S&P Capital IQ

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The Allstate Corporation NYSE:ALL

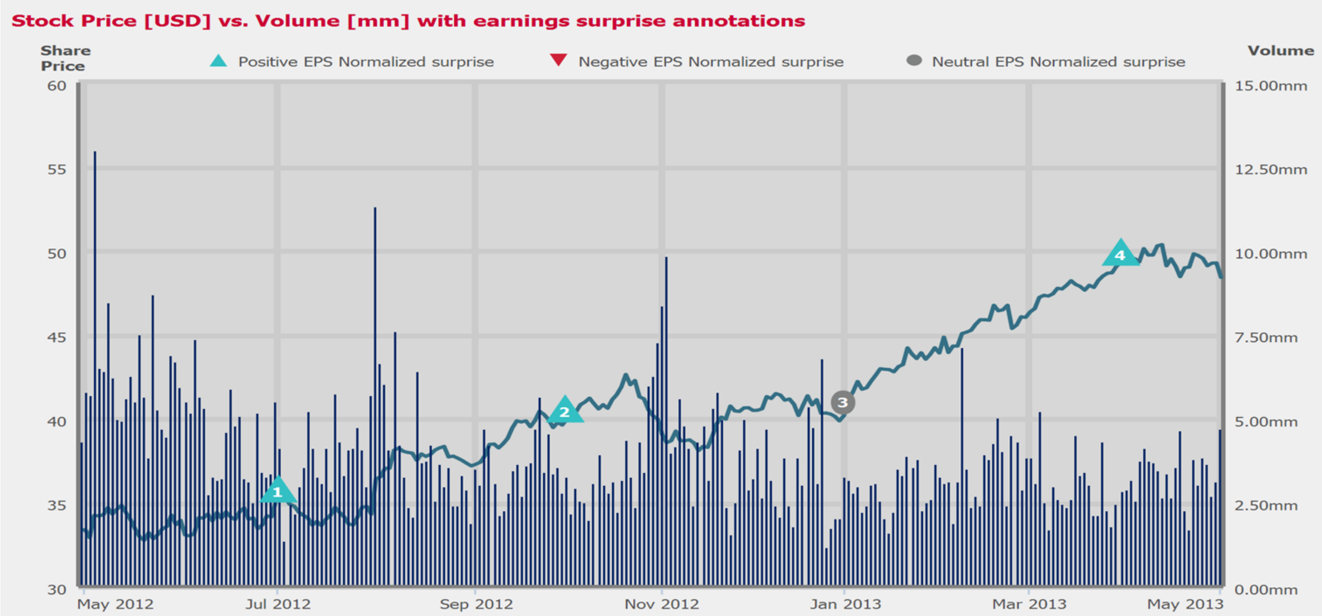
FQ2 2013 Earnings Call Transcripts

Thursday, August 01, 2013 1:00 PM GMT

S&P Capital IQ Estimates

	-FQ2 2013-			-FQ3 2013-	-FY 2013-	-FY 2014-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	0.98	1.12	14.29	1.00	4.75	5.16
Revenue (mm)	6818.60	6862.00	0.64	6894.11	27616.32	28372.91

Currency: USD
Consensus as of Aug-01-2013 1:29 PM GMT



	- EPS NORMALIZED -		
	CONSENSUS	ACTUAL	SURPRISE
FQ2 2012	0.57	0.87	1 52.63 %
FQ3 2012	1.12	1.46	2 30.36 %
FQ4 2012	(0.06)	0.59	NM
FQ1 2013	1.29	1.35	3 4.65 %

Call Participants

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Matthew E. Winter
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Presentation

Operator

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

Robert Block

Thanks, Matt, and good morning, everyone. Thanks for joining us today for Allstate's Second Quarter 2013 Earnings Conference Call. After our prepared remarks presented by Tom Wilson, Steve Shebik and myself, we will have a question-and-answer session.

Last night, we issued our press release and investor supplement, filed our 10-Q for the second quarter 2013 and posted a slide presentation to be used in conjunction with our prepared remarks. We also posted a document describing our current reinsurance program. All of these are available on our website.

This presentation may contain forward-looking statements regarding Allstate's operations, Allstate's results may differ materially from these statements, so please refer to our 10-K for 2012, our 10-Q for the second quarter and our most recent press release for information on potential risks. Also, this discussion will contain some non-GAAP measures for which there are reconciliations in our press release and on our website. We're recording this call and a replay will be available following the conclusion of the call. I will be available to answer any follow-up questions you may have after the call.

Now I'll turn the program over to Tom Wilson. Tom?

Thomas J. Wilson
Chairman & CEO

Good morning, and thanks for investing your time with us. I'll start by covering the second quarter results as they relate to our strategy and our 2013 priority. Bob and Steve will cover the business performance and capital actions that we're taking in the quarter. The performance this quarter is driven by a strong management team, who is familiar, of course, to many of you. And they're here as well to provide additional perspective in the question-and-answer period. So Matt Winter who leads our Allstate Agency business; Don Civgin, who has responsibility for Allstate Financial and Insurance; Judy Greffin is our Chief Investment Officer; Don Bailey leads the Emerging Businesses; and Sam Pilch is our Corporate Controller.

We generated solid results in the second quarter reflecting the successful execution of our strategy, which is to offer unique products and services to distinct customer segments. This strategy distinguishes us from the other personal lines companies who focus on either one customer segment or just using different methods of distribution. We believe that a focus on the entire value proposition will lead to longer-term growth and profitability. You can see positive outcomes from the strategy this quarter, particularly as the impacts from restructuring The Allstate brand homeowners business becomes less severe.

On Slide 2, we showed the 4 customer segments and our property-liability results for each one. There's 3 brands where we underwrite the risks. Allstate, Encompass and Esurance all grew in net written premium and premium and Answer Financial also increased nonproprietary premium. With the Allstate brand which serves customers who prefer local advice and assistance and a branded experience, units declined from the prior year quarter but increased from the first quarter of 2013. Auto policies were flat versus year ago, while homeowners declined by 4.4%, reflecting the actions taken to improve returns. As these profit improvement actions are successful, we believe the negative impact on growth will be reduced. The Allstate agencies did a great job this quarter at very strong results with higher customer satisfaction, improved retention for standard auto and homeowners, strong new business growth reflecting both the company marketing and local agency initiative.

The action has taken over the last 3 years to position high-performing agencies for success by concentrating and supporting them, and restructuring compensation is working. This segment maintained the profitability of the combined ratio of 94.6% and underlying combined ratio of 85.4% as rate increases essentially offset modest costs and increases.

The Encompass brand in the upper left serves customers who want local advice for the choice of products and services continue to show positive growth with units up 6.8%. Strategically, we remained focus on household penetration with our unique package policy that represents about 75% of Encompass' volume. The combined ratio in the quarter was 102.4% with an underlying combined ratio of 92.7%. Pricing and underwriting actions continue to be taken to improve margins.

The Esurance brand serves as self-directed, brand-sensitive customer segment and continue to generate significant premium and unit growth as it successfully leverages the benefits of being part of Allstate. Increased advertising is more effective. Sophisticated pricing for preferred risk auto customers and improved claim practices are designed to acquire and retain profitable lifetime value customers. The combined ratio remained high at 119.7%, reflecting the high levels of marketing spend and the expensing of acquisition intangibles. The loss ratio did increase over prior year quarter, however, reflecting increase by the injury severities and higher-than-expected discount utilization.

Gary Tolman and Esurance team are working closely with Don to adjust pricing and underwriting to ensure we maintain the long-term profitability of this growth. Overall, our customer-focused strategy is strengthening our competitive position.

On Slide 3, we provide a progress report on the 5 operating priorities for 2013. I've already covered to grow insurance premiums priority for property-liability. Allstate Financial increased premiums in contract charges, 3.6% over the second quarter of 2012. Net growth in premiums and contract charges for underwritten products is 4.8%, with Allstate benefits growing 11.9% compared to the prior year quarter. We maintained auto profitability in the quarter with a standard auto combined ratio of 97% for the 3 underwriting brands comparable to the second quarter of last year. The Allstate brand, which represents about 90% of the earned premium, had the combined ratio 94.9% as 0.6 points better last year's second quarter. And an underlying combined ratio 94.2%, which is slightly higher than the prior year quarter.

We continue to make progress on raising returns in homeowners with a combined ratio of 95.3%, a 9.1-point improvement from Q2 2012. Allstate brand homeowners had a combined ratio of 95.2% and an underlying combined ratio of 62.7%, 1.9 points better than the prior year quarter.

Annuity returns did increase in the second quarter, but the long-term outlet is still -- outlook is still challenged by low interest rates.

Our fourth goal is to proactively manage investments. In the second quarter, we continued to mitigate the impact of rising interest rates in the property-liability portfolio by selling long bonds and investing in shorter maturities. If you look over the last 1.5 years, the percentage of bonds and maturities longer than 7 years decreased from 46% to 20% of the property-liability portfolio. If we had not taken this approach, investment income, of course, would've been higher, but the value of the portfolio would have declined by more than it did this quarter.

If you just measured over the last 9 months, the portfolio would have declined by an additional $400 million as interest rates rose in the second quarter. The total return for the quarter was a negative 1.5% and the unrealized gain position declined the value by $2.7 billion in the quarter.

The fifth priority is to reduce our cost structure, so we can give customers great value with a differentiated offering. We announced the closing of our call center and introduced employee benefit changes that are effective at the beginning of 2014 that would equalize benefits amongst employees and reduce costs. We're also eliminating some retiree life insurance benefits starting in 2014 up to 2016. In the quarter, our property-liability expense ratio did increase, primarily due to technology and marketing investments to support profitable growth. Over time, we expect this ratio to the decline.

As you know, we also took another step to improve shareholder returns from Allstate Financial by entering into an agreement to sell Lincoln Benefit Life to the Resolution Group. Lincoln Benefit primarily serves customers that want their local advice and a choice of life and annuity products, which is the upper left-hand quadrant on the foursquare. It also manufacture life and annuity products that were sold throughout the agencies. Strategically, we did not have a differentiated offering, corporate capability or size that generated track returns as annuity customers independent agencies. As a result, we chose to exit this business as we did variable annuities, the bank broker distribution channels and payout annuities. This will enable us to redeploy capital into higher return activities. We will retain the life insurance risks written through the Allstate agencies via the Esurance agreement. We also announced Allstate Financial's decision to stop writing fixed annuities, but we will provide Allstate agencies and exclusive financial specialists with similar nonproprietary products so they can fully meet customers needs.

Now let me turn it back over to Bob.

Robert Block

Thanks, Tom. On Slide 4, we provide financial highlights for our consolidated results, as well as Property-Liability and Allstate Financial. Referring to top half of the slide, on a consolidated basis, we generated net income of $434 million or $0.92 per common share in the second quarter. The increase over the prior year quarter was primarily driven by higher after tax realized capital gains, and operating income more than offsetting the $312 million after tax loss on the repurchase of $1.83 billion debt as part of our capital management program.

Operating income of $529 million or $1.12 per common share increased 22.5% from Q2 2012, driven primarily from lower catastrophe losses in the second quarter 2013 compared to the prior year quarter. Net income return on equity was 11.6% and 12.3% on an operating income basis, both increases from the second quarter 2012.

Details underlying these overall results are shown on the bottom half of the slide. Property-liability recorded $617 million in net income for the second quarter, a significant increase compared to the prior year quarter. Earned premium of $6.9 billion grew 2.9% from Q2 2012 with a combined ratio of 96.1 and improvement of 1.9 points.

Catastrophe losses in the second quarter were $647 million, down $172 million from the prior year quarter. The underlying combined ratio for the quarter was 86.9%, below the full year outlook range and 0.6 points higher than the second quarter of 2012.

Now before the question about updating the outlook range for the underlying combined ratio of 88% to 90% set earlier this year can be raised in the Q&A, I want to say that we are not updating the range at this time. Should the first half trends continue for the second half of 2013, we could finish the year a little better than or at the lower end of this range. The combined ratios on recorded and underlying basis for each brand are shown on the lower right-hand side of the deck of the exhibit.

The Allstate brand continued to generate solid profitability as positive effects of rate changes essentially offset the modest increases in loss cost on an underlying basis.

Encompass recorded combined ratio results for the quarter were comparable to prior year quarter, while the underlying combined ratio improved by 4.3 points.

Esurance combined ratio of the 119.7% remained elevated, reflecting the impacts of increased new business volume, higher bodily injury severities and increased utilization of price discounts. Allstate Financial posted net income of $190 million in the quarter, an improvement of $58 million from Q2 2012.

Operating income benefited from favorable results in the benefit and investment spreads, partially offset by a small increase in operating costs. Realized capital gains were higher than in second quarter 2012 by $32 million after tax. Premiums and contract charges increased 3.6% in the quarter compared to the second quarter of 2012, helped by an 11.9% increase for Allstate Benefits.

On Slide 5, we provide net written premium and policy in force trends by brand and in total. The property-liability, net written premium increased 4.2% from the second quarter 2012, and overall units were essentially flat with the prior year quarter and grew 177,000 from the first quarter 2013.

Our strategy to provide unique products and services to distinct customer segments is working as net written premium grew compared to the second quarter 2012 for each brand, and units also increased from the first quarter 2013.

Within the Allstate brand, which serves customers that prefer local advice and assistance in a branded experience, standard auto net written premium of $4 billion increased 2.8% from the prior year quarter, while units increased sequentially but were flat year-over-year. Allstate brand homeowners net written premium of $1.7 billion grew 3.3% and unit volume declined at a slower rate than the prior quarter. The result for both of these lines reflect favorable trends in new business and retention. On the bottom 2 charts, you can see the growth trends for Encompass which serves customers who want local advice but the choice of products and services and Esurance serving self-directed brand sensitive customers. We'll continue to grow compared to the prior year in net written premium and unit. And we've been able to maintain margins as that within premium strands improve.

On Slide 6, we have combined the margin trends for Allstate brand standard auto and homeowners on 1 slide. The charts on the left-hand side of the slide showed the earned premium and loss trends per policy. While the chart on the right-hand side show the combined ratio trends.

For standard auto, losses per policy increased at a rate just slightly higher than the earned premium per policy. Essentially, flat frequencies and modern increases in severities were partially offset by increases in rates. The combined ratio for standard auto remained at a consistently profitable level. For Allstate brand homeowners shown on the bottom half of the slide, loss cost increases per policy remained at very low levels running below the increase in earned premium per policy. This resulted in an improvement in the underlying combined ratio of 1.9 points to 62.7%. The recorded combined ratio for quarter was 95.2%, a 9.7. point gain from prior year. Now let's go to Steve.

Steven E. Shebik
CFO & Executive VP

Thank you, Bob. Second quarter investment results reflect continued interest rate risk reduction actions in our property-liability portfolio, maintaining alignment with Allstate financial's changing liability profile and continued repositioning of our public equity portfolio to a more targeted strategy. The carrying value of our portfolio declined $5 billion to $92.3 billion compared to $97.3 billion at year-end, reflecting the reduction of Allstate Financial's spread-based liabilities, as well as lower fixed income valuations due to higher interest rates. We continue to increase the equity and owned component of our portfolio from which we expect to generate higher returns over time. However, earnings on these assets will be more variable.

On Slide 7, you can see net investment income totaled $984 million in the second quarter, slightly ahead of the prior quarter but lower in the second quarter of 2012. The decline in core debt income was mitigated somewhat by prepayment fees, as well as litigation proceeds, which added an aggregate $37 million in net investment income for the quarter. Total portfolio yield was 4.6%, slightly ahead of the prior quarter and consistent with the second quarter of 2012.

Turning to total return, in the bottom right graph, lower fixed income valuations resulting from significant increase in treasury rates led to a negative total return of 1.5% for the second quarter despite a consistent contribution from net investment income. An attribution of the change in unrealized capital gains is provided on the bottom left of the slide. The increase in rates, along with somewhat wider credit spreads, grew to a $2.4 billion decrease of unrealized capital gains compared to year-end 2012, $2.2 billion of which occurred in the second quarter. While the decrease in unrealized gains during the quarter was significant, we estimate the valuation decline of property-liability portfolio was mitigated by approximately $400 million to the repositioning of the portfolio that began at the third quarter of last year. Additionally, Allstate Financial assets and liabilities are more effectively managed on an economic basis.

We move to Slide 8, the fixed trends on our property-liability and Allstate Financial business units. As you can see in the graph in the top left, the earned yield trend on our property-liability core debt reflects 4 quarters of risk reduction activity. To our risk reduction actions, we positioned the portfolio to be less adversely impacted by increasing interest rates and bodes for our future income to realization of gains and the sale of longer-term securities as shown in the scheduled maturity graph in the upper right.

The current yield on our intermediate corporates, our targeted reinvestment proxy, is approximately 1 3/4% to 2%. Given the shortfall relative to the portfolio yield, maturity and sales activities have and will continue to result in a decline in net investment income for the core debt portfolio.

For Allstate Financial, you can see at the bottom of the page, the net investment income has declined as a result of the managed reduction of spread-based liabilities, a trend that will be accelerated with the sale of Lincoln Benefit Life. Over the past few years, Allstate Financial's investment cash flows have been used largely to fund liability outflows rather than being reinvested. So the portfolio yield has not declined as much as the property-liability portfolio. Future investment income will continue to be impacted by the pace of liability outflows in the reinvestment activity.

Slide 9 provides a recap of the recent transactions we have announced. In May, we initiated a capital management plan designed to increase our capital flexibility to get advantage of the low-interest rate environment. We purchased $1.83 billion of debt, recognizing an after-tax loss of $312 million in the second quarter. We issued $500 million each of 10-year and 30-year notes and $287.5 million of preferred -- perpetual preferred stock. We expect to issue an additional of approximately $2 billion perpetual preferred stock and subordinate hybrid debt to complete the debt refinancing, pre-fund our $950 million of 2014 maturity and complete the current share repurchase program.

After the quarter closed, we announced changes to our pension and life insurance benefits, as well as the pending sale of Lincoln Benefit Life. The impacts should be reflected on our financial statements beginning in the third quarter. The table at the bottom of the slide summarizes the estimated impacts of each on a pro forma basis as if they have occurred on June 30, based on the midpoint for the ranges we have announced.

Our pension and postretirement reliabilities will be remeasured effective July 15, and the impact of the changes in benefits and higher discount rate given the rising interest rates during the year will be recognized for the most part in accumulated other comprehensive income as a component of equity. A separate curtailment gain related to the changes in retiree life will be recognized in income. The impact of ongoing retirement and benefit expenses is currently being calculated based upon assumptions as of July 15.

As Sam mentioned, the sale of Lincoln Benefit Life exit the business, which we did not have a competitive customer or market position. The transaction reduces our financial risk as expected to free up approximately $1 billion of employable capital. This capital will be freed up in The Allstate Lincoln Insurance company. And as you know, a number of steps will be necessary for us to move that ultimately to the parent company.

Lincoln Benefit Life will be treated as held for sale beginning in third quarter with its assets and liabilities collapsed in a separate line in the balance sheet. The estimated loss in sale will be recorded and adjusted in future quarters until the sales close. We remain in a strong capital position at the end of the second quarter.

Slide 10 shows our capital position at various points in time. We have split up a long-term debt between senior debt and hybrid debt, so you can see the change in the makeup over time. When our capital plan is fully completed, we expect the slit between senior and hybrid debt to be approximately 60% to 40%. Our estimated statutory surplus at June 30 to $17 billion in total, with $13.6 billion estimated for the property-liability companies. Holding company level assets were $2.4 billion.

As Bob noted, our net and operating returns on equity was consistent in the last few quarters in the 11% to 12% range. Overall, a solid quarter will make good practice on the execution of our customer-focused strategy and our 2013 priorities.

With that, why don't we open it up to questions?

Thomas J. Wilson
Chairman & CEO
Okay, Matt. Could you start with Q&A?

Question and Answer

Operator

[Operator Instructions] Our first question is from Michael Nannizzi of Goldman Sachs.

Michael Steven Nannizzi
Goldman Sachs Group Inc., Research Division

So just one question on standard auto. I mean, it looks like -- so sequentially, PIF grew mid -- year-over-year decline was the lowest it has been in a while. If we were to just roll forward that sequential growth, I mean, you can be looking at PIF growth for the first time in a long time later this year. I mean, is that something that you're thinking about? Is that something that you're moving towards just given where the profitability is there now? Or you just love your thoughts on that?

Thomas J. Wilson
Chairman & CEO

Mike, I assume you're talking about The Allstate brands, which...

Yes. I'd throw it to Matt Winter.

Matthew E. Winter
President and President of Allstate Insurance Company

Michael, certainly, we're looking at that and focused on that. And our goal is to do what we've been working on for many years, which is to position ourselves so that we can get in a position that both new business and retention are improving. And we retained a strong muscle of auto profitability at the same time. And so a lot of effort has gone into that. A lot of that was influenced by actions that we had to take in the homeowners market. As you know, now that a decline in the homeowners PIF has slowed and the new business has picked up there, that has also assisted in the standard auto line. 80% of our homeowners new business comes with at least one auto. And so that, in combination with all of the work that the team has done and the agency owners have done to drive new business and improve retention, has put us in a position where we're looking forward to continuing to make momentum on the new business and the retention. And we believe that over time, that will yield favorable results for us.

Michael Steven Nannizzi
Goldman Sachs Group Inc., Research Division

So looking at that to 2Q to 1Q sequential, I mean, is that something -- is that fair to kind of think about extrapolating in terms of your -- internally, your own goal to say, "Look, we're here. We think we can start turning this into actually positive growth this year?"

Matthew E. Winter
President and President of Allstate Insurance Company

No, it's always dangerous to extrapolate from one quarter. We think we see a lot of positive trends. We think we're doing a lot of things that have long-term, sustainable impact. And we believe, as long as we're diligent, they'll have long-term favorable results.

Michael Steven Nannizzi
Goldman Sachs Group Inc., Research Division

Great. And just one quick one on the Life business. Is there anything in there for the second quarter that is -- that's nonrecurring? I mean, when we want to -- let's think about what the economics are there, excluding the transaction that you guys just completed. Is there anything else we need to peel out from those results to have sort of a clean number?

Thomas J. Wilson
Chairman & CEO

Yes, I'll let Don answer that, but you should not expect the operating interest to stay at its level as that -- obviously, there's some one-time items Don can talk about. But secondly, I remember that business keeps keeping smaller. So as it gets smaller in size, obviously, it's going to generate less operating income.

Don Civgin
President of Emerging Businesses - Allstate Insurance Company

Yes, I think -- Mike, it's Don. I'd say, there's nothing, strictly speaking, that's nonrecurring. Nothing from the sale of LBL is reflected in there. But there's a lot volatility in the investment income line. And we had a really good quarter.

Operator

Our next question is from Josh Stirling of Sanford Bernstein.

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

So a couple of years ago, you guys identified 13% ROE by 2014 as a sort of the primary operating goal the firm was going to be positioned around. You've made a lot of progress of that. You're coming close to -- I think you're regularly sort of hitting at 12% on an operating basis. Should we still think about that as a 2014 -- as sort of -- as the firm's 2014 objective as you're now starting to work through your annual planning process?

Thomas J. Wilson
Chairman & CEO

Josh, this is Tom. Good memory. So of course, 2 years ago, we established the goal of 13% by '14 when we're operating at about a 9% return, which was a 400 basis point improvement. And at that point, it was really to show that we had conviction that we could make substantial improvement in returns. It was not an indicator that 13% was the exact right sweet spot on creating shareholder value. Now there were some assumptions underneath that 400-basis point improvement. One was we had to make sure we maintained auto profitability, which you see we've continued to. Second, about 70% of that increase was related to improving returns in homeowners. And we're well on our way there, in fact, we're getting somewhere, we'll get into that this morning, and Matt can give an update on that. But there were 2 other goals: one was maintain investment income and rates have moved down by about 250 basis points since that time. So we're not on track to do -- to maintain that portion of the increase. And then lastly, it was to raise returns of Allstate Financial from about 9% to 10%. And as you can see -- and because of the interest rates and some other things that are going on there, we're not at that point either. So we're working hard on those last 2 items as you know. At the same time, we're also investing more in Esurance than we thought we were because we like their growth there. And we've changed the capital structure, so there's a bunch of moving pieces in there. As we get closer to 2014, we'll be updating our range and you'll be able to figure out with where the capital structure is and where we are, what it will look like for next year. But we're not giving any indication. I'll tell you, though, our goal, of course, is just to get as attractive a return as we can while driving growth in the business, in the environment win. But I don't want it us to blindly chase a number that's an accounting number as opposed to an economic number, which ultimately drives shareholder value. So working hard on driving it up. But -- so for example, when we shortened the duration in the portfolio, which saves us a bunch of money this quarter. Of course, if you just mark-to-market this quarter, that would have took away some of that ROE. But we thought it was a good trade from a risk-return standpoint. So we're going to always manage to what we think is good long-term value, and then we'll update it as we go forward this 2014.

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

That's really helpful, Tom. I guess I'll just ask the obvious -- the follow-up question that you sort of teed up on, which is on homeowners margin expansion. Is that -- would you guys still think of that as the primary earnings lever, I mean, recognizing that you're doing a bunch of stuff, expenses, expenses on the both on the debt side, as well as internally. But is that still sort of the primary lever we should be focused on? And the question would be: How much more good news do you think you can get out of the various initiatives House & Home and things like that you're pursuing today?

Thomas J. Wilson
Chairman & CEO

Well, I'll let Matt talk about what he's doing. I'll just remind you, we think we've captured a lot of where we were. We were in the 70s underlying combined ratio at that time. I don't remember the exact number, Josh, but now we're in the low 60s, which is where we said we thought we need to go. Matt is doing a whole bunch of things, though, and with his team to take it from what would became a competitive disadvantage in the marketplace for competitive advantage. And I'll let him talk about both that and sustainability and profitability.

Matthew E. Winter
President and President of Allstate Insurance Company

Sure. Thanks for the question. You're correct that we've looked to homeowners for several years to improve the overall profitability of the enterprise. Well, the good news is the underlying profitability continues to improve as we benefit from some of the actions taken in the last several quarters. It has allowed us to begin growth, if you look at new business growth in homeowners and retention. Both are improved as we've had to take less rate because we're closer to rate adequate. And all the House & Home that goes in, goes in as rate adequate. So we're -- we continue to make improvement in what we have and at this point, as we put on profitable high-margin, high-return business, our goal is to figure out how to do more and more of that while remaining in the proper risk profiles. So a lot of the work we're doing now has to do with how we manage that risk, how we manage concentration risk and how we can manage those 2 elements and still grow and continue to expand the homeowners business and all the auto that -- and other products that come with it.

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

Our next question is from Jay Gelb of Barclays.

Jay H. Gelb
Barclays PLC, Research Division

In the Allstate brands, premium growth is now at the highest levels since 2005. And my sense is there's a number of numerical drivers to that, but one of the most interesting would be the recovery in homeowners. I mean, for example, I'm hearing in New York and the drive time in the morning, more advertising. So maybe you can talk a little bit about the level of comfort of increasing the homeowners' exposure? And then also, other personal lines is showing, by far, the fastest growth among The Allstate brands. Maybe you could talk a little bit about what's driving that, and whether you're getting cross-selling opportunities as a result?

Thomas J. Wilson
Chairman & CEO

Jay, I'll let -- maybe, Matt, can talk about perhaps what he's -- he already talked a little bit about what he's doing at House & Home. But maybe he can talk a little bit about PML optimization or probable maximum loss optimization. And then Don Bailey can give you some insights into what we're doing on the other lines, which is, of course, focused around -- the strategy that Matt is trying to execute or is executing with our agencies is about selling lots of stuff to these customers. So you're right to think about it as a total package as opposed to a line. Way too often, people started looking at us and talking about a single product when, really, we're talking about the variety, the breadth and longevity of our relationship.

Matthew E. Winter
President and President of Allstate Insurance Company

So Jay, I'm glad that our advertising spend is hitting you, and that you're hearing it. As I mentioned, I believe at the last call as well, one of the areas that we're spending a lot of time on in homeowners is

PML optimization. And the other is what we call aggregate risk management, which is really just looking at our homeowners portfolio in figuring out, at a more granular and sophisticated level, how we could use diversification benefit, how we could use various combinations of product sets and features and reinsurance to manage to grow in some areas without increasing above an acceptable level our probable maximum loss or our concentration risk. And so what you're seeing now in New York is a very careful and, I think, very disciplined way of thoughtfully growing a little bit within the state in those areas that do not pose undue concentration risk or PML risk for us. So we're doing it fairly thoughtfully. We're doing it in a way that maximizes the overall number of products that it brings to us. And so as Tom mentioned, we're trying to look at this from a household perspective, not a single line perspective. So what you'll see is we may be growing more in those areas where we get multiple products with the Home as opposed to a single non-line [ph] Home. And with that, I'll turn it over to Don Bailey, who can talk to you a little bit about the other personal lines.

Donald J. Bailey
Former President of Emerging Businesses

Thanks, Matt. So as Tom mentioned, the other personal lines incorporates a portfolio of additional products. And we have, if you listen to the language in the hallways here, really changed the language -- Matt certainly led that with us trying to pivot from more of a product-focused organization to a household-focused organization, for all the right reasons. Our close rates go up, retention rates go up, profitability improves as a result. And the consumer household lines, as we refer to them, really are critical in terms of making progress in that effort. So the language has certainly changed, but a lot of other things have changed for us, too, over the last several months. Our training in this regard has changed. Technology has substantially improved to help enable more of these cross-sells and household penetration. The product design aspects of these portfolio have evolved to be more agent-friendly, to be more consumer-friendly. And so we made progress there. And then our expectations of all of us and everybody in the field and of our agents have changed in terms of what we are seeking in terms of an outcome on this phase. So the last thing that we've done is we put leadership focused specifically on that. Let's make progress on that. Let's hit targets on that. Let's make sure this is a meaningful piece of our success story as we go forward. So yes, you'll see that in there. It's not by accident.

Thomas J. Wilson
Chairman & CEO

I would just point out on Page 25 of the supplement, we've started to break out the -- how we look at our customers and trying to help you see that we can't separate where our customer relationship from where we deployed capital. So you'll see advantage where we sell other people's products to the agencies. You'll see the nonproprietary premiums at the bottom of that, which is -- almost $1.4 billion. So that gets to the point that Matt and Don were just making. And what we're doing with the annuities as well, which is we want to sell those to our customers, we know our customers need and want them. It helps our relationship, but it's not a place where we choose to deploy capital. So we've been able to separate those by getting more sophisticated.

Jay H. Gelb
Barclays PLC, Research Division

On the issue of Encompass, one of the challenges there appears to be the standard auto and continuing to run well above the 100% combined ratio level. What's the issue there and kind of effect?

Donald J. Bailey
Former President of Emerging Businesses

So on the -- this is Don Bailey. On the Encompass piece, if you'd look at the loss ratio -- if you look at the underlying loss ratio, you'll see that we've actually improved rather substantially on that on a year-over-year basis. And why is that? We've had a move from probably a further with a mono-line or segment auto approach to a package approach. The auto line performs far better in a package than it does on a standalone basis. So we've made meaningful changes in moving our portfolio forward in that regard and we're seeing progress in that unacceptable number as a result. We're also taking meaningful rates in that space as well. So while the number isn't where we want it to be today, there clearly is underlying improvement there and it will continue to be as we go forward.

Operator

Our next question is from Meyer Shields from Keefe, Bruyette, & Woods.

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

I guess 2 questions on Allstate Protection. One, we did see a slight uptick in the underlying loss ratio for Allstate brand standard auto. Is it fair to attribute that to the improving Allstate count growth? And is there -- can you talk about how much more of that increase, if you're will be willing to tolerate, for the sake of policy growth?

Thomas J. Wilson
Chairman & CEO

Matt did that. Yes, I would point out just a slight uptick remember there's -- as you know, there's a lot of variability in sort of frequency. It varies on quarter-by-quarter basis.

Matthew E. Winter
President and President of Allstate Insurance Company

Hey, Meyer, it's Matt. You should not think of it as a trade-off between profitability and growth because that's not what we're doing. We are focused on growing and maintaining profitability. So it's not a question of -- that we're letting our combined ratio creep up in order to facilitate growth. I think most of the uptick that you see is attributable to 2 pieces of the loss ratio. The PD paid severity and the BI paid severity. So let me take you through those. The PD paid severity was elevated in the quarter. But if you recall in the first quarter, PD severity was below prior year by almost a point. And we attributed that to the subro demands that were at significantly lower than normal levels. Those subros typically carry a higher severity than average claims. And in the second quarter, what we've seen is a higher-than-normal subro demands, about 25% higher actually. And our working hypothesis is that due to Superstorm Sandy, the other carriers' workloads were such for the fourth quarter of last year and the first quarter of this year that they delayed the subro processing and the payments until the second quarter. So we are seeing that uptick. Now it's merely a delay from the fourth quarter of last year and the first quarter this year, but on a normalized annual basis, it's right in line with our historical average. On the BI paid severity, I mentioned last quarter, that we were accelerating the closure of older, more complex claims. And that in combination with the change in state mix and liability limits contributed to the increase. If you take that -- those 2 pieces out, the remainder was in line with medical care CPI. And so that has actually come down off of that peak as we've said as we work through more of those older, more complex claims. And we're moving much closer to historical norms, which around the medical care CPI. The only place that you can see any "investment" in our growth show up in the combined ratio is we pointed out that we did make some targeted investments in technology and marketing this quarter, which have shown up in the expense ratio. Those were intentional. We believe this was the right time to make some targeted investments in technology and marketing in order to push momentum and provide our agents with the tools and the stability they need to handle this higher volume. And it's certainly controllable and will continue to monitor when it makes sense to continue to invest in those 2 areas and when it may make sense to slowdown that investment.

Thomas J. Wilson
Chairman & CEO

Meyer, let me also make one overall strategic comments, of course, price is obviously very important as you point out as a driver of customer's decision-making. But that's not the only component of our strategy. Our strategy, of course, is to give a highly focused customer value proposition that means good price to value. So price is not the only lever as what Matt is saying that you can drive growth. Whether it's better technology so the agencies can do a better job knowing who their customers are, whether it's new products and launching those. We have a multifaceted way that we're seeking to grow not just -- we don't view it as just a price and profit trade off for growth.

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

That was very thorough. I appreciate it. On the homeowners side, when we look at the aggregated lower reinsurance spend that you disclosed last night, I guess, does that still translate in -- let me ask this differently. Do you expect to retain the savings for the past month to customers? Or -- and is the overall internal cat provision lower or higher than it was 12 months ago?

Thomas J. Wilson
Chairman & CEO

The internal tax provision? I...

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

No. Catastrophe provision.

Thomas J. Wilson
Chairman & CEO

Oh, catastrophe provision. Well, let me take a shot at it and see if anyone else wants to join in here because it's a complicated question. If you go way up, we looked at hurricane or earthquake losses and said we don't want to have those losses. So -- but we don't want to get rid of the homeowners line so we're going to sort of synthetically divest some significant portion of those by using reinsurance. And that's how we get started in doing reinsurance. When we first did that, we were not able to pass that to in our higher rates because it takes a while to get it through the regulators. Since that time, we made a bunch of changes to our filings and most of it, but not all of it, gets passed through. So as costs come down, we would expect over time that to be factored into our pricing. That may or may not translate into different homeowners prices because there's all kinds of other pieces of loss cost going through there. And we may or may not be getting it back for -- that portion of the company where the reduction comes from. We don't really have an internal way in which you're describing it so we -- Matt works with Steve and Sam and they figure out what the right balance is working with our Enterprise Risk and Return Council with inside the guidelines. So there's not really -- there's nothing we're doing internally that would confuse the reported results.

Operator

Our next question is from Mike Zaremski of Crédit Suisse.

Michael Zaremski
Crédit Suisse AG, Research Division

In regards to Allstate brand auto rate actions, so if I look at the 10-Q it shows 0.4% rate increases on a year-to-date basis in 21 states. So I was curious is that the level of rate increases we should be thinking about through year end? And if so, does that imply that the you're okay allowing the loss ratio to rise a little bit?

Thomas J. Wilson
Chairman & CEO

Well, let me start at the end. No, we're not okay allowing the loss ratio to rise a little bit. What you're seeing is a 1-month -- 1-quarter snapshot in what should be viewed on a much longer basis. So if you go back historically, and that's long before I took over this role, the company has been very good about consistently reflecting its experience and what it was seeing in these rates and taking rates as needed. Not holding back on rate actions hoping that stuff goes away. Not holding back on rate actions in order to capture market share, but passing those through as they were experienced and as we were seeing them.

And as a result, sometimes we have what I refer to as a first mover disadvantaged because we took rates sooner than some of our competitors and on a more consistent basis. And sometimes, it's actually to our benefit because we got out ahead of the curve. I think what you're seeing now is we're out ahead of the curve in many areas. And also, suggest you go back several years, 2 or 3 years. The vast majority of the rate that you were seeing was driven by a couple of very large states, notably Florida and New York. If you go back to 2010, somewhere in the neighborhood of 70% of the overall country rate that you saw was driven by those 2 states. Now that those 2 states have returned to profitability and are requiring less rate action, it's the smaller states where we've taken consistent rate as needed that are just vacillating. And we will continue to monitor it closely. We will take rates as needed. We are not deliberately trying to let loss ratios float up as you refer to. We're going to continue to do what we've always done. It's just that our timing is better because we did the hard work upfront and it cost us upfront. If you go back several years you saw that on the homeowners side and the auto side, and now we're actually benefiting from that timing.

Michael Zaremski
Crédit Suisse AG, Research Division

Got it. That's helpful. Lastly, in regards to the initiative to issue additional hybrid debt in the coming year, do you expect to take advantage of the debt-to-capital equity credit? I think, I believe that's provided by the rating agencies for those types of securities and to potentially repurchase stock in excess of earnings, taking advantage of that credit.

Thomas J. Wilson
Chairman & CEO

So our goal -- our first program we announced last December, our share repurchase, was effectively a hybrid debt for equity swap. We said we would issue $1 billion of hybrids, we would buy back $1 billion of stock. So we have actually been working on that specific transaction for 2013. The rest of the program, about $2 billion more we expect to issue hopefully during the course of the rest of this year, maybe $750 million or so of hybrids and $1 billion, $1.25 billion of preferred. That is part of our capital management strategy we have previously talked about and does not impact any future share repurchase program, which we generally look at once a year towards the beginning of the year as part of our strategic planning process.

Operator

Our next question is from Josh Shanker of Deutsche Bank.

Joshua David Shanker
Deutsche Bank AG, Research Division

Yes. Related to what you talked about with Mike on pricing, I just see 2 very different pricing strategies at Esurance versus Allstate brand. What are you reacting to at Esurance, which has rather meaningful price increases versus what's your reaction with Allstate brand where you think you can be moderate?

Don Civgin
President of Emerging Businesses - Allstate Insurance Company

Josh, it's Don. It's Don Civgin. Let me talk a little bit about Esurance first. First of all, Esurance obviously was -- is designed for an different customer value proposition. Different product, different features and it competes in a different market. The transaction -- 1.5 years into it -- you guys have been through this before, where you're 1.5 years into a transaction and lots of things are going wrong. In this particular case, I'm proud of the fact that Esurance has really only one thing that we're focused on right now. And a lot of things have gone well. The integration has gone well, advertising, brand linkage, all of that's worked well. The combined ratio is high, part of it is high because of the advertising expense that we've talked about before, but the loss ratio on the second quarter was higher than Gary or I were anticipating or would like. We are taking price increases. We've taken them -- if you look over the course of last few quarters, we've taken them pretty consistently as well. Those decisions are independent from what Matt is doing on The Allstate brand. What we're trying to do at Esurance is make sure that the combination of the loss results, as well as the rest of the expenses result in an economic combined ratio over the life of the product. So I'm less concerned about the advertising expense being elevated than I am over the life of that customer. Are we having a good economic combined ratio that gives me good return on capital and create shareholder value? So that's why we've taken the price increases in the last quarter. And I'll be honest, I think we're going to continue to take some price increases going forward in spite of the fact that might pressure some of the growth we've seen. It's the right thing to do to get the loss ratio to where we want it to be.

Matthew E. Winter
President and President of Allstate Insurance Company

So Josh, it's Matt. Let me just follow-on on The Allstate brand part. First of all, as Don explained, it's a different segment and it's a different block of business. There historical business has been somewhat different than The Allstate brand and they started in a different place. So it's somewhat deceptive to look at price increases without knowing where the starting point was. We experienced that in homeowners over the last several years. It depends where your start. It depends upon how much of a price increase -- rate increase you have to take. And so as we have different blocks and different starting points, it's not surprising that in some places, Esurance may have to take more significant rate than Allstate brand. And it might happen that we're doing just the opposite in some states at some point in the future. I would think of them as somewhat independent.

Joshua David Shanker
Deutsche Bank AG, Research Division

That's perfectly appropriate. Looking at the homeowners that you still bled about 41,000 homeowners between 1Q '13 and 2Q '13. Where are you in terms of shaping the portfolio to where you want it to be from a catastrophe perspective? And two, were you in the process of trying to win back customers who you lost in the reshaping process and you actually -- if you could have tailor-made it perfectly for you, you would have never non-renewed?

Matthew E. Winter
President and President of Allstate Insurance Company

This is Matt again. We're making good progress in our efforts. Once again, I can't tell you either what inning we're in or what yard line we are, but I can tell you, I feel good about the progress that's been made. And I think the fact that if the client has slowed dramatically and consistently over the last several quarters is an indication that we are -- we have less work to do and we're taking less severe action there. That being said, it's all going to depend upon the combination of new business and retention. So new business was up 35% in the second quarter. That's great. It accelerated the improvements seen in the previous quarters, but retention is going to be one of our core levers there. And retention did tick up last quarter, but I still think we work to do. And it's not just on the winning back of those customers who we may non-renewed previously, but it's also keeping those customers we have. And so we have a fairly concerted effort on the retention front. New business -- the new business engine is moving specially with House & Home, which the growth in -- new business growth for House & Home is about 6 points higher than it is for the countrywide average. So the House & Home initiative certainly is helping us on the new business side. But the lever that I think we have to pull even harder is the retention one. And certainly as we have less profitability actions to take as we have less rate to put in and less nonrenewals and less strict underwriting guidelines. As we return to a more normalized level, my expectation is we'll continue to see improvement on retention as well.

Joshua David Shanker
Deutsche Bank AG, Research Division

And to what extent do look at the marketplace and see your competitors also re-underwriting their books? I mean, I'm not right now in the market for homeowners insurance. But I imagine everyone tells me it's pretty hard to find a reasonable rate. I'm surprised retention isn't better given the lack of options?

Thomas J. Wilson
Chairman & CEO

Let me move aside because I want to make sure we get people time for questions. So I think, Matt here is getting a long-term plan to start to grow the business and you'll start to see that play out as we go forward.

Operator

Our next question is from Bob Glasspiegel of Janney Montgomery.

Robert Ray Glasspiegel
Janney Montgomery Scott LLC, Research Division

It looks like you're giving us an early warning that you may improve your guidance in underwriting although you didn't go all the way through. That's with a little negative wiggle in Esurance so what are you seeing and what are the biggest drivers that's coming in better than you thought beginning of the year given that Esurance sounds like it might be a slight negative in your -- versus earlier expectations?

Thomas J. Wilson
Chairman & CEO

Bob, this is Tom. Look, confused about it. It's a early warning on an improvement in one's forecast [indiscernible] but we -- what we did is of course 5 or 6 years years ago. We moved away from the guidance and we said we'll just tell you what we think the underlying combined ratio will be for the year. We put in at a range -- frequency bounces around from year-to-year. It's weather-driven, a whole bunch of things. You can easily get a point move in a combined ratio just from frequency. Severity obviously can bounce around as well. So we try to put a range on it. We're feeling good about where we are in that range, particularly since we're below the range and we're 6 months in. But you should not expect us to be updating the range because what happens is you update the range, it eventually moves into a quarterly forecast. Because you give the -- give it for a year, then you give it for the next 9 months, then the next 6 months, then the next thing you know you're doing it for the last quarter. And because it bounces around a lot by quarter, we think the best way to communicate to you all is how are we doing relative to what we expect is the annual range. So -- and we think that's the right way doing it at a calendar year basis. So we're just, Bob is just making a point that we feel pretty good about where we're at. We don't see a lot of adverse trends in frequency or severity when you look at the first 6 months of the year. So we feel good about where we're at in the range. If you just do the math, we'd have to have a pretty good bump to be above the range in the second half here. And we're letting you know, we don't think that's going to happen. But we're also not getting into the process of re-forecasting that range every quarter.

Robert Ray Glasspiegel
Janney Montgomery Scott LLC, Research Division

So you're seeing vanilla frequency severity trends here contributing to the potential upside?

Thomas J. Wilson
Chairman & CEO

I think the way in which we do business is contributing to the consistency of the results.

Robert Ray Glasspiegel
Janney Montgomery Scott LLC, Research Division

Okay. And one quick follow-up. On the life side, financial services side, you're going to be discontinuing 20% or 30% of the earnings? Is that what you were saying before the deal closes? What is this sort of core running rate of what's left.

Steven E. Shebik
CFO & Executive VP

This is Steve. What we disclosed is roughly about 1/4 of the earnings is what's earned by the businesses that we are selling. As we go forward -- that will be out of our earnings next year, it will still be earnings for this year until the closing date, which we are hopeful subject to regulatory approval would be the end of the year. I missed out the second part of your question?

Robert Ray Glasspiegel
Janney Montgomery Scott LLC, Research Division

Well, what is the core run rate of -- so you're saying 75% of Q2, which was a little bit high, is sort of...

Unknown Executive

Yes, sort of...

Don Civgin
President of Emerging Businesses - Allstate Insurance Company

Bob, it's Don. I think what we've disclosed is that a number of about $130 million or so of run rate income is going to leave the company when we complete the transaction.

Operator

Our next question is from Vinay Misquith of Evercore.

Vinay Gerard Misquith
Evercore ISI, Research Division

The first question is on the ROE levels that you want to pull right now. It seems that on both the homeowners and the auto you're pretty close to where you want to be. And so I'm just curious if I'm looking forward to this year versus this year, what ROE levels are you looking to pull?

Thomas J. Wilson
Chairman & CEO

Vinay, we'll be able to figure that out when we get to next year's outlook, which will be in the fourth quarter when we typically give the -- after fourth quarter results we give next year. So there's a bunch of moving pieces here in terms of what happens to investment income, what happens to the capital structure, where we are in frequency and severity in the last half of the year, how much progress would feel, how much growth there is. So we're not prepared to say what we're going to do next year.

Vinay Gerard Misquith
Evercore ISI, Research Division

Okay. The second question is on the pension and life benefits those reductions. You've disclosed the impact, like the net impact on net earnings this year. But just curious as to what's going to be the recurring benefit on a quarterly basis because of lower expenses?

Steven E. Shebik
CFO & Executive VP

So this is Steve. We were currently calculating that. We have to do it on the basis of the date we announced the changes July 15. So the actual rate is we haven't had time to really calculate that. What we disclosed was the impact on the balance sheet really and not at a period of time and an estimated range. Not the actual income statement impact, which I don't have a handle on it right now.

Thomas J. Wilson
Chairman & CEO

But it'll be a good number.

Vinay Gerard Misquith
Evercore ISI, Research Division

Okay. And will you guys let it flow to the bottom line? Or are you looking to give it back to the policyholders in the form of lower rates?

Steven E. Shebik
CFO & Executive VP

We don't -- as I was saying before, we don't look at everything in terms of reducing price to drive growth. We have a consistent strategy. So as we've said, we want our expense ratio to come down while we're delivering good differentiated value. But as Matt pointed out, they took some -- he took some actions to invest in things like technology and marketing to drive growth. So we don't specifically target individual actions and put them through into a 1-part, portion of the value proposition.

Operator

Your next question is from Paul Newsome of Sandler O'Neill.

Jon Paul Newsome
Sandler O'Neill + Partners, L.P.

Could you just review with us kind of what's left in the life insurance financial business that's not part of the core either the -- as I understand, the core business of selling traditional life insurance through the agencies and the work side marketing business. And kind of what is the operating strategy at the moment for those units?

Thomas J. Wilson
Chairman & CEO

Paul, it's Tom. Let me give you an overview, and then Don can talk about specifically that piece. So as you remember, the strategy that we started a couple of years ago when Matt Lutz [ph] was leading that business was to: one, be focused on The Allstate agencies; and two, to be focused on the work site, so you're correct on that. We continue to refine that strategy. And of course Lincoln Benefit is an outcome of -- the natural outcome of that. Don also just recently announced shutting down the fixed annuity business through those agencies. So that's a continued refinement narrows it down a little bit. So it's really life insurance. And from a manufacturing standpoint, it's life insurance to The Allstate agencies. From a providing coverage for our customers, it's everything. We sell variable annuities, we sold that business in 2006 and we're still selling a lot of those. We sell mutual funds, we sell -- we'll sell fixed annuities, we sell long-term care. We sell a whole bunch of things through our agencies. So you have to kind of distinguish between what are we doing for those customers and what are we underwriting. And -- but then also there's about $32 billion block of annuities, which are in several different forms that we still have, still will retain when we get done with the Lincoln Benefit transaction. And Don can talk about what our strategy is there.

Don Civgin
President of Emerging Businesses - Allstate Insurance Company

Okay. Paul, it's a -- let me try to answer it this way. When Matt first started with this strategy for the life business, it was a 6% return business. We got that number up to about 8% now, mostly through improvements in operating income. We've still got some elevated capital levels and we're working hard to reduce those as well. I think Tom said it right. You have to view what's left from a customer point of view and then kind of what the liabilities are. From a customer point of view, we're fully committed to meeting the customer value proposition that Allstate has to the Allstate customer through our agency distribution, agencies and exclusive financial specialists. We are going to manufacture life products. We've historically had good returns in that business. We will continue to use our paper to write that product. But on the annuity side, we're basically out of the business as it relates to putting it on our balance sheet. The LBL transaction takes with it about $13 billion of reserves, $9 billion of that is annuities. So that's strategically very important because it continues to reduce our exposure to the spread business. When you look at it from a balance sheet point of view, we have light blocks and we have annuity blocks. As Tom said, the annuity blocks are still larger than we'd like. And we continue to work both on the liability side and the asset side to find ways to make that accretive to our income as opposed to a dilutive, which is what it's doing now. And the life business we want to grow. We like the liabilities there. I think we've had historically good results. We're good at those products but, again, back to the customer point of view, they will not see a difference as to whether it's going on our paper or somebody else's paper.

Thomas J. Wilson
Chairman & CEO

Well, last question please?

Operator

Our follow-up question is from Adam Klauber of William Blair.

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

It seems like frequency for the last 3 years in auto had been pretty much nonexistent. Any theories on why that is? And what you think is going to happen going forward?

Thomas J. Wilson
Chairman & CEO

Adam, Tom. Matt can talk about it. But I guess I would just characterize it. We wouldn't say it's nonexistent. Perhaps it hasn't been increasing rapidly, but it's still there. But in terms of pressure on loss ratio, Matt can talk about it.

Matthew E. Winter
President and President of Allstate Insurance Company

Yes. I wish it would completely disappear. This business would be easy. But we're actually looking at it and we call it benign. It's stable and it's stable and it's performing within the historical ranges. And so we're not experiencing pressure from the frequency side, but that's on a countrywide basis. And so we have to monitor it on a much more granular basis. We'll continue to look at it on a geography-by-geography basis. In some cases, it may tick up and we'll get on it quickly. But from a countrywide basis, we've seen it stabilize within the historical range.

Thomas J. Wilson
Chairman & CEO

And Adam, this is Tom. On a longer-term basis, of course, you're absolutely right, it's been declining. So whether that's the age of the population, increased sophistication of the car, or the fewer miles driven because of gas prices and the recession, you do see a long-term trend on. We're paying attention to that particularly on that second item with safer cars with machine-to-machine communication, which is why we think our strategy of selling multiple things to the customers is the right way to go. Because if you carry that trend line out, to Matt's point, if you really had no accidents, you wouldn't need much insurance. And so we're seeking to try to protect all our customers from all of life's uncertainties, which is why doing the life insurance piece, having homeowners, doing boat insurance, personal umbrella policies. And in wrapping all of our stuff around that customer so they have kind of a circle of protection is why it's important for us. So you're right, it's been benign. And that's why you see basically very little increase in our average premium. So customers continue to pay a good price -- pay the right price for what the risks they have.

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

And just one quick follow-up. How is that Drive Wise rollout going? And is that helping growth at all? Do you think?

Matthew E. Winter
President and President of Allstate Insurance Company

It's Matt. Thanks for asking. It's going well. We've now rolled out in 20 states as of the end of June. We hope to put on another 8 to 10 through the second half of the year. Very favorable early results. I think I talked a little bit about it on the last call. To date, we have about little over 600 million miles through the system, 20 million hours driven by the customers. We're seeing double-digit growth per month in devices installed in the vehicles. And over 1/3 of the new customers take Drive Wise when offered in those states where it's available. So the acceptance rate is high, about 70% of the users are receiving a discount. That discount averages around 10% to 12%. So they're taking advantage of it. We're learning from it. The customers are benefiting from it. So it's -- that's a positive story all the way around.

Thomas J. Wilson
Chairman & CEO

And Adam, I would point out too. Remember there's a difference between our strategy and some other people in the business, not everybody, but ours is to stay connected, as Matt talked about. So we're working as opposed to using it for just pricing. Ours is about pricing, but it's also about finding other ways to stay connected with the customers. Thank you, all, for participating. We've made good progress this quarter on strategic initiatives, including our focus on the customer raising returns and homeowners, deploying capital in the right places and enhancing our financial strength. We've also made great progress on the 5 priorities. And we'll keep working hard on your behalf as we go through the rest of the year. Thanks very much.

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