slide 10 of the presentation, I know there were a couple potential onetime items in there, including bond call premiums. It will be helpful from our perspective to get what you view as sort of the run rate of the property-liability and Allstate Financial quarterly investment income.

Thomas J. Wilson
Chairman & CEO

Well, let me make a couple of comments about the run rate, and then Steve and Judy might want to jump in. First, we prefer not to give sort of line-by-line projections for the P&L, although I recognize that this is a more difficult one in this environment to get your arms around, particularly as you look at this quarter. So as you pointed out, we had a couple of things. Some of it is prepays, which are a little hard to forecast by its own [ph] . But we also had some litigation settlements. You might remember, about 1.5 years ago, we made a little bit of press by filing suits against a number of issuers of mortgage-backed securities, and we've started to settle some of those. So those really are truly nonrecurring and really reflect just an offset to losses we had in prior years. And then limited partnership returns bounce around. And Steve or Judy, you might want to talk about limited partnership returns and then what's happening with the core portfolio.

Judith Pepple Greffin
Former Chief Investment Officer of Allstate Insurance Co. and EVP of Allstate Insurance Co.

So Jay, we did -- as Steve said, we did have the 2 pages in the sup, and I think that those will be helpful in terms of distinguishing between the core portfolio and the equity portfolio, so you could see on that page what's happened in both. I think it's key to see that as we reinvested in the lower rates, done the risk reduction in the property-liability portfolio for interest rates, that the core earnings on that portfolio, the core yield has come down and will continue to come down. As Steve mentioned, the differential between the core portfolio yield and what we're reinvesting at is about 200 basis points, so that will continue to happen. I think it's also helpful to look at the upper right-hand side of Page 10 of the presentation that Steve just went through, and it goes through the progress that we've made in the risk reductions. And I think that also helps give you an indication of what we've done so far. And as we've said, we're going to continue to sell some longer-dated maturity securities and reinvest in the intermediate portion of the curve.

Operator

Our next question is from Michael Zaremski of Credit Suisse.

Michael Zaremski
Crédit Suisse AG, Research Division

I guess as a follow-up to the last question, so I think I heard Steve mention a 1.3% new money yield on the core debt portfolio in the property-liability portfolio. If I heard that correctly, then what do you guys think about the new money rates for the Allstate Financial core debt portfolio?

Judith Pepple Greffin
Former Chief Investment Officer of Allstate Insurance Co. and EVP of Allstate Insurance Co.

So for Allstate Financial, it's a little bit different because we're managing to match the liabilities, and there, we're -- in that portfolio, it's more of a 7- to 10-year proxy. So on property-liability, we gave you a 3- to 5-year proxy, and on Allstate Financial, it's 7 to 10.

Michael Zaremski
Crédit Suisse AG, Research Division

Okay. Okay, great. Okay. Now I have a couple questions about the capital backing the life insurance subsidiaries. I noticed the RBC ratio at year-end 2012 was up to the higher 300s from the previous year. I was curious if we should expect any dividends out from there. And I also noticed in the 10-Q, some talk about a $500 million advance between the subsidiary and the holdco.

Thomas J. Wilson
Chairman & CEO

First, you remember, we did put a bunch of money into the life insurance company over the last couple of years, and their goal is to return some of that money to us. Some of that will come through surplus notes. Some of it we'd like to come through dividends, and we have to work through some statutory accounting issues to get that done. So the intercompany loan was really just a way for us to get higher returns on $500 million of capital. It wasn't needed for capital purposes. It wasn't -- it was simply a way for us to move money into a better-returning asset, that's all.

Michael Zaremski
Crédit Suisse AG, Research Division

Okay. And will you be able to tell us how much capital is backing the spread-based annuities books?

Thomas J. Wilson
Chairman & CEO

There should be some attributed equity in the investor supplement, Mike.

Michael Zaremski
Crédit Suisse AG, Research Division

Okay. And then lastly, if I can slip one in, a lot of disclosure on the reinsurance program. Is the -- it sounds like you guys are expecting lower reinsurance costs for the year if I'm correct. Are you basically buying less coverage because there's less exposure, or you're taking on more -- a little more risk?

Samuel H. Pilch
Former Group Vice President and Controller

This is Sam Pilch. In the 10-Q, we explained several things that's going in on with respect to the placement of our reinsurance and the effect on costs. First thing was we did -- we no longer needed to place a second [ph] layer, which we did last year. And the reason for that is that we were able to achieve our targeted risk retention goals without that layer. Secondly, the benefit of the cap bond placement helped to reduce the costs. We also are expecting that we're going to place a smaller program in Florida. We'll be doing that later in the quarter. That will reduce our total cost. And then finally, the year-to-year pricing on the program has come down. So those are the 4 reasons that we cited.

Operator

Our next question is from Michael Nannizzi of Goldman Sachs.

Michael Steven Nannizzi
Goldman Sachs Group Inc., Research Division

Just a couple of questions, I guess. First off, on the homeowners line, I guess a question of how much rate are you getting right now? If you could just kind of ballpark it. I'm just wondering, when should we start to see that translate into premium growth? We've talked in the past about derisking efforts there. Can we revisit where that is and when we feel like you're comfortable with the book you have, and then it's just about growing top line or pushing rate through on the retained book? And just one follow-up.

Matthew E. Winter
President and President of Allstate Insurance Company

Hey, Michael, it's Matt Winter. You had a couple of questions embedded in there. So at a high level, let me start with where we are in the homeowners book. We have done a substantial amount of work on improving the profitability and returns of that business. We now have house and home in just about 22 states, making it available to just over half of the U.S. population. That product goes in immediately rate-adequate. We've also had rating actions, and if you look in the sup, I believe it's Pages 14 and 25 in the sup, you can see the history of our rate-taking actions. It has slowed. It has slowed in the last couple of quarters as we get closer to being rate-adequate. We're not quite done. And we're addressing it not just through rate, but through some continued underwriting actions. So although the vast majority of the nonrenewals and the reinspection program has had its impact, there is still some additional work to do. As you noticed, while we've been doing that, we've managed to ramp up new business, so new business is up just about 12% in the quarter, and that's continued improvement over the second half of 2012. We were about flat in the third quarter of '12. Fourth quarter, we were about 5.8% up in new business and this year, 11.9%. And we're actually growing new business in 33 states compared to 14 a year ago. Retention takes a little longer to work on, given the fact that these are 12-month policies and given the fact that some of the profitability and rating actions and underwriting actions have an impact, some collateral damage on retention, and so that hasn't moved as quickly as new business. We're hoping that as rating actions and underwriting actions soften and as we get closer to the final point of our profitability, the retention will start to pick up. We have a huge amount of effort underway on customer experience and retention. We know it's a key lever not only in the homeowners business, but also in the auto business. So the short answer to your question is we're not done yet with all the profitability actions, but we have made substantial progress, and we're trying to coordinate the turn by getting new business ramped up quickly. So as we get more rate-adequate and as the underwriting actions soften and decrease, we'll be in a great position to start growing.

Michael Steven Nannizzi
Goldman Sachs Group Inc., Research Division

Great. And then, Tom, you mentioned the expense ratio upfront. I mean, you talked about some restructuring actions. Can you give us a little more detail on how to think about the year-over-year and what aspects of the expense ratio are more go-forward?

Thomas J. Wilson
Chairman & CEO

Well, you have to break the expense ratio into a bunch of different pieces, right? So there's the Allstate brand expense ratio, which is that which we deploy in that lower left-hand quadrant. That was up a little bit, but we got a little ahead on technology spend. I would expect that to come down a little bit as we move through the year. Esurance expense ratio is high, and it stays high as long as we think the acquisition costs are better or a good trade for the lifetime value of the policy. But in general, we're looking at just about everything we have to try to reduce costs.

Michael Steven Nannizzi
Goldman Sachs Group Inc., Research Division

Okay. And then in the Q, you mentioned a change in compensation structure for agents' bonus and commission. Can you elaborate a bit on that?

Thomas J. Wilson
Chairman & CEO

Sure. Matt can talk about that. I may put it in a broad multiyear context, and Matt can talk specifically about that. Over the last 3 years, we've been working hard to strengthen our Allstate agencies and the distribution platform, and we did it at a time when we knew that we'd be backing off some on volumes because of what we were doing in the homeowners business. So we've done everything from change performance standards and work with those agencies who are not going to be successful to leave the system, to helping those successful agencies buy other agencies and build those agencies up, to deploying technology for them, to changing the compensation structure so that it aligned with our customer-focused strategy. So it's been a multiyear effort, and we feel good about where it's coming out. They were obviously -- anytime you make that broad and deep a change, it takes -- there's a few bumps in the road. Matt can talk specifically about the compensation program.

Matthew E. Winter
President and President of Allstate Insurance Company

Sure. As Tom mentioned, so we had a fairly substantial set of changes in our overall agents' compensation program. We implemented a variable compensation piece. We implemented a new annual bonus structure, and we implemented a set of measures designed to create a different type of an agency system consistent with our new customer value proposition. So rather than being single-product-focused, it is now more representative of the type of customer experience we'd like our agencies to provide, so they will get compensated better when they sell the full portfolio of products. When they pay attention to household bundling and household penetration, when they pay attention to customer experience and achieve great customer experience, they have compensation incentives in place for that, and their representation of the brand, all the way from physical presence of their agencies to their level of continuing education and their representation of multiple products. So this past year was really the first full year of implementation for both the variable comp piece and the annual bonus piece. It appears to be doing what we wanted it to do. It's driving the behaviors we want. We were surprised, and pleasantly surprised to see the success of most of our agencies in making that turn. It's really difficult to respond to a new compensation system when you're running a small business and you've built cash flow projections in your business plan in a certain way. But I think our agency owners did a phenomenal job adapting to the new system, reorienting their business, redoing their business plans, and they maximized their compensation and did exceptionally well last year. And so any reference you may have seen may have been to the fact that we had a good payout last year on the annual bonus, and we have a high percentage of people making the variable comp and, in fact, a substantial percentage making more now as a result of enhanced customer experience.

Operator

Our next question is from Bob Glasspiegel of Langen McAlenney.

Robert Ray Glasspiegel
Langen McAlenney

I appreciate the increased disclosure on Slide 47, but I'm going to be greedy and ask for a little bit more transparency. On partnerships, my understanding is that you have a 1-quarter lag, so the good, strong stock market in Q1 is likely going to provide a headwind into Q2. And I'm just wondering how we should think about the mix of partnership assets and if there's a macro portfolio we should look at and an overall core to the strategy of what you're trying to do with your partnership investing.

Thomas J. Wilson
Chairman & CEO

Bob, this is Tom. You've always been known to ask for more, and Judy's will attempt to give that to you.

Judith Pepple Greffin

Former Chief Investment Officer of Allstate Insurance Co. and EVP of Allstate Insurance Co.

Thanks, Tom. So Bob, in the limited partnership results, there are a couple of things. First of all, there are private equity, traditional private equity returns, and you can look at that and see some correlation to the broader S&P and you can apply a beta to that. And you're right. When they -- we do report on a quarter lag and when the S&P does well, those valuations tend to do well. The second piece is real estate, which is a little bit tougher to align to the S&P, but it also tends to do well in this type of environment with lower rates and a lot of demand for real estate. The third piece, which has come down significantly over the past couple of years, is our hedge fund exposure, which is almost nonexistent at this point. So we basically replaced that with private equity and private real estate, and we're also looking at increasing our investments in infrastructure and real assets. That's a little bit slower than we'd like because a lot of people are looking for those types of assets, but we still think that those offer value as well.

Robert Ray Glasspiegel
Langen McAlenney

Anything unusual in the expense ratio that's bumped up? Is there more advertise spend, or is that a trend line we can expect to continue? Perhaps, it's Esurance in the mix.

Thomas J. Wilson
Chairman & CEO

Bob, the only thing that's unusual, our technology expenses were a little ahead of plan in the first quarter and we took a charge for our future employee reductions.

Robert Ray Glasspiegel
Langen McAlenney

Any sense on how many bps above normal those things represent?

Thomas J. Wilson
Chairman & CEO

We're not going to give that out, no.

Operator

Our next question is from Gregory Locraft of Morgan Stanley.

Gregory Locraft
Morgan Stanley, Research Division

I just wanted to follow-up on Glass' question regarding the limited partnerships. You guys, I think, have some footnotes in the supplement that talk about, about $2 billion of commitments or future -- anticipated future purchases of limited partnerships. First off is -- I mean, am I reading that footnote correctly? And then what is the timing around that? And that represents a 40% increase in the LP allocation. So how is that going to impact just net investment income dollars going forward for the corporation?

Thomas J. Wilson
Chairman & CEO

Greg, this is Tom. Judy will give you the specifics. But remember, those commitments, we sign up to a fund, and those commitments are drawn down, as you would expect, over a long period of time. And at the same time, as those commitments are being drawn down, we're getting cash from our existing investments.

Judith Pepple Greffin
Former Chief Investment Officer of Allstate Insurance Co. and EVP of Allstate Insurance Co.

So it is about $2 billion, and about $1 billion of it is set aside for Allstate Protection or the property-liability business and about $1 billion for Allstate Financial. And as Tom said, it's just a drawdown over several years versus the commitment. And what we find is, though, that it's not a dollar-per-dollar increase with what we currently have, because what we currently have will pay down over time as well. So by the time we fund those other investments in our current portfolio, they'll likely have already been realized.

Gregory Locraft
Morgan Stanley, Research Division

Okay, that's helpful, folks. So it's not going to be a 40% jump in this part of the portfolio. It's going to be much smaller given what you just said.

Judith Pepple Greffin
Former Chief Investment Officer of Allstate Insurance Co. and EVP of Allstate Insurance Co.

I guess I would say that we are trying to grow this part of the portfolio, yet the 40% likely won't happen because of what I just talked about.

Gregory Locraft
Morgan Stanley, Research Division

Perfect. Okay, great. And then last is just you had mentioned you want to own some more infrastructure and real assets. Should we think about this as a pro rata slice of the existing allocation, or is it all maybe going towards that or the infrastructure funds or something else?

Judith Pepple Greffin
Former Chief Investment Officer of Allstate Insurance Co. and EVP of Allstate Insurance Co.

There again, we're trying to grow it, as I said, but it's more difficult because there's lots of demand for those assets. So it's not -- we continue to allocate it to private equity and real estate as well, so pro rata is not too far off with the way to think about it.

Operator

Our next question is from Ian Gutterman of Adage Capital.

Ian Gutterman
Adage Capital Management, L.P.

I guess my first, Tom, is I know there's been a lot focus on the homeowners improvement, but arguably, the auto progress has been just as impressive, given many of your peers have struggled to maintain margins as severity spiked, and you've been able to improve it. I mean, I know you've talked a little bit about it in the past, can you just give a little more color? I mean, do you feel -- what sort of gives you confidence that you can maintain auto margins if severity remains elevated at these levels?

Thomas J. Wilson
Chairman & CEO

Well, first, thank you for the recognition. Matt's smiling quite broadly here. We think we're pretty good at the auto business. We pay a lot of attention to it. We have a culture and a set of operating practices and organization structures that ensure that, that keeps going, so we're a little paranoid about it. Matt can talk specifically about some of the underlying trends in the big states and the things that he's watching, to give you a sense for sustainability. But I would say that it is a -- as you know, one of our core objectives has always been to maintain auto profitability while we start to get the business growing again.

Matthew E. Winter
President and President of Allstate Insurance Company

Yes. It's Matt. Thank you both for the question and for the comment. As Tom said, a lot of our ability to manage this has to do with the systems we've set up and have been set up over the years here, to be very proactive in the auto business and watch emerging trends. A lot of that has to do with a fairly decentralized product organization that is focused down at the substate level on geographies and local markets to watch emerging trends. And a lot of it also has to do with the feedback loop with our claims organization to product, where the claims personnel are really monitoring trends very quickly, reporting on them and enabling us to stay out in front of it. We see that most evidently in some of the larger states. You see what's happening to New York and Florida. We feel pretty good about what's happened there. We've done -- that team has done a phenomenal job paying attention in very, very difficult environments, as you're aware. And we manage the loss ratios both holistically and by individual component. So it's easy to get trapped in either of the 2, either looking at loss ratio and not looking at the individual components, or getting so focused on BI paid severity or PD paid severity that you don't look at the overall context and the overall loss ratio. And so we've set up a structure where we're looking at it in multi-dimensions. And we're watching the emerging trends, and we're trying to stay ahead of our loss trends. Yet, at the same time, we're very focused on optimizing between growth and profitability. We think that we're seeing some really encouraging trends on the growth side. We have -- we saw some great overall growth in new business. This year, we -- this quarter, we had 29 states showing positive growth in the quarter, where -- the retention is also up, with about 32 states improved in the first quarter. So the more we focus on our ability to maintain our existing customers and improve their customer experience and get the new business engine growing again, while we maintain the profitability awareness and focus, we think it's setting the stage for a dynamic business.

Thomas J. Wilson
Chairman & CEO

So we have the same culture in the other businesses that's executed a little differently. So if I could get Don Bailey to talk about Encompass and Don Civgin to talk about Esurance.

Donald J. Bailey
Former President of Emerging Businesses

Particularly on the growth side, Tom?

Thomas J. Wilson
Chairman & CEO

No, on the combined ratio in auto insurance.

Donald J. Bailey
Former President of Emerging Businesses

The combined ratio. So on the auto combined piece -- this is Don Bailey on Encompass. If you look at our overall plan for Encompass, you can see sustained growth on a top line basis, which we're excited about. As Tom said in his opening comments, we're not where we need to be from a profitability perspective. If you break down the auto piece of that for us, what you'll note is that our packaged auto business represents about 73% of the total gross premium we've got in that space, and the segment business, the monoline auto is about 27%. The profitability pressures we have are clearly in the monoline segment auto space. Our packaged auto business operates below 100, as Tom said. From a growth perspective, we are significantly growing the packaged auto piece of what we do, and we are significantly shrinking that piece of it that is monoline. So we've got a plan for profitability in the auto space. In Encompass, we're executing that plan, and we're getting there as quickly as we responsibly can.

Don Civgin
President of Emerging Businesses - Allstate Insurance Company

And then as it relates to Esurance, we've owned Esurance for about 1.5 years now, feel really good about where we are with them. Not only are they living into the strategy of serving their unique customer with unique products and services, but they're generating strong growth with the PIP up about 36% over last year and the premiums up over 30%. The combined ratio is high. We expected that. We're okay with it. We have had a lot of work done with respect to making sure their loss ratios are in line, and you can see that coming down from where it's been running over the back half of last year. So we feel good about that and confident that, that will be a strong contributor in the future. And then -- and we've discussed before, their advertising model is different. So because they are growing so fast and spending a lot of money on advertising, we are forced to expense that upfront, which makes their short-term loss ratio, GAAP loss ratio look quite high. We are running this on an economic basis, so we look at the lifetime economic combined ratio, which we monitor continuously. We feel good that we're writing profitable business. GAAP results tend to skew that, so it'll look less profitable at the beginning and more profitable in the future. And in a high-growth environment, that doesn't look as attractive. But we're feeling good about the business they're writing. We love the fact that it's growing, and as I said, at the end of the day, it's fulfilling its strategic objective.

Ian Gutterman
Adage Capital Management, L.P.

That was all exceptionally helpful. I could probably ask about 6 follow-ups, but I'll limit myself to 1. Matt, on the growth in new business you mentioned, can you just give us any more color as far as -- I know, you talked about states and so forth, but is there any -- is it certain types of customers that are growing differently than another or certain risk characteristics or is it monoline versus bundled, any kind of maybe customer segment that's leading that a little bit more than others?

Matthew E. Winter
President and President of Allstate Insurance Company

Sure. Well, remember, I talked about, at probably the last 2 earnings calls, about 2 initiatives that we had underway with the auto business, that we've termed price optimization and broadening the target. And essentially, what the intent of both of those initiatives was to do was to slightly expand our target market. We had been very selective in our target market, but we were -- we had a very attractive rate for a fairly small group of people, and we wanted to, consistent with our risk profile and our underwriting rigor, expand that a little bit. And so we have broadened that target market a little bit, still well within what we believe is the preferred type of risk that we want as a company. And consistent with that and some of the cross-line sales and discounts for multiline, we are seeing a broadening of that target. We're seeing a larger group of people who are finding us attractive. They tend to be very profitable. They tend to bring a need for other products with them. It's a pretty broad-based improvement, and what's interesting is that the new business trends that are up and the retention trends that are up, are up in those states where we have implemented those 2 initiatives, the price optimization and broadening the target. So we're seeing them provide the lift that we expected, and we're seeing that continue to roll out as we finish installing those tweaks to the rating plan across the country. So overall, it's a slight broadening, not in a dramatically different market, but a disciplined move to expand our target market to include a greater percentage of people who shop with us.

Thomas J. Wilson
Chairman & CEO

To all of our participants, I know it's a busy day for you. We got a number people with questions, so if you could give us your most important question, we'll then commit to try to get through as many of these as we can.

Operator

Our next question is from Vinay Misquith of Evercore.

Vinay Gerard Misquith
Evercore ISI, Research Division

Just a question on the change in the compensation structure for the agencies. If I recall, that did result in a few agents leaving. Just curious where we are in the process. Are we seeing the pace of agents leaving decline?

Thomas J. Wilson
Chairman & CEO

Vinay, this is Tom Wilson. I'm not sure I agree with your premise that people left because of the compensation program. People choose their -- where they will put their professional efforts based on what they think their ability to succeed is. Obviously, that includes compensation, but it also includes their own skills, capabilities and their own view of what they want to do in their lives. So I wouldn't attribute the decline in agencies to the compensation plan. I would say that our agencies have been going down over the last couple of years. But if you -- the other thing to look at is the number of licensed sales producers. So which is really more important is how many people do we have out there selling. Matt might want to make a comment about -- I think what I would say is if you're really getting at where the agents heads, Matt might want to make a comment about agency productivity.

Matthew E. Winter
President and President of Allstate Insurance Company

Sure. So let me try to answer it this way. The underlying premise to your question is that historically, over the last year or 2, we saw a decline in some of the agent population, and is that continuing or is that slowing. And I would say, first, not all of that was unintended. We had some expected attrition during that period, as we were shifting and trying to get to a more productive agency force. I would say, much like the comments I made about homeowners and other efforts, the vast majority of that is behind us. We've seen agencies prove that they can be very effective with our new structure, with our new compensation structure, with our new support model and with our new customer value proposition. So we are seeing a stabilization of agency numbers. And as Tom mentioned, we have a large initiative underway to not only grow the number of agencies, but to grow the number of licensed sales professionals, which is working quite well right now. We are seeing net positive growth in many states, and we have a series of things we are rolling out to improve the recruiting selection and training and development of those licensed sales professionals and provide additional support to them and enable them to be as successful as we have been focused on for our agency owners.

Vinay Gerard Misquith
Evercore ISI, Research Division

That's helpful. Just as a follow-up, on the reinsurance purchases, have you considered buying more reinsurance to reduce the volatility on the homeowners side since pricing is low right now?

Thomas J. Wilson
Chairman & CEO

Vinay, thanks for your question. I'll point out it's not really a follow-up. And I would ask all the next people -- I do want to try and get to everybody. We're always looking at reinsurance and the right way to shed risk or to keep risk and what's economic, and we're comfortable where we're at.

Operator

Our next question is from Josh Stirling of Bernstein.

Josh Stirling
Sanford C. Bernstein & Co., LLC., Research Division

So on Esurance, obviously, a big uptick in growth in the quarter, sequentially helpful. Wondering what you've learned over the past year and if there's any couple of specific things that you're doing now that's leading to the acceleration of growth. And then it's not a follow-up but really related, just -- is there a target, a GAAP combined ratio target that we should be thinking about as your sort of short-term operating goal for Esurance as we look out over the next year or 2?

Don Civgin
President of Emerging Businesses - Allstate Insurance Company

Josh, it's Don Civgin. What I would attribute Esurance's success to thus far is the fact that, in a very thoughtful way, they focused on what the customer value proposition they're building is. So when you look at their set of features and services that they provide to their customers, they are really quite cutting-edge. And so first of all, they have a really strong offering for their particular customer segment. Second, I think the affiliation with the Allstate brand, with Esurance and Allstate company, has played very strongly in the market. That was always something that was a barrier for them from a conversion and retention point of view, and the affiliation with the brand, Allstate, has helped them, I think, substantially. And I think the third thing is their advertising campaign, their marketing efforts have been quite successful.

And so when I look at kind of the whole results that we're seeing, not only we're seeing growth, we're seeing -- as a result of the advertising, we're seeing better conversion. As you can tell from the reports, we're seeing better retention, and they're getting a better mix of customer, and so -- with prior insurance and so forth. So we're feeling good that there are good, solid reasons for why they're performing the way they are. The only thing I'd add on that is, and this is important, Esurance is getting its growth not from Allstate customers. So we monitor it very closely, and Esurance is taking market share from competitors. There's no transfer between our brands. They're just, quite honestly, winning in that customer segment, and we feel good about it. As it relates to the target combined ratio, we would target an economic combined ratio and then decide how flexible we can be on the GAAP combined ratio, because as I said before, we're running this on an economic basis. So I would tell you we don't necessarily have a target GAAP ratio. So long as the business we're building is good, solid profitable business, we're happy with it.

Operator

Our next question is from Josh Shanker of Deutsche Bank.

Joshua David Shanker
Deutsche Bank AG, Research Division

I was looking at the repurchase, and maybe I don't understand a few things. It looks like on the accelerated share repurchase, I guess you're through $444 million of the $0.5 billion. Am I thinking about that correctly? And that means you've paid about $48 in the quarter per share. It seems a little expensive to me given where the stock traded this quarter. Maybe I don't understand how this works, so you can explain it a little bit.

Steven E. Shebik
CFO & Executive VP

So Josh, we bought back in the open market, for the first couple of months of the quarter, a couple hundred million dollars of shares, and then we pre-funded $500 million in this accelerated program and received 9.2 million shares back. We will settle that at the end of that program and pay either in more shares or they will hopefully pay us some additional shares, but we will pay them a few shares to settle out the deal. If you look at both the earnings release and the 10-Q, we have that broken out for you. I'm not sure about the $444 million. I have to check.

Joshua David Shanker
Deutsche Bank AG, Research Division

I was just saying that you guys said you were through $1.33 billion, and $226 million plus $1.33 billion leaves me at $1.5 billion.

Steven E. Shebik
CFO & Executive VP

Got it. So what that is -- you don't get all the shares back for the $500 million, so that reflects effectively the amount of shares they gave us, which was based on $425 million at the price on -- I think it was March 1. So it was not $48.

Thomas J. Wilson
Chairman & CEO

Josh, I would just point out it's going to be cheap relative to what the stock's going to be.

Joshua David Shanker
Deutsche Bank AG, Research Division

I hope so. That would be my goal. The other thing I was wondering, just in terms of the pace, do you expect to be done with the program before hurricane season? Do you expect to be buying during hurricane season? How does that affect your purchasing habits?

Steven E. Shebik

CFO & Executive VP

You mean the accelerated program?

Joshua David Shanker
Deutsche Bank AG, Research Division

The accelerated -- and both programs together. Where do you expect to be come July 1, I guess, compared to September 30?

Steven E. Shebik
CFO & Executive VP

So the accelerated program goes as late as July 2, so we don't have control over that. And after that, we will go back to open-market purchases. So generally, if you look in the past 2 or 3 years, we slow down during hurricane season. So probably mid-July through the end of September, kind of pending when the storms are, we buy less. And we buy more in the first half of the year and in the fourth quarter.

Operator

Our next question is from Adam Klauber of William Blair.

Adam Klauber
William Blair & Company L.L.C., Research Division

Could you add some details on how the Drive Wise program is rolling out and what you expect for the next 12 months from that program?

Thomas J. Wilson
Chairman & CEO

Adam, this is Tom. I'll make a general comment about Drive Wise, and Matt can talk about the rollout. So there is a difference between Drive -- first, of course, all -- there is an odd word, telematics, which is the analytics connected to the car. There is a difference between our program and some of the other ones out there, in that ours is called Drive Wise because it is a continuous connection with the customers as opposed to a moment in time or one that stops at some point once you get down with the pricing. Matt can talk about what we're doing to leverage and build that strategy out both near term and longer term.

Matthew E. Winter
President and President of Allstate Insurance Company

Sure. Adam, so let me just kind of give you a snap -- an assessment of where we are right now. So it's been rolled out in 16 states so far, including 6 in April. And we'll continue to roll that out through the year. We'll probably have 3 or 4 states per quarter. We've seen very favorable early results from a new business lift perspective. So as we roll it out, the new customers are excited about it and interested in it. To date, we have just over 400 million miles that have been driven by customers using the device. And of those receiving a driving discount, the average savings is actually just about 14%. So it is both promoting safer driving behavior and resulting in a benefit to the customers. We've seen a really interesting dynamic on the enrollment. More than 1/3 of all new customers enroll with Drive Wise when it's available, which is a greater take rate than we anticipated as we do this. Now we're looking at -- as we continue to roll this out, we continue to look at next-generation versions of Drive Wise and ways of making it even more affordable for us, easier to place into the car, with less required interaction on the part of either customers or agents and additional functionality that not only continues to provide us with information about driving habits that we can use to perfect our ratings models and to provide better pricing to certain customers, but also that provide additional tangible benefits to customers based upon the new connection now that would be available with our data sources and them in their cars.

Adam Klauber
William Blair & Company L.L.C., Research Division

Great. Do you think that's helping the new issued applications, which really bumped up in the quarter?

Matthew E. Winter
President and President of Allstate Insurance Company

There's no doubt that it is -- it has some impact, but I would say this is a system, Adam, and it's hard to attribute upticks to any one component. There's lots of things happening all at once, including decline in taking rate, including tremendously improved agent productivity and agent engagement. There's marketing effectiveness with new types of ads. There's new generations of agency management systems that are helping the agencies be more productive. So I think there's lots of things contributing to that new business lift, but we do know that Drive Wise is providing some lift as well.

Operator

Our next question is from Brian Meredith of UBS.

Brian Robert Meredith
UBS Investment Bank, Research Division

Matt, I've asked this in the past on some calls and then just ask it again here. This favorable loss trend you see in the homeowners side, how much do you think of that is your own underwriting initiatives? And if that's the case, how much of that -- how long are we going to see that benefit in loss trend from what you've been doing with deductibles in roofs and stuff?

Matthew E. Winter
President and President of Allstate Insurance Company

Did we answer your question last time you asked, Brian?

Brian Robert Meredith
UBS Investment Bank, Research Division

Yes, a couple -- 2 quarters ago, you did. I'm not going to tell you what you said, though.

Matthew E. Winter
President and President of Allstate Insurance Company

I believe I remember what I said every time, which was that I'm not going to give you exact percentages, but about half is due to sustainable changes in our model and in our underwriting standards. And we were benefiting from some favorable weather that contributed about the other half. Look, this is a constantly evolving product line. As more and more house and home gets in the market and as a greater percentage of our homeowners' book is comprised of house and home product, it will impact our sensitivity to certain weather patterns and to certain events. And as the weather changes and as we continue to get more and more sophisticated in our risk management, in our concentration limits and the way we use our full portfolio, that's going to change it as well. You may recall, Brian, that I mentioned that we look at the homeowners issue as a portfolio. So we not only have the historical Allstate product, we have the new house and home product, we have our excess and surplus carrier, North Light, and we have a multitude of nonproprietary homeowners offerings provided through Ivantage, our brokerage capability. And so as we continue to refine those and stay on top of the trends, we think we will continue to make progress. But weather is weather, and it's volatile, and we saw that this last quarter. We saw water claims pop up. And it was -- we saw a freeze in Arizona in the middle of January that created a 300% increase in pipe burst claims in the month. That kind of stuff happens, and so we just -- we'll stay on top of it, and we continue to perfect the product and the underwriting and the risk management as a system.

Operator

And our final question today is from Paul Newsome of Sandler O'Neill.

Paul Newsome

I'll just ask, actually, one question. What is -- in your opinion, what is the normal seasonality for the underlying combined ratio, and has that changed as your mix changes a little bit over time?

Thomas J. Wilson
Chairman & CEO

Paul, I don't think you can actually -- in terms of first quarter relative to -- are you trying to -- first quarter relative to our 88 to 90, is that what you're headed for?

Paul Newsome

Yes, I mean, I just want to know if -- I mean, in the past, companies have talked about sort of like non-cat weather-type impacts that affect things from quarter to quarter, and I'm just curious -- you've obviously changed your exposures quite a bit over time -- if that's changed.

Thomas J. Wilson
Chairman & CEO

Well, it's a good question, one that is very difficult and really impossible to answer because seasonality, of course, all depends on whether the -- when you start splitting into what season is it. Maybe April is spring, maybe April is still winter, as we saw yesterday. And then, of course, it depends when the weather happens, not just on the date but the type of -- time of day. So a hailstorm during heavy traffic costs you a lot more than a hailstorm at night because the cars are in garages. We've tried to and continue to try to answer your question so that we can look in granularity at the level of profitability in our various states, and it's really impossible. So far, we've not been able to correct the code despite lots of computer and intellectual horsepower.

Okay. Thank you all. Overall, it was a good start to 2013. We remain focused on executing our strategy, which is unique product and services to distinct customer segments. And then we have our 5 priorities, which we'll continue to report back to you on. Thank you for a little extra time today, and we'll talk to you next quarter.

Operator
Ladies and gentlemen, thank you for participating in today's conference. This concludes the program. You may now disconnect. Good day.