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Presentation

Operator

Thank you for standing by, and welcome to Allstate's Third Quarter 2023 Earnings Conference Call. [Operator Instructions] As a reminder, today's program is being recorded. And now I'd like to introduce your host for today's program, Brent Vandermause, Head of Investor Relations. Please go ahead, sir.

Brent Vandermause

Thank you, Jonathan. Good morning. Welcome to Allstate's Third 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, filed our 10-Q 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 your investment and time in Allstate. I'd like to start with an overview of results and then Mario and Jess will walk through our operating performance. Let's begin on Slide 2. So our strategy's 2 components: increase personal Property-Liability market share. And expand protection provided to customers, which are shown in the 2 over on the left. On the right-hand side, you can see the highlights for the quarter. We made good progress on improving auto insurance profitability. There is more to be done, but you can see the improving trend again this quarter.

We decided to pursue our sale of Allstate's Health and Benefits businesses. After successful integration of Allstate's voluntary benefits business, with National General's group and individual health businesses, we've created a really well-positioned benefits platform, and that strategy was part of the National General acquisition plan. Our success now positions us to achieve additional growth, that potential could be maximized by aligning this platform with a broader set of complementary products, distribution channels and capabilities. We anticipate completing a transaction in 2024.

We also made progress in executing and transformative growth initiatives to set the stage for personal profit liability market share growth as margins improve. The second part of our strategy to broaden protection offerings also progressed with Allstate Protection Plans growth.

Let's review the financial results on Slide 3. Revenues of $14.5 billion in the third quarter increased 9.8% above the prior year at $1.3 billion. The increase was driven by higher property liability earned premiums in auto and homeowners insurance, primarily reflecting the 2022 and 2023 rate increases, which has resulted in Property-Liability earned premium growth of 10%. Net investment income of $689 million reflects proactive portfolio actions, including extending fixed income duration and lowering public equity holdings to take advantage of higher fixed income yields.

Net loss of $41 million and adjusted net income of $214 million, that's $0.81 per diluted share reflects improved profit liability underwriting performance. Property-Liability recorded an underwriting loss of $414 million, which compares to $1.3 billion loss in the third quarter of 2022. While the improvement was encouraging, loss cost trends remain elevated and require continued execution of auto insurance profit improvement plan, particularly in California, New York and New Jersey.

Slide 4 provides an update on the execution of the 4 components of that plan. Starting with rates. The Allstate brand has implemented 26.4% of rates since 2022, including 9.5% through the first 3 quarters of 2023.

National General implemented rate increases of 10% in 2022 and an additional 8.8% through the first 9 months in 2023. We will continue to pursue rate increases to restore auto insurance margins back to target levels. Second, reducing operating expenses is core to both the profit improvement plan. And importantly, the transformative growth plan to become a low-cost provider of protection. Expenses are down, and we have a path to further reductions.

Third, we've restricted new business growth in areas and classes of business where we are not achieving target returns. Given the success we've had in some areas, we're selectively removing these restrictions in some states and segments. Fourth, enhancing claim practices in a high inflationary and increasingly litigious environment are required to deliver customer value. That includes accelerating the settlement of injury claims and increasing in-person inspections.

Turning to Slide 5. Let's touch base on why we believe this profit improvement will work in the current competitive environment. Allstate's capabilities and business model have generated industry-leading auto insurance margins over the last 10 years with an average combined ratio of roughly [96.5] and an average underwriting income of $800 million. That represents approximately a [5-point] outperformance in the industry, which generates an incremental profit of about $1.3 billion annually. Only a few of the other top 10 insurance companies have a similar record. In the current competitive environment, these same capabilities will enable us to continue the progress made in improving auto insurance margins.

The rapid rise in auto claim severities eroded profits for the industry with most carriers responding by increasing auto insurance prices and lowering expenses. Allstate Progressive and GEICO has significantly raised auto insurance prices since 2019. State Farm has increased its prices to a lesser degree, but as a result, appears to be incurring large underwriting losses. Expense reductions are also being pursued by many companies, including lowering advertising spending, which has moderated competition for new customers. The impact on policies in force is dependent on each company's individual profit and growth plan.

As Mario will discuss, the Allstate brand policies in force has declined, particularly in 4 large states. GEICO's policies in force have declined by a larger amount, while Progressive has grown. Allstate's capabilities will enable achievement of the profit improvement plan in its competitive environment.

Now let's review the potential sale of the Health and Benefits business on Slide 6. We acquired National General was primarily to improve our position in independent agent channel for Property-Liability insurance, and we've exceeded our goals in that integration. The acquisition also gave us the opportunity to combine Allstate's voluntary benefits business with National General's group and individual health businesses. Successfully combining these into 1 business unit has created a strong benefits platform with substantial additional value can be realized by aligning with a broader set of product offerings, distribution and capabilities such as medical network management.

Allstate Health and Benefits separates 3 successful businesses, which is shown in the middle there and the $1 trillion employer benefit markets group and individual health when you add those all up. We've been the preeminent voluntary benefits provided for 24 years with a comprehensive product offering that generates annualized premiums and contract charges of $1 billion and $300 million of new sales.

National General's group health business targets the small case size market, and has $700 million of premium in fee revenue. And $400 million in new sales. The individual health protection is provided through both proprietary and third-party products, which generates both underwriting and fee income. The Health and Benefits businesses have revenues of $2.3 billion, which is 4% of total corporate revenues and adjusted net income of $240 million for the trailing 12 months, which you can see in the 2 pie charts in the bottom and it's kind of spread between all the businesses.

The employer voluntary benefits and group health businesses when you add them up, have roughly 48,000 relationships ranging from Fortune 50 companies to small businesses and over 4.3 million policies in force. The growth potential of these businesses can be accelerated with greater alignment with a wide range of companies in the market that are shown on the right-hand side.

With its attractive business profile and financial results, we expect the transaction to be completed in 2024. In addition to improving profitability and strategically allocating capital, we continue to implement the transformative growth initiative to position the Property-Liability market share gains as margins improve. The fine components initiative was shown as top of Slide 7. Affordable, simple and connected protection is at the heart of the strategy to further improve customer value.

Customers will have access to high-quality protection that better meets your needs at a low cost with hassle-free experiences however they choose to access our broad distribution network. We're live in the market with a new business experience and further enhance the connectivity of the Allstate app this week. Mario will discuss our success in expanding customer access. While each transformative growth element is at various stages of maturity. We're moving from Phase 3 of building new model towards scaling it in Phase 4.

Now I'll turn it over to Mario to go through the Property-Liability results.

Mario Rizzo
President of Property & Liability and Director

Thanks, Tom. Let's start on Slide 8. Our comprehensive auto profit improvement plan is improving margins. Property-Liability earned premium increased 10% compared to the prior year quarter, driven by higher average premiums, which were partially offset by a decline in policies in force. The underwriting loss of $414 million in the quarter improved $878 million compared to the prior year quarter due to the improvement in our auto loss ratio. The chart on the right highlights the components of the 103.4 combined ratio in the quarter, which improved 8.2 points despite a 2.8 point increase in the catastrophe loss ratio compared to prior year.

Prior year reserve estimates, excluding catastrophes, were $166 million unfavorable or at 1.4 point adverse impact on the combined ratio in the quarter. $82 million was attributable to the runoff property liability annual reserve review. And $84 million in Allstate Protection primarily driven by national general personal auto injury coverages. The underlying combined ratio of 91.9 improved by 4.5 points compared to the prior year quarter and 1 point sequentially versus the second quarter of 2023 despite continued elevated severity inflation.

Now let's move to Slide 9 to review Allstate's auto insurance profit trends. The third quarter recorded auto insurance combined ratio of 102.1 was 15.3 points favorable to the prior year quarter, reflecting higher earned premium, lower adverse prior year reserve reestimates and expense efficiencies. As a reminder, we continuously assess claim severities as the year progresses. For example, last year, as 2022 developed, we increased current report year ultimate severity expectations, which influenced the quarterly reported trends. While loss cost trends remain historically elevated, the pace of increase moderated in the third quarter. As Allstate brand weighted average major coverage severity improved to 9% compared to the 11% estimate as of the end of last quarter.

The chart on the left shows the sequential improvement in quarterly underlying combined ratios from 2022 through the current quarter with quarterly reported figures adjusted to the full year severity level for 2022 and 2023 adjusted for current severity estimates as of the third quarter. Higher average premium and the continued execution of our profit improvement plan drove the sequential improvement in underlying combined ratio to 98.8 as reported or a 100.5 in the bar graph when removing the 1.7 point favorable impact on the third quarter from improved severity for claims reported in the first 2 quarters of the year.

The chart on the right portrays how our comprehensive actions are resulting in a higher proportion of the portfolio progressing towards or achieving target levels of profitability. Excluding the 3 large states, which generated 45% of Allstate brand auto underwriting loss in 2022, the Allstate brand auto insurance underlying combined ratio was 97.2. The Premiums from states with an underlying combined ratio below 100 improved to 59% of the portfolio in the third quarter, doubling from the percentage at year-end 2022 and up almost 10 points from 50% in the second quarter. Slide 10 shows the impact on policies in force from actions to improve profitability.

Allstate brand rate increases have exceeded 26% over the last 7 quarters. New issued applications shown in the middle chart, declined 19.5% compared to the prior year quarter, largely driven by actions to reduce growth in unprofitable states. California, New York and New Jersey combined declined 75% compared to the prior year. Allstate brand auto policies in force decreased by 6% in the third quarter compared to the prior year, partially driven by the lower new business and also driven by lower retention due to rate increases. Elevated loss trends in Texas required implementation of rate increases of over 50% in the last 21 months.

As a result, retention has declined, while profitability has improved. Policies in force in these 4 large states combined decreased by 8.7%, whereas the remaining states declined by 4.7% compared to the prior year through the third quarter.

On Slide 11, we take a deeper look at the National General Auto book. While third quarter margins were impacted by $95 million of unfavorable non-catastrophe prior year reserve reestimates primarily across liability coverages. The underlying combined ratio of 96.8 in the quarter and 95.7 year-to-date remains largely consistent with the prior year periods. Reflecting higher loss cost expectations given the reserve strengthening to date, offset by higher average premiums and expense efficiencies. The National General business as its product, including fee-based revenue features and claims capabilities to excel in the nonstandard auto insurance market.

As you can see in the chart on the right, 75% of the written premium growth in the third quarter of 2023 is coming from nonstandard auto, which is more profitable than the overall national general auto insurance business. Our new middle-market product, Custom 360, is now available in nearly 1/3 of the U.S. market and is also contributing to growth. While the legacy National General and Encompass businesses, which will be run off as we implement custom 360, are having the lowest impact on growth. Slide 12 covers homeowners insurance results which incurred an underwriting loss in Q3, driven by higher catastrophe losses. On the left, you can see net written premium increase 12.1% from the prior year quarter. primarily driven by higher average gross written premium per policy in both the Allstate and National General brands and a 0.8% increase in policies in force.

Allstate Brand average gross written premium per policy increased by 13.2% compared to the prior year quarter, driven by implemented rate increases throughout 2022, and an additional 9.5 points implemented through the first 9 months of 2023, as well as inflation and insurance home replacement costs. The underlying combined ratio of 72.9 improved by 1.2 points compared to the prior year quarter, driven by higher earned premium, lower frequency and a lower expense ratio, partially offset by higher severity. We remain confident in our ability to generate attractive risk-adjusted returns in the homeowners business.

Slide 13 highlights progress on expanding customer access as part of transformative growth. We continue to enhance capabilities across distribution channels and are the only major carrier with competitive offerings and branded agent, independent agent and direct distribution. The exclusive agent channel represents the majority of Allstate's U.S. personal lines premium at approximately $32 billion or roughly 22% market share in this channel.

Our exclusive agents continue to be a strength, offering personalized local advice customers value in this $145 billion market. While exclusive agent auto new business decreased by 5% overall, applications per agency, excluding California, New York and New Jersey has increased by 13.4% so far this year.

In addition, modifications to compensation have driven bundling at point of sale to an all-time high of over 75%. Agent performance continues to improve as they adapt to new compensation programs. We also have great growth potential through independent agents. The acquisition of National General strategically positioned Allstate to grow in the independent agent channel. National General continues to profitably grow nonstandard auto, while converting legacy Encompass and Allstate independent agent business onto their platform. Expanded nonstandard auto presence in 12 states represented 9% of National General's 12.9% increase in policies in force during 2023.

As we leverage Allstate's expertise in standard auto and homeowners, this channel should represent another source of profitable growth. The direct channel had a significant decline in new business volume this year since this was the most effective place to reduce new business volume and was the most impacted by the reduction in advertising. We have improved our capabilities in this channel, so it will be another source of growth moving forward.

And now I'll hand it over to Jess to discuss the remainder of our results.

Jesse Edward Merten
Executive VP & CFO

All right. Thank you, Mario. I'll start on Slide 14 to discuss investment results. We proactively repositioned our investment portfolio based on continuous monitoring of changes in the economic environment, current market conditions and enterprise risk and return considerations. As shown in the chart on the left, net investment income totaled $689 million in the quarter, relatively flat to the third quarter of last year, but with a higher contribution from the market-based portfolio. Market-based income of $567 million shown in blue, was $165 million above the prior year quarter, reflecting repositioning of the fixed income portfolio into longer duration bonds, a reduction of public equity holdings and higher interest rates.

The chart on the right shows changes we made to the duration of the bond portfolio in comparison to interest rates. In 2021, we began reducing duration to reflect the belief that interest rates would rise. This not only reduced some losses as rates increased, but it provided flexibility to reposition as yields increased. Starting in the middle of last year, we began increasing duration as rates increased, which has increased market-based income.

On Slide 15, let's take a closer look at our performance-based portfolio, which offers diversification and enhances longer-term returns. The portfolio is anchored in private equity and real estate is diversified across infrastructure, energy, agriculture and timber investments. We hold more than 400 names, including funds with multiple underlying positions across diversified vintage years. These investments are focused on long-term value creation, and we expect quarter-to-quarter income volatility as seen in the bars on the chart to the left, where quarterly returns have ranged from a negative 2.3% to positive 8.6% over the last 5 years.

The benefit from accepting this volatility is shown on the right with 3- and 5-year annualized returns of 19% and 12%. The private equity portion of the portfolio has outperformed public equity benchmarks over 3, 5 and 10 years. Slide 16 covers the results of our Protection Services businesses. Revenues in these businesses increased 8.9% to $697 million in the third quarter compared to prior year quarter. Increase is mainly driven by growth in Allstate Protection Plans, which increased 19.2% compared to the prior year quarter, reflecting expanded products and international growth.

In the table on the right, you will see that adjusted net income of $27 million in the third quarter decreased $8 million compared to the prior year quarter, primarily due to the higher appliance and furniture claims severity and a higher mix of lower-margin business as we invest in growth at Allstate Protection Plans. These were partially offset by improved margins at Allstate Roadside and lower expenses at Allstate Identity Protection.

Shifting to Slide 17. Our Health and Benefits business also had good results. Both revenues and income increased significantly with the National General acquisition in 2021 as we added scale and capabilities. For the third quarter of 2023, revenues of $587 million increased by $17 million compared to the prior year quarter, driven by an increase in premiums, contract charges and other revenue in group health which was partially offset by a reduction in individual health and employer voluntary benefits.

Adjusted net income of $69 million in the third quarter of 2023 increased $6 million compared to the prior year quarter primarily due to increases in group and individual health revenue and lower operating expenses.

Now let's move to Slide 18 and discuss Allstate's approach to capital management to clarify how this differs from traditional methods used to evaluate capital such as the ratio of premiums to statutory surplus. On the left hand of the slide, we summarized 3 discrete components we evaluate to establish target capital, which is the basis of our capital management framework. Base capital at the bottom is the capital required to meet ongoing operating requirements. Stress Capital is an additional layer of capital needed to cover tail events for the occurrence of multiple negative impacts, such as lower auto profitability and high catastrophe losses.

The contingent reserve is for extremely low frequency and high severity events, a severe breakdown in diversification benefits and also provide strategic flexibility. We use a highly sophisticated model that breaks out individual risk types, incorporates regulatory and rating agency considerations and uses extensive simulations to determine the right amount of capital for each component. This is more sophisticated and comprehensive than the ratio of premiums to surplus to determine the right amount of capital. For example, when calculating the premium to surplus ratio for the Allstate Insurance Company, the premiums for many of our subsidiary companies are included, but over $1.6 billion of statutory capital is not included in the denominator.

This framework also better assesses the use of catastrophe reinsurance particularly for large tail events than a simple ratio. Our sophisticated model and proactive actions provide flexibility to manage capital to maximize shareholder value creation.
To close, let's turn to Slide 19 and recap all state strategic priorities. We continue making progress on our plan to return auto insurance profitability to targeted levels. We will pursue the divestiture of our Health and Benefits business, we're continuing to advance on our transformative growth initiatives. Proactive investment management has increased income. Allstate Protection Plans is expanding, and these strategic priorities support value creation for Allstate shareholders. With that context, let's open the line to your questions.

Question and Answer

Operator

[Operator Instructions] And our first question comes from the line of Gregory Peters from Raymond James.

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

I guess for the first question, and there was a lot to unpack in your release and slide deck. I'm going to focus on Slide 7, which is the transformative growth strategy. I was looking at your slide and it talks about building the new model and scaling the new model. And I'm just curious if you're running elevated expenses at this point because you're running 2 separate models. And as you roll out the model, I'm curious about how it's accounting for the nuances of different customers. And I'm thinking about the needs of preferred customers versus standard versus nonstandard?

Thomas Joseph Wilson
Chairman of the Board, President & CEO

Greg, good question. Let me -- so first, the transformative growth is about increasing market share in personal profit liability. It's got a couple of components. At the core of that is being low-cost insurance but also about raising customer value and also about being available to people however they want to get to [in respect] to your segment and the customers. So I would say at this point, we've proven out that the underlying assumptions that we had made going into it work. So we know that lower price raises close [indiscernible]. We know that's true. We know that being available through more people, whether that's through -- different bundling with exclusive agents through independent agents or direct also works and we can do that.

We know we can raise customer value, as you saw on the slide there, I didn't dig go into it, but the new sales process is really slick. I mean it pops up with [3] offers that are specifically for you, you don't have to pick your deductible, you don't have to go through a bunch of questions. People don't pick the deductible for you. It's fast, it's slick, then the renters piece, which is in the middle one, takes less than a minute and we're finding great ways to attach more protection by making it simpler for customers. We're also making it more connected, which is in their right-hand side. And so we relaunched the. We think that people are going to have fewer apps on their phone going forward. So having an app where people could just access either look at their bill or get their ID card is helpful, but it's not compelling.

So we are expanding that. So you'll see on their GasBuddy. You can get figure out how to save money on buying gas, which is, of course, directly related to what we do. We have a whole bunch of other things that we've either added or going to add. For example, we are really terrific on crash detection with our telematics experience through Arity and do that through Life360, and it's a terrific product. So there's a variety of things we're doing to expand that.

As it relates to expenses, we're continuing to invest in this. I don't know that I would say it's over expense, it's just we have an objective, we have to lower our overall expenses. We're after that, but we're not backing off on investing in the new technology. One of the things that we've proved out the underlying assumptions was can we build the technology to do what you see on that screen. And the answer is yes. We've built it, it's out -- it's working, it's rolling. We need to scale it, but we have high confidence that it's scalable.

So -- you should expect us to continue to find ways to reduce cost to live into this. But I don't think like there's like -- we're running hot in expenses today because of that. As it relates to the various segments of customers, we want to sell as many people as we can as much stuff as we can. However they want to come. If you want an agent, we'll give you an agent. We just have to make sure its cost is what you're prepared to pay and they do what you want, whether that's an exclusive agent or an independent agent. And if you want to buy direct for the company, you want to buy through a call center, you want to buy on the web. We just want to make it as simple and easy as you can, which we think is differentiated in the marketplace.

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

Well, that makes sense. I guess for my follow-up, I'm going to pivot to the pricing slides. I'm thinking Slides 9 and 10. And was wondering if you could -- I know you provided detail in your comments, but if you could give us an update on the problematic states. I think in Slide 9, you said 41% of the -- of your business in auto is running above 100. If we look forward to 2024, how do you think this chart might look?

Thomas Joseph Wilson
Chairman of the Board, President & CEO

Which chart are you referring to, Greg?

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

I'm looking at Slide 9, yes.

Thomas Joseph Wilson
Chairman of the Board, President & CEO

Yes. I mean, of course, it all depends. Mario can give you some color as well. But it all depends what happens in California, New York and New Jersey. But let me be very clear, we are not going to continue to lose 4 digits in millions in those 3 states. So far, Mario has talked about us getting smaller by not growing, we've executed that. The next step is to not be able to serve customers who we want to serve because we can't afford to those $0.20 on the dollar. Mario, do you want to comment on?

Like we've been talking -- it's not like this as we just figured this out. or they're not aware of.

Mario Rizzo
President of Property & Liability and Director

Just to give you a little additional color across the 3 states. And Tom is right, we've been talking about this all year, and we've taken pretty significant actions to restrict new business volumes, and it's down like we talked about earlier, about 75%. We've got 3 significant rates pending -- rates pending across all 3 states. We have an auto rate in California that we filed back in May, I believe, 35%. We've got a 29% filing pending in New Jersey. We implemented rates in New York ranging from high single digits to low double digits or low teens across our opening closed books middle of the year. And we just filed for another 18.3% in New York auto.

So we've got significant rates pending with the department. As Tom mentioned, where we're at now is we need action on those filings in the fourth quarter. And if we can't, then we believe the right thing to do for the customers in the other 47 states as well as for our shareholders is to take additional action to get smaller across all 3 of those states, and that's what we would do beginning next year if we can't get resolution on the rate filings that are currently pending.

Operator

[Operator Instructions] And our next question comes from the line of Alex Scott from Goldman Sachs.

Unknown Analyst

It's [Marley] on for Alex. So you mentioned in the prepared remarks that you were increasing in-person inspections to reduce overall claim costs. Could you touch on this a little bit more? How impactful is this? And then maybe how many of the current accidents are assessed now in person versus remote? And then how should we think about this for near-term changes to loss [LAE]?

Mario Rizzo
President of Property & Liability and Director

[Marley], this is Mario. I'll answer your question. So I would -- where I would start is going back to the different components of our auto profit improvement plan, taking rate increases, reducing costs, restricting new business in states where we aren't achieving target levels of profitability and improving operational processes and claims, what you're describing around more in-person inspections is a component of that fourth piece of improving operational processes. We believe that by doing more physical inspections doing, more oversight broadly of both in-network and out-of-network shops as well as doing the same thing on the property side as well that we'll be able to identify opportunities, pay what we owe, but also not pay for, say, things like preexisting damage or in total loss cases, cars that could be repaired versus replaced.

So we think doing more in-person physical inspections in addition to continuing to leverage quick [photo] claim capabilities is the right thing to do to best manage loss cost going forward, and that's what we intend to do to ensure that we're operationally excellent in claims and again, paying what we owe, but eliminating any leakage in the system, and we're prepared to invest in the claims organization to be able to execute on that. So in terms of the expense ratio, the LAE ratio as part of our adjusted expense ratio. We're still committed to hitting the 23 by the end of next year. The investments we'll make in claims are inclusive of that goal. We think we can do both.

Unknown Analyst

Got it. And then I just wanted to get your thoughts on longer-term severity drivers that you're seeing in terms of medical inflation and any impacts from the UAW strikes?

Mario Rizzo
President of Property & Liability and Director

Sure. So we'll start with medical inflation. And you'll note that we talked about our severity expectations in auto being about 9% currently, which has improved from the 11% we talked about last quarter. All that improvement came from physical damage coverages. Our outlook on casualty and injury severity is unchanged. It didn't get worse, but it's consistent with where we were last quarter. And the drivers behind that continue to be medical inflation, more attorney representation, higher levels of treatment being pursued, kind of all the components of both kind of economic and social inflation that have driven injury severities up.

Over time, those will continue to be headwinds for us. But as we -- again, as I talked about on the physical damage side, as we've adapted our claims processes to take into account those inflationary trends, we've seen some good progress. So we're looking to settle claims earlier in the cycle, and we've seen a real improvement in terms of reduction in pending injury claims as well as faster settlement times on injury claims.

We're using things like analytics and testing AI models to identify accidents where injuries are likely and those that have a higher likelihood of potentially being represented by attorney so that we can further accelerate claimant contact time and get out ahead of the process and manage the overall claim process. So we're doing things proactively to help mitigate some of those inflationary impacts. And we'll continue to do that. And like I said, we did see some stability in injury severity trends during the quarter.

Operator

[Operator Instructions] 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, during the quarter, you guys spoke about looking to buy some additional aggregate stop-loss reinsurance. Do you have any update on what you're doing on the reinsurance side in terms of looking to protect your capital position?

Jesse Edward Merten
Executive VP & CFO

Yes, Elyse. Thanks. This is Jess. We have talked a lot about our reinsurance program in general. As you know, we have a robust reinsurance program that reduces our overall capital levels. We've talked more recently about the aggregate cover. At this point, we don't have specific updates about the potential transaction. As I've talked about a number of times, we're looking at whether or not we can economically reduce overall risk and target capital. And to the extent we find a structure where we can get that done, we'll do it.

And to the extent we can't get it done economically, we'll move on and look at other options. So I would say, as it relates to this quarter, no updates. We continue to be interested in understanding what might be available to attract some new capital, sources into the industry and make them available. But we don't have anything firm to talk about at this point on that.

Elyse Beth Greenspan
Wells Fargo Securities, LLC, Research Division

And then my second question, you guys highlighted that you're looking into a potential transaction with the benefits business. Were there any diversification credits that you guys got from a capital perspective by owning the benefits business?

Thomas Joseph Wilson
Chairman of the Board, President & CEO

Of course, yes. So they're there, but we factor that into our overall position here.

Operator

[Operator Instructions] And our next question comes from the line of Michael Zaremski from BMO.

Jack Matten
BMO Capital Markets Equity Research

This is Jack on for Mike. Just one question on changes to Allstate's captive distribution commission and fee structure. I think you mentioned earlier, how it has driven greater bundling rates. I'm just wondering does also expect this change to impact overall organic growth levels? And do you expect a meaningful benefit to the company's expense ratio?

Thomas Joseph Wilson
Chairman of the Board, President & CEO

Well, I think when you go all the way up to transformative growth. Yes, we think that the whole package of stuff will drive market share growth. That includes making sure that the agents do what customers want them to do and that they're supported in doing that with technology and everything else in marketing and that they're well compensated for what they do. But yes, so there's various pieces on -- Mario, do you want to talk specifically about the account changes?

Mario Rizzo
President of Property & Liability and Director

Yes. So again, I would characterize the most recent set of changes as a continuation of what we started really several years ago, which was intended to drive higher levels of productivity in the exclusive agent distribution system, but also reduced distribution costs over time. And I think what we're seeing if you -- particularly if you take out the impacts of the 3 large states where we're purposefully driving reduced volume is exactly what we had hoped would happen. So from an expense standpoint, you see in the quarter, we benefited by 2 or [3x] from the distribution cost perspective. So we're continuing to see the impacts and benefits of lower distribution costs. but more importantly, the productivity of the exclusive agency system continues to improve. So, again, you take out those 3 states, overall production was up 7.6%.

Average productivity was up over 13%. And when you look at our top tier of agents, we segment agents into 3 categories, emerging Pro and Elite, that elite group, their level of production was up 15%. So that shows that agents continue to invest in their businesses and take advantage of increased shopping levels in the marketplace, but they're focused on driving the kind of growth that will certainly become a real asset for us as we begin to lean back into growth as different states hit target levels of profitability. So we're really encouraged, both in terms of the performance of our agency channel, how they've adapted and the fact that we've been able to take cost out of the distribution system at the same time.

Operator

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

Joshua David Shanker
BofA Securities, Research Division

I have a model that goes pretty far back. And historically, if you look at reserves and try and analyze that -- it's hard in short-tail lines. Historically, Allstate run at about a 95% paid to incurred loss ratio. For every dollar of loss you put 5 in the reserves for future losses. And that's true in 3Q '23. But for the previous 5 quarters, it ran at an astonishingly low 83%.

I know that you try and get the reserves right. But it does feel over this period of elevated loss ratio that the company put a lot more of its reserves of losses into reserve than any time in my model. Is there something different that had gone on over the past 5 quarters now that you're resuming a normal sort of pay to incur trend? Or is it just -- that was unusual period and you needed to put more reserve?

Thomas Joseph Wilson
Chairman of the Board, President & CEO

Maybe I'll start and then Jess can fill in here. First, Josh, but we think the reserves are right, and we put up what we think we need to put up when we need to put it up. As painful as that was last year, we felt we needed to put it up. When you look at the -- I don't know -- I'm not looking at specific numbers you have, but I've been through reserves enough to that [paids] bounce around a lot. It depends what happened in the pandemic with impending levels, and we adjust for all that.

So I would say just may have Jess may have some answer for it. I think Jess and [Brent] could walk through your model with you and help you see it. But I don't -- like we just think the reserves are right and we put them up when we believe, Jess, anything to add?

Jesse Edward Merten
Executive VP & CFO

No, I would agree with that. I also think you should keep in mind that, that same period was a period of extreme acceleration in the loss cost trend, which you wouldn't see over the historical periods, right? So you're going to get a different pay-to-incurred ratio when you have acceleration, the way that we've seen and you saw what our severity trend was last year, you've seen what it is this year. So I think a component of that clearly is just the time period that you're looking at and the acceleration of the underlying trend.

Joshua David Shanker
BofA Securities, Research Division

And if you'll indulge me another question, Allstate over the next 20 years has really changed its geographic footprint away from catastrophe. And obviously, with climate change, people have seen a lot of losses and maybe the severity trend over the long term for cat-exposed properties up. But how does the -- severity trend compare between the trend in generally non-cat-exposed property versus cat exposed property? Are states like Illinois and a lot of the Midwest seeing a very different trend than severity trends longer term from weather along the coast?

Thomas Joseph Wilson
Chairman of the Board, President & CEO

Let me start and then Mario just if you guys want to jump in. First, I would start with saying we've built a really great business model in homeowners, just like we make more money than the industry on auto insurance, we're even better in homeowners. And you see those results over 10 years. You do see this year a lot of catastrophes, which is likely to have an underwriting loss, which we prefer not to have. That said, catastrophes happen, and that's why people buy insurance.

So we're comfortable that, that work. When you look underneath that and say, okay, what's driving those cat losses. Storms are more severe now. So just the fact that you have a more severe storm will increase the severity of the losses that you have one, at a storm, whether that's hail storm or a tornado or a hurricane, it just causes more damage. Underneath both that and a traditional loss are just the normal inflationary pressures.

And so the cost of lumber goes up, whether you burn your house down or get knocked down by a hurricane, it's that underlying it. So you have kind of a compounding impact on catastrophes. That said, we're good at it. We manage it by state. So you're correct, Illinois would have less pressure because it would have less catastrophe losses than perhaps a state along the East Coast or in the Southwest on the coast. So -- we factored that all in, and both of those things there. We do think though that we -- you've seen the raise in prices that spend both of those factors have increased it. So the dramatic increase in homeowners insurance prices has been driven by both those factors. Anything...

Mario Rizzo
President of Property & Liability and Director

Yes. The only thing I'd add, Josh, I think you take a step back and say, what are the underlying drivers of the increase in homeowner severity, and it's principally, as Tom mentioned, it's labor costs and its material cost to repair homes. And to the extent the rates of inflation vary across different parts of the country. Obviously, that will have an influence on state-specific severity. I think it's more driven by that than any -- whether it's cat exposed or not cat exposed because those costs just get amplified when there's a large event, and we just have to repair a larger volume of homes.

Operator

[Operator Instructions] And our next question comes from the line of Tracy Benguigui from Barclays.

Tracy Dolin-Benguigui

Is the impetus selling the Health and Benefits business really to unlock capital and to restore some of your contingency capital? Or was the impetus to become a more lean organization and focus more on core offerings?

Thomas Joseph Wilson
Chairman of the Board, President & CEO

Neither. And nor was it in relationship to any shareholder asking us to pursue a sale. I know a few of you wrote about. Let me just tell you what it is. So -- we're selling the businesses because it's the best way to capture the value credit. They're terrific businesses. I mean we make almost $0.25 billion a year. And we get a good platform, they have low capital requirements. We like the businesses. When we look forward to the future, though, we said we think we can harvest more growth from it if we had more complementary distribution, a broader set of products, capabilities such as network management of a health network like manage that. Those are things that we don't have today.

We said we can build those, it would take us time and money. On the other hand, we could access those that already exist. But that requires us to let go of the success we've created. So we decided to choose the latter path. It had nothing to do with a shareholder coming to us and saying, you should sell this. It had nothing to do with needing the money, it has everything to do with this is the right way to manage your company, to optimize shareholder value, which is sometimes you have to let go of the success you've created.

Tracy Dolin-Benguigui

Okay. But maybe as a byproduct, assuming you could hit whatever valuation target range you have in mind, I might be early, but would you have any kind of implied capital relief from your internal model from the sale?

Thomas Joseph Wilson
Chairman of the Board, President & CEO

These are low capital businesses. So this -- first, I would say, on the price high would be the appropriate message I'd like you to carry out there because we do like the businesses a lot. Secondly, they're pretty low capital businesses. So whatever the sale price is, will generate additional capital. And then we'll decide what we want to do with it when we get there. We've got plenty of other growth opportunities. We're doing a lot with to grow market share and profit liability. We don't need to make that decision right now, so we're not going to.

Tracy Dolin-Benguigui

Okay. Or could it potentially move down to AIC or accelerate your path to resume buybacks down the road?

Thomas Joseph Wilson
Chairman of the Board, President & CEO

There's -- we have all the options that you would have to use capital. Organic growth, to buying shares back. All those options are out there. We have no set plans for the capital. Right now, we're focused on -- this is a great business. We can help it be an even greater business by letting go of it. So that's what we're going to do.

Jesse Edward Merten
Executive VP & CFO

And I would add, Tracy, we -- our capitalization philosophy, as you know, we tend to keep the capital at the holding company to the extent that we can. So I don't believe we have a capital need at AIC that would cause us to want to do that. So I think we would remain with the philosophy of keeping the capital where it's at the holding company level to the extent we have capital management decisions to make, as Tom said, we'll make him when the time comes. But I don't think we have a need for capital in AIC. So I don't know why we would go away from the philosophy of keeping it up and holding company.

Tracy Dolin-Benguigui

Got it. And just quickly on your commentary of extending your asset duration now at 4.6 years. I mean you don't have a life business anymore. You plan to divest the Health and Benefits business. How you think about the optimal asset duration relative to your pro forma duration of your remaining liabilities?

Thomas Joseph Wilson
Chairman of the Board, President & CEO

Well, we look at it from an enterprise risk and return standpoint. So the first thing we do is say, how much capital do we want to allocate to the investment portfolio. And then John and his team figure out how they best want to allocate that amongst the -- amongst various asset classes. So John, maybe you want to make a comment on where we are at today. I would point out that if you look at Slide 14, we made the right calls at the right time.

John Charles Pintozzi
Senior VP of Accounting Special Projects

Yes. I'd just add that -- another thing to consider when one lengthens out duration is just that you keep the appropriate amount of liquidity and flexibility in the portfolio. And I can assure you that we are doing that between the cash that we hold short-term position to other things that we can turn into cash in short order and just maturities by year-end, we're close to $10 billion.

So we believe that we're both capturing the additional income that the market is giving us, lengthening out to preserve the capture of that income for a longer period of time, building some resilience into the portfolio in case the economic environment would change, while also providing adequate liquidity.

Tracy Dolin-Benguigui

Okay. So it sounds like you feel comfortable with durational mismatch because of your strong liquidity position. Is that fair?

Thomas Joseph Wilson
Chairman of the Board, President & CEO

Well, the Property-Liability business is a little different than the life business in terms of matching to liabilities. In the life business scores, we have a set maturity date and you can factor in some stuff and you figure out let's match that off. In the Property-Liability business, of course, the liabilities are much shorter, but then they're naturally recurring. So you pay off 1 claim and you get another one. Is that a separate claim or -- and so if you match it to that, you'd be having here for 90 days for a physical damage claims.

So it's really more about liquidity and overall risk management. And I would also point out a large part of our set capital is there in case we mess up on underwriting income. And so that has a really long duration on it.

John Charles Pintozzi
Senior VP of Accounting Special Projects

Yes. Tracy, 1 other thing to add, if you look at the slide, the blue line depicts the duration, we've really just reverted back to what's been more of a long-term average for us. So we were at a point in time where we were in a lower level of duration, a lower level of interest rate exposure. We thought that was right given what was happening with the Fed and interest rates in general. Now that rates have climbed back up pretty aggressively. We want to go back to what has been a longer run central tendency for us.

Operator

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

David Kenneth Motemaden
Evercore ISI Institutional Equities, Research Division

I just had a question on the frequency trends that you guys saw in the third quarter. Could you just describe what you guys are seeing. It sounded like that was up a little bit. I was hoping you could put some numbers around it and sort of what you're seeing, especially as it looks like you're shrinking units. I would think that there would be some benefit from improving the mix of business. But I was hoping you could maybe just touch on that.

Mario Rizzo
President of Property & Liability and Director

David, it's Mario. Thanks for the question. I'll talk a little more qualitatively about frequency since we now are disclosing more pure premium trends, which combine the overall loss trend. We just think it's a better way for -- for you all to look at and think about auto profitability. But in terms of auto frequency, the headline is it continues to revert back to pre-pandemic levels, but remains below where it was in 2019. There continues to be a tailwind when you think about the safety features embedded in vehicles, that will continue to help improve frequency, we think, from a long-term trend going forward. And then when you look at the other driver, which is driving activity. When we look at our telematics data, we look at the number of miles that a person is driving each day. It's up mid-single digits compared to last year, still skewing less to rush hour times, which benefit frequency and more to nonpeak hours.

But that trend has been pretty stable over the last several quarters, and we feel like we're in a period of stability in terms of driving behavior. So net-net frequency is up modestly. It's a small component of pure premium. So just to give you a couple of numbers, when you adjust out the intra-year impact in pure premium, it's up about 9.7% year-over-year in the quarter, and we said severity was up [9%]. So you can see the modest impact that frequency is having, again, as people drive a bit more than they were a year ago.

David Kenneth Motemaden
Evercore ISI Institutional Equities, Research Division

Got it. And you're saying it's a little bit more stable now, so maybe flattens out there at those levels?

Mario Rizzo
President of Property & Liability and Director

Yes, David, the trend has been pretty stable over the last several quarters in terms of when we look at miles driven for our book.

David Kenneth Motemaden
Evercore ISI Institutional Equities, Research Division

Got it. And then for my follow-up, just to add a question on Slide 13, and I appreciate this information on the distribution channels. I was hoping -- it looks like you guys track the TAM by channel pretty closely. Within the exclusive agent channel, how has that TAM been growing -- and I guess, I'm under the impression that it's been shrinking at the expense of the direct and independent agent channels. So just given that backdrop, I'm wondering if you're seeing signs that you think you can sort of buck that trend and start to grow within your exclusive agency channel?

Thomas Joseph Wilson
Chairman of the Board, President & CEO

Let me, David, maybe give a couple of thoughts. First, there's a lot of analysis on it. People want to tend to like assume that it's a straight line. And actually, there's competition for the customer amongst all of those. So our effort to reduce the cost that Mario talked about in providing an agent is to give customers better value, which should take share away from some of the other 2. The independent agents also are a good place people want to come where they don't want to just buy from an insurance company. They want somebody to shop around for them and want them to do the work for it.

On the direct channel, obviously, with increased connectivity, the direct channel has certainly grown. But it's also growing a lot because billions of dollars of advertising going to it. So it's an overall ecosystem, I guess, I would say. And so we look at it and like, we want to be there. People want to have -- buy from a company like Allstate.

Allstate brand name, want to go to that agent. We want to be there for that person with everything they have. The same thing if they want someone to shop around for them, don't want to do the work, we want to be in that independent agent channel. And then in a direct channel, if they want to buy directly then -- and what we are doing is using the technology between those various things make it an even better value proposition. So we showed you that cell phone, which had the 3 offers in it. Imagine an agent now being able to not have to ask you a whole bunch of stuff, what's your deductible, what kind of stuff. But we pre-populate it with, here's what we think David's deductible should be, offer David this package so you put them in a different position.

So we look at it really as sort of organic and it moves between there. And we want to be there for all of our customers. So it's not like we think 1 is going to win and the other is going to lose. It's just a constant competition to just do a better job for the customers that want to buy it that way.

Jonathan, we'll take 1 more question.

Operator

[Operator Instructions] Our final question for today comes from the line of Meyer Shields from KBW.

Unknown Analyst

It's [Jane] on for Meyer. Most of my questions are answered, just 1 on the growth in 2024. So what is your expectation and plan for next year? Is the nonstandard auto still be the key growth driver. Any color on that would be great?

Thomas Joseph Wilson
Chairman of the Board, President & CEO

Mario will give you some specifics. I would say that the biggest impact -- so first, we're starting to grow in the Allstate brand. Mario has got a number of states where he's starting to roll out, transform the growth in a more aggressive way to capture the market share growth. So we're comfortable there. The independent agent business, we think, will grow through continued expansion of the nonstandard and the Custom 360 Mario talked about, I would say that the biggest driver -- the biggest thing we're unclear on right now is what happens in New York, New Jersey and California.

That will be the biggest impact on policies in force that may be different than the growth measure you're talking about, but certainly, we need to get properly priced in those states, or else we'll get smaller in those states. And given that they're a large percentage for our book of business, it will impact overall policy. Mario, anything you would add to that?

Mario Rizzo
President of Property & Liability and Director

Yes. The only thing I'd add as we look ahead is -- I think it's important to recognize that we manage the business on a local level. That means state by state, market by market, risk segment by risk segment, that's been the approach we've taken to improve profitability, and we're taking that same approach as we look forward in terms of growth. And I think it's -- where we're at is really 2 groupings of states emerging. Tom talked about the 3 that we've just got to get more rate and get more profitable. And before we can even begin to think about growing and investing in growth because it just economically doesn't make sense for us, and that's California, New York, New Jersey.

The rest of the states that if you divide them, there's a number of states that are already at target levels of profitability, and we're beginning to do things like make local marketing investments, leverage a lot of the capabilities we've been building with transformative growth, the momentum we've got in the exclusive agent channel, the improvements we've made in direct and the capabilities we've built there and what we're building in the independent agent channels with things like Custom 360 and nonstandard auto. So we feel like as a system we are much more effectively positioned to grow when the time is right for us to grow.

And as we look out into 2024, we think more states will fall into that ready-to-grow category in terms of target levels of profitability. And we look forward to continuing to invest in growth in those states and leverage the capabilities we've been building with transformative growth.

Thomas Joseph Wilson
Chairman of the Board, President & CEO

So let me close with 4 points, which summarize kind of the conversation we had. What's going to drive shareholder value, profitability increases, strategic capital allocation, great investment returns and then transforming growth, long-term sustainable growth. We think those 4 things combined make this a great opportunity. Thank you very much. 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.