S&P Global
Market Intelligence

The Allstate Corporation NYSE:ALL

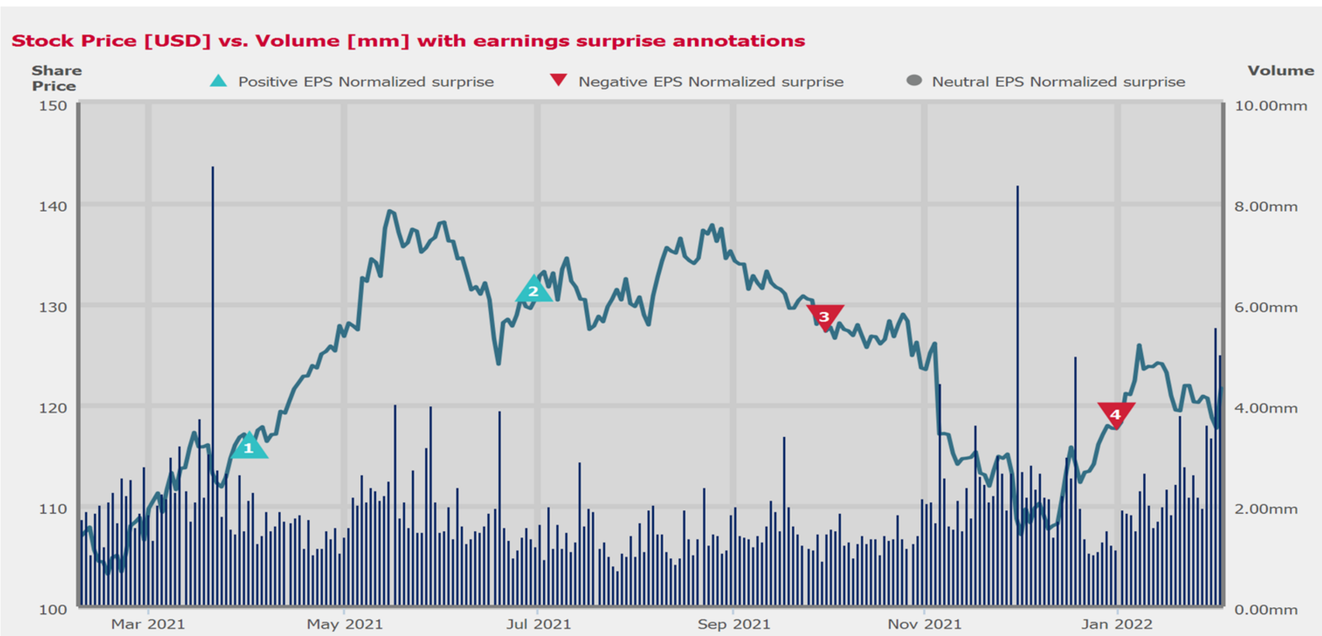
FQ4 2021 Earnings Call Transcripts

Thursday, February 03, 2022 2:00 PM GMT

S&P Global Market Intelligence Estimates

	-FQ4 2021-			-FQ1 2022-	-FY 2021-			-FY 2022-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS
EPS Normalized	2.77	2.75	▼(0.72 %)	2.86	13.44	13.48	▲0.30	9.97
Revenue (mm)	10976.99	10852.00	▼(1.14 %)	10780.00	42823.03	42218.00	▼(1.41 %)	42951.59

Currency: USD
Consensus as of Feb-04-2022 12:00 PM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ1 2021	3.94	6.11	▲1 55.08 %
FQ2 2021	3.17	3.79	▲2 19.56 %
FQ3 2021	1.74	0.73	▼3 (58.05 %)
FQ4 2021	2.77	2.75	▼4 (0.72 %)

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Call Participants

EXECUTIVES

Glenn Thomas Shapiro
President of Property-Liability of Allstate Insurance Company

Mario Rizzo
Executive VP & CFO

Mark Nogal
Head of Investor Relations

Thomas Joseph Wilson
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Presentation

Operator

Good day, and thank you for standing by. Welcome to the Allstate's Fourth Quarter 2021 Earnings Conference Call. [Operator Instructions] As a reminder, please be aware that this call is being recorded.

And now I would like to introduce your host for today's program, Mr. Mark Nogal, Head of Investor Relations. Please go ahead, sir.

Mark Nogal
Head of Investor Relations

Thank you, Jerome. Good morning. Welcome to Allstate's Fourth Quarter 2021 Earnings Conference Call. After prepared remarks, we will have a question-and-answer session.

Yesterday, following the close of the market, we issued our news release and investor supplement and posted related materials on our website at allstateinvestors.com. Our management team is here to provide perspective on these results.

As noted on the first slide of the presentation, our discussion will contain non-GAAP measures for which there are reconciliations in the news release and investor supplement and forward-looking statements about Allstate's operations. Allstate's results may differ materially from these statements, so please refer to our 10-K for 2020 and other public documents for information on potential risks.

Before I hand it off to Tom, I would like to turn to Slide 2 and discuss the expansion of Allstate's investor communications. Beginning this year, instead of a traditional Investor Day, we will be conducting a series of 60-minute investor calls to provide deeper insights into significant strategic or operational topics. These calls will be in addition to our quarterly earnings calls.

Our first call will focus on the current auto insurance operating environment and will be scheduled to take place in March. Topics on future calls may include homeowners insurance, independent agent channel strategy, expansion of protection services and investments. In addition to investor calls, we will also begin disclosing the company's auto insurance implemented rate actions from the prior month on our Investor Relations website to provide additional information on premium growth. Rate disclosures will be posted on the third Thursday of every month, like our monthly catastrophe loss disclosures, though the rate postings will occur regardless of whether there is a catastrophe loss release in the month. I look forward to the additional engagement these changes will bring.

And now I'll turn it over to Tom.

Thomas Joseph Wilson
Board Chair, President & CEO

Good morning, and thank you for joining us today. Let's start on Slide 3. As you know, Allstate, we focus on execution and innovation as ways to create shareholder value. And our strategy has 2 components: increase personal Property-Liability market share and then expand protection solutions, which are shown on the 2 ovals on the left.

If you start with the upper oval, we've been a leader in product innovation, on multichannel distribution and leveraging technology in telematics and claims settlement. So we're now building a low-cost digital insurer with broad distribution through transformative growth. We're also diversifying our businesses by expanding protection options, as are shown in the bottom oval. We offer customers a wide range of protection, good workplace benefits, commercial insurance, roadside services, car warranties, protection plans and identity protection.

Avail is a leading innovator in telematics, and Avail -- sorry, Arity is leading in telematics, and Avail is a start-up, which is basically an Airbnb model comparison. We leverage the Allstate brand, customer base and capabilities to drive growth in those businesses as well.

On the right panel, you can see our 5 annual operating priorities, which focus on both near-term performance and long-term value creation. So let's move to Slide 4 and go through those operating priorities for the fourth quarter and the full year. Our revenues of $13 billion in the quarter increased 18.7% compared to the prior year quarter, resulting in over

$50 billion of revenue for the full year 2021, then reflected by a 1 percentage point increase in auto insurance market share through the National General acquisition, growth in homeowners premiums, and then we also had strong growth at Allstate Protection Plans and higher investment income. Property-Liability premiums increased 17%.

Net investment income of $847 million in the fourth quarter of 2021 increased to $187 million compared to 2020, which reflects really strong results from the performance-based portfolio. Net income was $790 million in the quarter compared to $2.6 billion in the prior year, as lower underwriting income and a loss related to the sale of the life and annuities business was only partially offset by the higher investment income.

Adjusted net income, remember that's our measure takes out some of the things that we think are not related to the current economics, was $796 million or $2.75 per diluted share, a decline compared to the $1.6 billion generated in the prior year quarter, reflecting lower underwriting income. You'll remember that 2020 had low auto accident frequency, reflecting the impact of the pandemic.

2021 was a year of -- really a 2 distinct halves as it relates to profitability of auto insurance. In the first half of 2021, auto insurance underwriting income benefited as lower accident frequency offset increased claims severity. As a result, underwriting income for auto insurance totaled over $1.7 billion in the first 2 quarters. In the second half of the year, auto claim frequency continued to increase towards prepandemic levels and the cost of repairing cars and settling bodily injury claims accelerated.

We began increasing auto insurance rates in the third quarter, and this accelerated in the fourth quarter. These rate increases, however, are earned as policies renew so that the cost increase has resulted in an underwriting loss of slightly over $450 million in the last 2 quarters. The underlying combined ratio for auto insurance was 92.5% for the full year and 100.2% for the fourth quarter of 2021.

And while that generates good underwriting income for the year and a good economic return, the results of the last 2 quarters are not acceptable, so we're highly focused on raising returns in the auto insurance, as Glenn will discuss in a few minutes.

Adjusted net income of $4 billion for the full year was $13.48 per share, which generated a return on common shareholders' equity of 16.9%.

Let's go to Slide 5 to go through the operating priority results in more detail. To better serve customers, we lowered expenses to improve the competitive price position of auto insurance. The enterprise Net Promoter Score finished slightly below the prior year, but in part, that reflects the absence of the beneficial impact in 2020 of the pandemic-related customer accommodations. You'll remember, it included $1 billion of Shelter-in-Place program payments, expanded coverage, and longer payment terms.

This year, we expanded protection offerings in group and health individual products with the acquisition of National General. We significantly grew our customer base in 2021, with total policies in force increasing 9.8% to $190.9 million. Property-Liability policies, of course, increased by 13.7% and due to the acquisition of National General, expansion of our direct distribution in the Allstate brand and increased [indiscernible] insurance provided through Allstate agents. Protection Services policies also continued to grow, increasing 8.9% to $148.4 million.

On the third priority, achieve target returns on capital, that was accomplished. We completed the year with adjusted net income of $4 billion and a return on shareholders' equity of 16.9%. Despite the rising loss costs environment, the Property-Liability combined ratio finished 2021 at 95.9%. Protection Services continues to grow profitably. It's really driven by Allstate Protection Plans. The net investment income was $3.3 billion in 2021, reflecting proactive portfolio management and exceptional performance-based income. Mario will take you through that later as well. The total return on that portfolio was 4.4%. So sustainable value creation refers not only strong execution on the first 4 items, but long-term growth platform.

In 2021, we sold the life and annuities business for $4.4 billion. We acquired National General for $4 billion to capture expense savings, leverage an independent agent technology platform and improve our strategic position in this distribution channel. Significant progress was made on transformative growth to build a low-cost digital insurer with broad distribution.

Allstate Protection Plans continued its rapid growth with written premiums of $1.8 billion. That is 5x greater than when the company was acquired 5 years ago. Arity, our telematics company, continues to expand its services and launch highly innovative products. Execution and innovation lead to sustainable value creation.

Now let me turn it over to Glenn to discuss Property-Liability results in more detail.

Glenn Thomas Shapiro
President of Property-Liability of Allstate Insurance Company

Thank you, Tom, and good morning, everyone. Let's start by reviewing Property-Liability profitability in the fourth quarter on Slide 6. The recorded combined ratio of 98.9 increased 14.9 points compared to the prior year quarter, primarily driven by higher underwriting losses as well as prior year reserve strengthening. The chart on the bottom left takes you through the impact of each component compared to the prior year quarter.

Auto insurance underwriting loss ratio drove most of the increase, driven by the impact of rising inflation on auto severity and higher auto accident frequency compared to the prior year. Prior year reserve restrengthening -- strengthening of $182 million had a 1.8 point impact on the combined ratio in the quarter, primarily due to adverse loss development in auto insurance casualty coverage. There was also a sizable impact relative to the premium in shared economy business, which was primarily driven in states we no longer insure with transportation network carriers. This was partially offset by lower underwriting expense ratio, mostly due to lower advertising expenses in the quarter.

We continue to focus on cost reductions which improve our operational flexibility and competitive position. The chart on the lower right shows Allstate's adjusted expense ratio over the last few years. And the adjusted expense ratio is a measure we're using to track our progress on improving value for customers through cost reductions. The measure starts with our underwriting expense ratio, excludes restructuring, coronavirus-related expenses, amortization and impairment of purchase intangibles, and investment in advertising. It then adds our claim expense ratio, excluding catastrophe claims costs.

The adjusted expense ratio improved to 26 in the full year 2021, which is 0.6 points better than prior year and 3.2 lower than 2018. Our long-term objective is a further reduction of 3 points over the next 3 years, which would represent a 6-point reduction over the 6 years following 2018, allowing us to improve competitive price position while maintaining attractive returns.

Slide 7 provides further insight into the drivers of rising auto insurance loss costs. Allstate Protection auto insurance underlying combined ratio was 100.2 in the fourth quarter and 92.5 through the full year 2021, representing increases of 15.3 and 7.4 points, respectively. The increases reflect higher loss costs due to severity and accident frequency, partially offset by lower expenses.

While claim frequency increased relative to prior year, reflecting a return to a more normal driving environment, we continue to see favorability compared to prepandemic levels.

Allstate brand auto property damage frequency was up 21.5% in the fourth quarter of '21 compared to 2020, but it was down 13.3% compared to 2019. While we've seen miles driven approach prepandemic levels, we've seen a meaningful change in time of day driving, which continues to impact both frequency and severity. Increases in auto severity reflect inflationary pressure across coverages, with a number of underlying components of severity rising faster than core inflation.

Chart on the lower left shows used car values began increasing in late 2020 and accelerated in mid-2021 in -- a total increase of 68% beginning in 2019. OEM parts and labor rates have also accelerated in 2021, resulting in higher severities in coverages like collision and property damage.

The impact of inflation is also influencing our casualty coverage. During 2020, at the onset of the pandemic, when there was less road congestion and higher speeds, a higher proportion of accidents were more severe. That resulted in more severe injuries per claim and higher average casualty severity. And as 2021 developed, casualty costs continued to rise with more severe injuries, medical inflation and higher medical consumption and higher attorney representation rates.

The chart on the lower right breaks down auto report year losses, excluding catastrophe, over the past 2 years. The impact of frequency was favorable in 2020, compared to 2019, with the pandemic. And as you shift into 2021, that favorability is partially reversed, creating a negative year-over-year frequency impact, but still favorable over 2 years.

The impact from higher severities, on the other hand, were compounded over the 2-year period and put pressure on both physical damage and casualty coverages. The combination of these factors led to the auto insurance margin pressure that we've seen in the second half of 2021.

So let's move to Slide 8 and go deeper into the steps we're taking to improve auto profitability. Allstate has, as you all know, have generated strong auto insurance margins over a long period of time. This is a core capability of ours, and we are taking a comprehensive and prescriptive approach to respond to the inflationary pressure and return to our auto margin targets in the mid-90s combined ratio.

There are 3 areas of focus: reducing expenses, which we've talked about, raising rates and managing loss costs through claim effectiveness. Since we already talked about the expenses, I'll start with the rates. And the chart on the lower left, it provides a view into 2021 rate actions. We implemented rate decreases in early 2021 to reflect, in part, Allstate's lower expense ratio and the reduced frequency we were experiencing from the pandemic. But as the year progressed and inflation escalated, we responded with rate increases that began in the third quarter and continued into the fourth quarter.

As those continued, you see in the fourth quarter, we took rate in 25 locations at an average increase of 7.1% and a weighted Allstate brand auto premium impact of 2.9%. We'll continue to take rate increases to restore auto profitability's targeted levels, and we'll keep you posted monthly, as Mark mentioned earlier, so that you know where we are on the rates.

The chart on the right shows the estimated annual impact of the premium from the implemented rate in each quarter. To relate these 2 views together, that large 2.9% increase implemented in the fourth quarter that you see on the left table relates directly to the rightmost bar of $702 million in estimated annual written premium. While the rate will obviously help our margin, it takes a little time to be realized. As Tom mentioned, there's an inherent lag between when rates are implemented and when they're reflected in written premium and then ultimately in earned premium. As auto insurance policies generally have a 6-month term, it takes that time for all of the policies to have renewed at the new rate. And then the annualized written premium impact is fully reflected after 10 -- after 12 months.

As we take more price increases in 2022, the incremental rate will be combined and drive higher levels of written premium first and then average earned premium second, as the year progresses and we favorably impact auto margins. Beyond expense reductions and rate increases, we're also leveraging advanced claim capabilities to mitigate loss cost pressure for our customers. We're broadening strategic partnerships with part suppliers and repair facilities to mitigate repair costs. We're using advanced claim analytics and predictive modeling tools to optimize repair versus total loss decisions and to assess the likelihood for injury and attorney representation on casualty claims.

The bottom line is we are highly confident in our ability to restore auto profitability to targeted levels. And while auto results tend to dominate discussions around the personal lines industry, it's really important to recognize the broad product suite we offer, as Tom mentioned earlier, and in particular, our homeowners insurance product.

So moving to Slide 9. I want to spend a few minutes on our industry-leading homeowners business. A majority of our customers bundle home and auto insurance, which improves retention and overall economics of both lines. And simply put, we have a differentiated homeowners ecosystem, including product, underwriting, reinsurance, claims capabilities that are unique in the industry.

As a proof point to that, since 2017, we've earned $3.3 billion or an average of $667 million a year in underwriting income, while the industry has generated close to an $18 billion underwriting loss from 2017 to 2020. The graph at the bottom left shows homeowners insurance combined ratios for Allstate select competitors and the industry overall since 2011. And you can see there that Allstate's consistently outperformed. We're well positioned to maintain our margins in homeowners and to continue growing it.

Our House & Home product is designed to address severe weather risks and has sophisticated pricing features and inflation factors that respond to changes in replacement values, which is particularly important during an inflationary environment like the one we're in.

The chart on the lower right shows Allstate homeowners net written premium over time as well as policies in force. We've grown policies in force steadily, increasing to 1.5% up at year-end, and our Allstate agents are in a great position to continue to broaden customer relationships with homeowners products.

Net written premium has really taken off through 2021, reaching 13.8% variance by the fourth quarter. Now the increasing spread between those 2 lines, the net written premium and the policies in force, is due to an increased average in premium per policy, which has steadily grown through 2021. That is mostly due to the premium rising with the increases we saw in replacement costs and, to a lesser extent, rate increases. That view, that difference that I just illustrated, really helps show how our product reacts quickly to inflationary forces and allows us to better match price and risk.

On the claims side, we've made investments in technology with photo, video and aerial imagery for timely and accurate loss cost management.

Shifting to National General's homeowners book. It provides us an awesome opportunity to grow in the independent agent channel, and we're really optimistic about the ability to bundle there with independent agents when we're deploying new middle-market products on the National General ecosystem. But in the near term, we're focused on improving their profitability in homeowners by leveraging Allstate's expertise in data, pricing sophistication and underwriting capabilities.

Our ultimate goal is to meet customers' protection needs while optimizing shareholder risk and return. We underwrite risk directly in homeowners where we can achieve targeted returns. We also broker other insurers' property policies where we can meet protection needs for customers but we can't achieve the adequate returns that we require, and this allows us to maintain an auto relationship with them. We also shift a lot of our catastrophe risk to reinsurance markets, including traditional reinsurance and alternative capital covering both individual large events and an annual aggregate cover.

All in, as I said at the start of this, we have a differentiated homeowners insurance capability in the market, and it operates as a really strong diversifying book of business while we improve auto margins.

So with that, let me turn it over to Mario to cover the remainder of our results before we move to questions.

Mario Rizzo
Executive VP & CFO

Thanks, Glenn. Let's move to Slide 10 and discuss how transformative growth positions us for long-term success. So as we've discussed on past calls, transformative growth is a multiyear initiative to increase personal Property-Liability market share by building a low-cost digital insurer with broad distribution. This will be accomplished by delivering on 4 key objectives: improving customer value, expanding customer access, increasing both the sophistication and investment in customer acquisition, and deploying a new technology ecosystem. We made significant progress across each objective in 2021.

Our commitment to further lower our costs improves customer value and enables a more competitive price position while maintaining attractive returns. By leveraging our industry-leading telematics offering as well as advanced data and analytics, we are able to redesign products to create competitively differentiated offerings for our customers. We have transformed our Allstate agent model to increase growth and decrease distribution costs. We've improved the strength of our direct channel through lower pricing and enhanced capabilities, and the acquisition of National General further improved our strategic position in the independent agent channel.

Customer acquisition costs relative to lifetime value have improved with higher close rates and increased use of analytics to improve marketing effectiveness. As a result, we invested more in marketing in 2021. We also made progress on deploying the technology necessary to achieve transformative growth. New customer and product management ecosystems will improve ease of use and self-service capabilities at lower costs. We are using both purchased and proprietary software, which is currently in dark deployment before it is operationally tested this year. Delivering on each objective in an integrated way enables us to increase market share and create additional shareholder value.

Turning to Slide 11. Let's look how transformative growth has already begun to successfully drive results in our Property-Liability business. In the chart on the left, you will see Property-Liability policies in force grew by 13.7% compared to the prior year quarter, driven predominantly by the National General acquisition. National General, which includes Encompass, contributed growth of 4.2 million policies and Allstate brand property-liability policies increased 374,000, reflecting enhanced direct channel capabilities and growth in homeowners sold through Allstate agents.

Property-Liability policies in force also grew organically by 1.5% from 37.5 million to 38.3 million in 2021, driven by contributions from growth in both the Allstate and National General brands, reflecting enhanced direct and independent agent capabilities.

The chart on the right shows a breakdown of new issued applications for personal auto, which grew 61% compared to the prior year. The middle section of the chart shows Allstate brand impacts by channel, which grew 4.3% compared to the prior year. Existing exclusive agents increased new business compared to the prior year, but that increase was offset by fewer appointments of new agents. As you know, we significantly reduced the number of new Allstate agents being appointed beginning in early 2020 as we've been developing and deploying a new agent model to drive higher growth at a lower cost.

The direct channel now represents 30% of new auto policies and grew by 28% compared to the prior year. This more than offset a slight decline from existing agents and volume that would historically have been generated by newly appointed agents. On the far right of the chart, you can see the significant impact of National General, which added 2 million applications in 2021.

Slide 12 shows how Protection Services continues to generate profitable growth. Revenues, which exclude the impact of net gains and losses on investments and derivatives, increased 21.9% to $606 million in the quarter and increased 23.5% to $2.3 billion for the full year 2021. The increase in revenues was driven by continued growth at Allstate Protection Plans and Arity.

Allstate Protection Plans grew revenue by 23.8% and written premium by 49.1% for the full year 2021 compared to the prior year, driven by expanded products and partnerships, including the successful launch of the Home Depot relationship earlier in 2021. As written premium is earned over policy periods that can range from 1 to 5 years, it will continue to generate future revenue growth as we earn the $2 billion of unearned premium associated with Allstate Protection Plans on our balance sheet as of year-end.

Arity expanded revenues by integrating LeadCloud and Transparent.ly into its customer offerings, which were acquired as part of the National General acquisition as well as increased device revenue, driven by growth in the Milewise product.

Policies in force increased 8.9% to 148 million, primarily due to growth at Allstate Protection Plans. Adjusted net income of $179 million for the full year 2021 represented an increase of $26 million compared to the prior year, driven by growth at Allstate Protection Plans. We will continue to invest in growing these businesses as they provide an attractive opportunity to both meet customer needs and create economic value for our shareholders.

Let's move to Slide 13 and talk about the Allstate Health and Benefits segment, which generated growth and increased profit, reflecting the National General acquisition. We've been offering voluntary benefits through the employer channel for over 20 years, and the acquisition of National General added both group and individual health products to our portfolio. These additions drove a significant increase in revenue, with premiums and contract charges increasing 66.5% to the prior year.

It also brought in a stream of $359 million of additional revenue, shown as other revenue on this slide, primarily from administrative fees and commissions from sales of nonproprietary health products.

Adjusted net income more than doubled to $208 million in 2021, as higher income from the National General acquisition was partially offset by a higher benefit ratio, reflecting higher life mortality in 2021 and lower benefit utilization in the prior year.

Now let's move to Slide 14, which highlights our investment performance. Net investment income totaled $847 million in the quarter, which was $187 million above the prior year quarter, driven by higher performance-based income as shown in the chart on the left. Performance-based income totaled $516 million in the quarter, as shown in gray, reflecting private equity appreciation and direct asset sales. As in prior quarters, we experienced broad-based private equity valuation increases.

Several large idiosyncratic contributions -- contributors meaningfully impacted results in the quarter with about 50% of performance-based investment income generated by 10 individual investments. Market-based income, shown in blue, was $7 million below the prior year quarter. The impact of reinvestment rates below the average interest-bearing yield was largely mitigated in the quarter by higher average assets under management and prepayment fee income.

During 2021, the portfolio also generated more than $1 billion in net gains on investments and derivative instruments, including $428 million from valuation of market-based equity investments and $167 million of net gains from the performance-based portfolio, primarily from gains on sales of direct real estate investments.

Our total portfolio return was 1.1% in the fourth quarter and 4.4% year-to-date, reflecting income and higher equity valuations, partially offset by higher interest rates. On the right, we've provided our annualized portfolio return in total and by strategy over various time horizons. Our total portfolio returns have been strong across these time periods, with contributions from both our market-based and performance-based portfolios.

The market-based portfolio delivers predictable earnings to support business needs, with returns highly influenced by public markets. The performance-based portfolio is deployed against capital and longer liabilities and supplements market risk with idiosyncratic risk. Equity investments have higher long-term returns which compensate investors for higher volatility, and we have sufficient capital to hold these assets through the full investment cycle.

Our performance-based portfolio has experienced returns above our historical trend over the last several quarters. While prospective returns will depend on future economic and market conditions, we do expect these returns to moderate from last year's level.

Now let's go to Slide 15 to discuss our proactive portfolio management. Our investment portfolio is a key contributor to shareholder value and is highly integrated into our overall enterprise risk and return processes. The divestiture of the life and annuity businesses reduced our portfolio from $94 billion at year-end 2020 to $65 billion today and provided us an opportunity to shift our asset allocation to increase risk-adjusted returns.

Since most of these -- of the assets backing our life and annuity business were fixed income securities, the divestiture lowered overall enterprise interest rate and credit risk. As a result, we increased our allocation to higher return in equity investments while maintaining the total amount of capital backing investment risks.

As you can see from the bottom left, higher return public equity and performance-based investments now account for 23% of the overall portfolio. These investments do have more volatility than fixed income securities, so we allocate more capital to support them, but the higher return more than offsets the risk of increased volatility, creating additional shareholder value.

Over 3/4 of the portfolio is still fixed income securities, which generates consistent cash flow. The result is a higher returning portfolio with lower interest rate risk overall. We actively manage interest rate risk and consider how it impacts overall enterprise risk and return. As you can see in the blue bars on the right chart, we extended duration from 2018 to 2020 when interest rates, shown in the orange line, were declining. This mitigated the impact of lower interest rates on auto insurance prices and was a balanced risk and return position from an enterprise perspective.

In 2021, we concluded that interest rates were not sufficiently compensating us for the risk that interest rates would rise, which would have a negative impact on the valuation of our bond portfolio. As you know, the consumer price index increased throughout 2021, shown by the light blue line on the chart, and we've discussed at length the impact that inflation has had on auto insurance margins. As a result, we shortened the duration of the fixed income portfolio through the sale of long corporate and municipal bonds and, to a lesser extent, the use of derivatives.

We are taking additional actions in 2022 to further reduce the negative impact higher interest rates would have on fixed income valuations. This will lower fixed income portfolio yield and investment income for the near term, but positions the portfolio to reinvest into higher rates if they continue to rise.

Finally, let's move to Slide 16, which highlights Allstate's strong capital position. Allstate's capital position remains strong and enables significant cash returns to shareholders while investing in growth. We returned $4.1 billion through a combination of share repurchases and common stock dividends in 2021. The common dividend was increased 50% compared to 2020, and common shares outstanding were reduced by 7.8% over the last 12 months. So if you held a share of stock at the beginning of 2020, you now own 7.8% more of the enterprise.

As of year-end 2021, we had $3.3 billion remaining on the current $5 billion share repurchase program, which is expected to be completed by March 31, 2023.
With that, let's open the line for questions.

Question and Answer

Operator

[Operator Instructions] Your first question comes from the line of Josh Shanker with Bank of America.

Joshua David Shanker
BofA Securities, Research Division

My first question, in the prepared statements in the press release, you mentioned the idea of rationalizing expenses in order to get back to profitability. You also have a goal of reducing your expense ratio by 300 basis points through transforming growth over the next 3 years. Are you accelerating the process? Are you going to be taking some costs out that will return in 2023, but be offset by some more restructuring? How do the different parts of that play together? Hello? Hello?

Glenn Thomas Shapiro
President of Property-Liability of Allstate Insurance Company

Tom, did you want to start?

Joshua David Shanker
BofA Securities, Research Division

Maybe we lost Tom.

Glenn Thomas Shapiro
President of Property-Liability of Allstate Insurance Company

Mario, you should start.

Mario Rizzo
Executive VP & CFO

Okay. All right.

Thomas Joseph Wilson
Board Chair, President & CEO

It sounds like -- Josh, can you hear me?

Joshua David Shanker
BofA Securities, Research Division

Yes, yes. Go ahead.

Thomas Joseph Wilson
Board Chair, President & CEO

Okay. Great. It only took me 5 tries with #6 -- or *6. First, I don't think you should think about -- there are obviously things you do in the short term like we reduced advertising a little bit in the fourth quarter because we don't want to go get a bunch of customers and then end up with a large price increase in the next 6 months. So you manage that. But in general, when you look at our expense reduction program, it's well laid out. It's -- I think it's another 3 years. It includes everything from using digital processes and getting rid of extra labor to using more outsourcing and cleaning up our processes and reducing our technology costs with the new platform. So those things will roll out. You can't really accelerate those because it has impact on customers.

So we're not doing anything to -- in the -- for 2022 to just get to our number that then you're going to turn around and look at 2023 and say, jeez, I thought you were profitable and now you're not. So we take a longer-term view of that. That's a little different in pricing in that we will be more aggressive early on in pricing and try to get ahead of the curve as opposed to trying to smooth that out over a multiyear period.

Mario or Glenn, anything you would add to that?

Mario Rizzo
Executive VP & CFO

Yes, Josh, this is Mario. Thanks for the question. I would agree with Tom, I think what we're focused on is permanent cost reductions that will, on a sustained basis, improve our competitive position and improve customer value and really enable profitable growth. And we're going to continue to focus on things like operating costs and distribution costs that we can permanently take out of the system. And as Tom mentioned, leveraging tools like automation, process redesign, offshoring where we can, and really kind of implement plans that do take time and aren't the kinds of things that I think you can accelerate the execution of.

But we're also not focused on ripping a bunch of costs out that's just going to come back into the system. We want to make the cost reductions permanent, achieve the 3 points over time because that will really position us to grow and grow at really attractive returns going forward.

Joshua David Shanker
BofA Securities, Research Division

So the expense ratio was a little high obviously in the quarter, and I'm actually referring to in the press release where you said that you're going to drive down expenses. It seemed like it was more reactive to what's going on right now. There's a short-term benefit. At least -- I'm trying to find the wording in the press release. In response, Allstate is reducing expenses and claims loss management, reducing expenses here in response. I mean obviously, you have the Transformative Growth plan, but is there an initiative on top of that to reduce expenses to get you to a healthy underwriting profit in the near term associated with the spike in losses?

Thomas Joseph Wilson
Board Chair, President & CEO

Josh, I don't -- we did not mean for it to have that interpretation. When you look at improving profitability in auto insurance, #1 thing will be increasing our rates. As the lowering expenses, as part of Mario said, the growth objective, our Transformative Growth plan, that will obviously help, but we would have done that anyway. In fact, we started at like 2 or 3 years ago, and we're really glad we did it because we came into this year with, as Glenn pointed out, about 3 points lower than we would have been had we not started.

But that's an ongoing piece, but it's a component of improving profitability, but it's just not -- not like we started it. In claim loss cost management, it is somewhere in between the two. You're always using data analytics and new claim processes, new relationships with vendors to try to reduce your costs. But as the costs change and the locus of those costs change, sometimes you have to adjust the programs you have in place. So I would say that the primary thing to focus on is rate increases in terms of the near-term improvement in auto profitability.

Operator

Your next question comes from the line of Greg Peters with Raymond James.

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

Good morning, everyone. I would like to turn our attention to Slide 8 of your investor presentation and where you roll through the details about the rate increases that you're -- that you've achieved and your expectations going forward. I guess just in the chart that's in the bottom left, just a further clarification on that. It says number of locations, 25. Is locations the same thing as states? Or are we dealing with 100 locations? And then when we see an Allstate brand increase of 2.9%, is that a quarterly increase that we can annualize? And I guess where this is going is just trying to figure out the rate you're getting versus where the loss cost trend is and if you're catching up, exceeding it or still behind?

Thomas Joseph Wilson
Board Chair, President & CEO

Greg, I understand the need and desire to get to the math, and that's why we've added the monthly disclosure. Glenn, do you want to take the specifics on the slide?

Glenn Thomas Shapiro
President of Property-Liability of Allstate Insurance Company

Sure. So directly answering the question, the 2.9% is an annualized and the 25 are states. So this truly is like if we stopped, if all we did was the fourth quarter, we got 2.9% rate increase across our book of business. We're not stopping in the fourth quarter, and we did a little bit in the third quarter, so we took about $800 million in rate increases between the 2 quarters and we'll continue to. But that amount of money, when you look at the right side, you look at the 81 and the 702, that is the full impact of the rate increase.

Thomas Joseph Wilson
Board Chair, President & CEO

Greg, when we get to the -- when we do the auto call in March, we'll give you a little more specifics on how to calculate that because the 2.9% is based on the -- it's a dollar number, right? We have a dollar number of what we think we're going to get. It's 2.9% -- is 2.9% times the prior year premiums. As the prior year premiums, if you look at the total, of course, when you're raising rates, it keeps going up, too. So the full year number is not the annualized number of December. So we'll help you figure out how to do that in March.

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

Got it. I appreciate the color. And by the way, the increased disclosure, I think, is appropriate, considering where you guys are, so applaud that change. I guess the other -- the big picture question around the slide and just the market environment. Obviously, the auto market is under a lot of duress right now with inflation issues. And there's been news reports from different states and different regulators about pushback on rate increase filings.

And I thought maybe you could give us an update of -- I don't want to go state by state, but some of the big target states, how the regulators are responding to the data that you're showing them, is it a process that's going to take a while? Or do you think they're receptive immediately? Just if you could give us sort of a state of the union on the regulatory front, that would be helpful.

Thomas Joseph Wilson
Board Chair, President & CEO

Glenn, could you handle that?

Glenn Thomas Shapiro
President of Property-Liability of Allstate Insurance Company

Sure, will. So Greg, it's a great question. And I know we've been, the last couple of quarters, the conversation has been a lot about will there be pushback when we get it. I think the evidence -- this page that you pointed us back to, Page 8, the evidence is pretty clear, 25 states implemented at a 7.1% average increase. We are continuing to go at a very fast pace across other states and even in some cases, the same states, again, with rate increases as we get new data and new trends. And to this point, we have -- you're always going to experience some discussions, some push on the data, some negotiation, if you will, and some back and forth.

But we've -- you can see it there, those are implemented rates. And we've been successful. And our people, and I give a ton of credit to our state managers and our product team who've done, over years, an incredible job of building relationships because they provide a lot of detail when they do a rate increase or a rate decrease, any type of rate change we make. And we get great responses because ultimately, these are numbers people talking to numbers people. It is less -- most often anyway, is less a political issue than it is a reality issue of looking at the numbers and what is the justifiable and supportable rate increase.

And again, we've been very successful so far. We have no reason to believe we won't continue to be. We'll have pushback in places, and we'll have discussions and give and take. But overall, we're getting the rates that we need, and we're going to continue to do that.

Thomas Joseph Wilson
Board Chair, President & CEO

Greg, it's -- the regulators come at it when they want to treat customers fairly. And as Glenn pointed out, the first thing they want is transparency, and our team spends a tremendous amount of time trying to be transparent with the regulators. It's also about what's your history with them. So we did a Shelter-in-Place Payback of $1 billion. No regulator asked us or forced us to do it. We did it proactively within like 10 days of notice and the guys who are on this team got organized on it.

So it's not like they do everything we want, but it's about treating customers fairly. And then in addition, when you're going in on the physical damage coverages, it's paid in 90 days. So there's not a great debate over whether the money went out or not. It just does. And then bodily injury can be a little more discussion around it because there are longer-term trends, but we have good math on that as well. So we're confident we can get our combined ratio into the target level that Glenn talked about, which is in mid-90s.

Operator

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

Paul Newsome
Piper Sandler & Co., Research Division

I was hoping you could talk a little bit more about auto claim severity on sort of an ongoing basis because maybe the Manheim used car prices don't do this incredible increase again. And so I think if there's anything you can do to help us kind of figure out what that trend would be if you pull out some of the real extraordinary things that happened over the last 6 months. So I think that might help us get to a better kind of ongoing run rate.

Thomas Joseph Wilson
Board Chair, President & CEO

Glenn has some good math on that.

Glenn Thomas Shapiro
President of Property-Liability of Allstate Insurance Company

Yes. So as we look at severity, a significant majority on the physical damage lines, which you were pointing to, Paul, is driven by the price of cars. It's -- I think I said this last quarter, but I really like the example of if you were -- if you have a life insurance company and all your policy limits went up by 50% or something with no premium change, you'd have an issue. And really, the value of the car is the policy limit. That's the capitation method for property damage and collision. So that moving up has driven, call it, 80-ish percent of the overall severity issue.

So as I look at that, there are a couple of ways you can look at it going forward, and this is not just Allstate, this is looking at the world around us that we operate in. One is when will supply chain issues and chip shortages be corrected. Most of what you see externally is that, that will last through 2022. The other one is that there's likely some sort of structural maximum that used car prices go to because they probably won't end up exceeding new cars' prices. And as we get to a year-over-year comparison, where in Q2 of 2021 was the largest single quarter of increase where there was that really steep uphill climb, at some point, you're not going to have those same type of increases on a year-over-year basis, but you may stabilize at a higher level for some period of time.

And that's what we've factored into the way we're looking at our incurred losses, and it's in there in terms of the way we've reported our results and our severities and how we're looking at it going forward.

Paul Newsome
Piper Sandler & Co., Research Division

What about the inflation on that -- the non -- sort of the non-limit piece, that 20%? What do you think that's doing today?

Glenn Thomas Shapiro
President of Property-Liability of Allstate Insurance Company

Yes. That is -- so when you look at the -- whether it's repair parts costs are accelerating, labor, like most industries, labor costs going up, that's continuing to move up. But I think an important way to look at it is if you removed the cost of cars, the used car price, that limit going up, everything else combined would be in line with sort of our normal trend for severity, that mid-single-digit trend that you'd expect to see.

Now then that's completely excluding one major factor, so I understand that it has a little bias to it because car prices do go up a little bit over time. But it is driving the lion's share of it because it's not like you expect severities to be flat year-over-year. They've moved up. Every year over long, long periods of time, there's just normal inflationary movement that happens in there, wherever it's low single digits some years, mid-single digits or even higher single digits other years. What is so extreme right now driving the double-digit increases is that change in car prices, but the 20% that I referred to is labor and repair costs, which we're really looking to tackle by increasing our use of direct repair and leveraging our scale in parts purchasing.

Operator

Your next question comes from the line of Yaron Kinar with Jefferies.

Yaron Joseph Kinar
Jefferies LLC, Research Division

First question. Slide 7 shows that auto frequency is still at a $1.4 billion [net guide] relative to 2019. So my question is, do you expect that frequency to normalize? And if so, is the 7% rate increase that you show on Slide 8 already contemplating that normalized frequency?

Thomas Joseph Wilson
Board Chair, President & CEO

Glenn, do you want to take that?

Glenn Thomas Shapiro
President of Property-Liability of Allstate Insurance Company

I will. Yes. So I give a ton of credit to our team that does all our math and our modeling, they've done a really nice job on frequency, and we're sitting just about right on top of where we expected to be a year ago on it. So will it normalize to some degree? Probably. While we can't predict -- different things can happen in the world, we can't predict and won't give a forward-looking prediction of frequency, you'd expect there to be some normalization to prepandemic levels. But as we've said for a while now that we believe that there is some durable structural change. People aren't going to be commuting to office buildings as frequently as they did before the pandemic. We probably all know many people, including some of ourselves, that don't do that and won't do that even on an ongoing basis. And 40% of our losses occur in rush hour, so the commuting time, Monday to Friday, mornings and afternoons. So when you've got significantly fewer drivers on 40% of your loss time period and that shift in when people drive, it makes changes to both frequency and severity.

So we think that there's some durable reduction there that, barring all the other things that change around it, would be consistent in the way frequency stays a bit lower. But as I mentioned earlier in the prepared remarks, we also see some severity increase from that because the driving has shifted to more leisure times, to times where the roads are more open, people are driving faster. It creates harder hits with greater severity. That's hitting us both on the physical damage and the casualty side. So there's just a lot of pieces and parts in there.

But to summarize with your question, are we contemplating that in our rate plan? The answer is absolutely yes. We are contemplating in the rate plan our expectations for frequency, our expectations for severity. And we're going hard after rate, as you can see, and we're not done.

Yaron Joseph Kinar
Jefferies LLC, Research Division

Maybe shifting to homeowners for a second. Look, I fully recognize that you have a tremendous track record there and certainly have earned your fair share of income there over the years. That said, if I look at the specific quarter, it seems like you saw some year-over-year deterioration, which seems to be a bit of an outlier relative to some of your earlier reporting peers. I'm just curious as to why this book maybe saw a different trend? I know you called out higher inflationary impact, but was there anything specific to the Allstate book?

Thomas Joseph Wilson
Board Chair, President & CEO

Yes. it's hard to compare us to other people. If you're talking about Progressive, I'd say our combined ratio is 15 to 20 points better than theirs and on a billions of dollars of either theirs or ours, but I don't even think there's a comparison. But

-- so we -- the business bounces around a little bit. We get a good return on capital on it. Was it in the high 90s? Is that where we want it to be on a long-term basis? No. There's a bounce around by year, yes. And so we feel highly confident we can continue to differentiate ourselves in this space in that business.

Operator

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

David Kenneth Motemaden
Evercore ISI Institutional Equities, Research Division

Just a question on when you think you'll be able to get to that mid-90s combined ratio in auto? Glenn, I think you've talked about some of the, I guess, your thinking around some of the moving parts around physical damage or severity. So wondering if you can maybe -- we can zoom out and think your timing when you guys think you guys can get back to that mid-90s targeted combined ratio in personal auto.

Thomas Joseph Wilson
Board Chair, President & CEO

Good question. I understand why it's important because everybody is trying to figure out the turn and when will it be in the P&L so you can get in early. And I understand the same thing is when people are looking at sort of various rate increases. The headline would be, we're not going to give a projection as to when because you can't predict what will happen to frequency, severity, rate increases.

What you can do is look on a longer-term basis and say, when you look at auto insurance and you look at the broad competitive set, Allstate, Progressive and GEICO tend to outperform the industry and have combined ratios which generate attractive returns and just -- you can just graph it out over 5 or 10 years and you can see we all sort of hover in the same place.

There are other people, like some of the large mutuals and stuff, which don't operate at that level, but we've proven an ability to get there. So we think that we'll continue to get there. As to the speed of it, sometimes people ask about the speed, it is very idiosyncratic. Like if your frequency moved up to near -- closer to prepandemic levels earlier than ours did, then you should have been taking price earlier. And severities, the same thing, people manage their loss costs differently.

So we tend to look at it and say, look at the long term, we know how to make money in this business and highly confident we'll get there. But we've not put a date out at which we said we'll be in the mid-90s.

David Kenneth Motemaden
Evercore ISI Institutional Equities, Research Division

Okay. That's fair. And then for my second -- or my follow-up question just on -- I just wanted to focus a little bit on the bodily injury severity and some of the casualty changes, some of the charges you took this quarter. Maybe you could help me understand where that's been running. What specifically happened this quarter that made you realize that charge.

And I think the last time you spoke about this, you had said that it was more or less in line with medical cost inflation. I think this was a few years ago. and that was notably below your peers back then. So I guess it's sort of a long way of asking, how are you thinking about the BI severity now given the changes that you've made? And how are you reflecting that in your [picks] going forward?

Thomas Joseph Wilson
Board Chair, President & CEO

Yes, it's a good question. And the percentages sometimes get a little confusing because it's a percentage; in other words, it's absolute dollars is the way we reserve to it.

Mario, do you want to talk about the reserve changes?

Mario Rizzo
Executive VP & CFO

Sure, Tom. So I guess the place I'd start is we have really strong reserving processes, and we're continually looking at our reserve levels, both for the current report year but also for prior years. And we're taking into account things that we're seeing, both in terms of inflationary trends as well as other phenomenon. We talked a little bit earlier around things like medical inflation, consumption, attorney representation. Those all factor in.

So I think, David, the thing we saw this quarter was we continued to see upward development in prior years in some of the casualty coverages. And we took that into account this quarter in terms of raising our ultimate report year expectations for bodily injury in a couple of the prior years. But it was really in reaction to the continuation of some of those trends that I talked about that are causing bodily injury and other casualty severities to increase to levels that were beyond kind of the range of outcomes that we had established earlier on for those prior years. So we reacted to it.

We tend to be conservative when we set reserves. But in this particular instance, we saw those trends develop out, and we reacted to it and increased the prior year reserves on auto casualty.

Thomas Joseph Wilson
Board Chair, President & CEO

So -- and we do it by state and by coverage. I mean so if we -- there's a fair amount of granularity to it, is market [compare] is not always as precise as you like because you're trying to guess what it's going to cost to settle a suit or something.

Well, thank you for participating. Let me just close by saying there's 2 stories here. The narrower story is, it's about the insurance industry and Allstate dealing with auto insurance, of profitability caused by inflation in fixing cars and then also at fixing bodies.

Great longer longitudinal story is -- which I don't want to let it on the cutting room floor is about a significant repositioning of the company while dealing with that issue. So we sold our life business. We spent $4 billion successfully, brought National General into the fold, increase our market share by 1%, much different position in the independent agent channel. Our transformation of the Allstate branded business is going quite well, whether that's expanding direct, lowering costs or building out new products and improving our competitive position.

And then our Protection Services business is really reached a substantive multibillion dollar level with large source of future revenue growth to come because of the way the economy works. And at the same time, we're continuing to buy back shares and pay great dividends.

So thank you all for participating, and we'll talk to you next quarter. Or actually, we'll talk to you in March when we come back to auto insurance.

Operator
This concludes fourth quarter conference call. You can now disconnect.