S&P Global
Market Intelligence

The Allstate Corporation NYSE:ALL

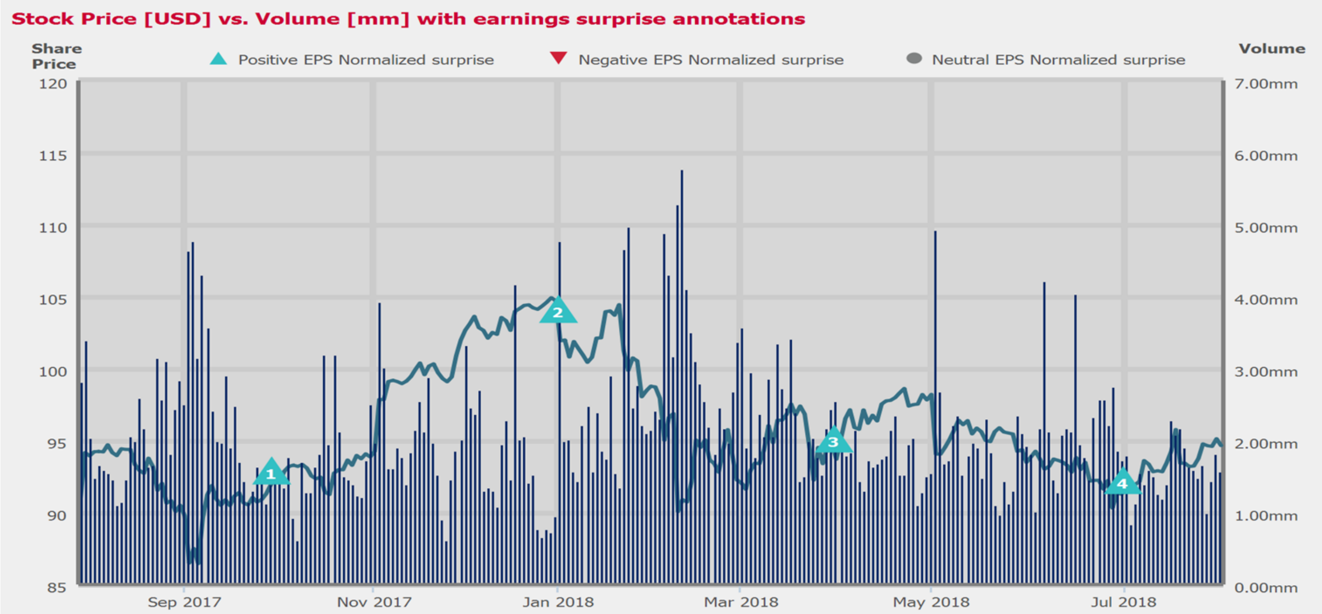
FQ3 2018 Earnings Call Transcripts

Thursday, November 01, 2018 1:00 PM GMT

S&P Global Market Intelligence Estimates

	-FQ3 2018-			-FQ4 2018-	-FY 2018-	-FY 2019-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	2.25	1.93	▲(14.22 %)	2.58	9.40	9.13
Revenue (mm)	8527.50	8595.00	▲0.79	8636.00	33726.67	35003.50

Currency: USD
Consensus as of Nov-01-2018 10:30 AM GMT



	- EPS NORMALIZED -		
	CONSENSUS	ACTUAL	SURPRISE
FQ3 2017	0.83	1.60	▲1 92.77 %
FQ4 2017	1.53	2.09	▲2 36.60 %
FQ1 2018	2.64	2.96	▲3 12.12 %
FQ2 2018	1.50	1.90	▲4 26.67 %

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EXECUTIVES

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President of Allstate personal lines & Director

John Edward Dugenske
President

John Griek
Head of Investor Relations

Mario Rizzo
Executive VP & CFO

Steven Emil Shebik
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Thomas Joseph Wilson
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Kai Pan
Morgan Stanley, Research Division

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Presentation

Operator

Good day, ladies and gentlemen, and welcome to Allstate's Third Quarter 2018 Earnings Conference Call. [Operator Instructions] As a reminder, today's program is being recorded.

I would now like to introduce your host for today's program, Mr. John Griek, Head of Investor Relations. Please go ahead.

John Griek
Head of Investor Relations

Well, thank you, Jonathan. Good morning, and welcome, everyone, to Allstate's Third Quarter 2018 Earnings Conference Call. After prepared remarks, we will have a question-and-answer session.

Yesterday, following the close of the market, we filed the 10-Q for the third quarter and posted the news release, investor supplement and today's presentation 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 some 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 2017 and other public documents for information on potential risks.

Now I'll turn it over to Tom.

Thomas Joseph Wilson
Chairman, President & CEO

Well, good morning. Thank you for joining us to stay current on Allstate's operating results.

Let's begin on Slide 2. So the headline here is Allstate's businesses continue to deliver growth and attractive returns. Our strategy is working, we're on pace to achieve our 5 2018 operating priorities. The Property-Liability year-to-date underlying combined ratio was at the favorable end of the annual outlook range over 9 months for -- close to the bottom of the annual outlook, which is good, as you know. The net result was excellent financial results. We also announced a new $3 billion share repurchase program, of which up to $1 billion may be funded with perpetual preferred stock. If you go to the table. Revenues increased to $10.5 billion, almost $600 million above the prior-year quarter. Net income was $833 million in the third quarter of 2018. And adjusted net income per share was $1.93, which is 20.6% increase over the prior-year quarter. Net income return on equity for the latest 12 months was 17.4% and 15.9% on an adjusted net income basis.

I'd like to start on a more macro perspective before we dig into the details. So if you go to Slide 3. Allstate's strategy is to grow market share on the personal Property-Liability businesses while expanding our other protection businesses.

So we start with the upper oval. The personal Property-Liability market has 4 consumer segments. And we serve each of these with a differentiated, branded product offering. So Allstate agencies provide customers with personal guidance through 38,000 professionals in over 10,000 agencies in nearly every community in America.

Esurance on the other hand provides over 1.6 million policies to customers who prefer to purchase their products online or through a call center. We use this sophisticated analytics across all these businesses to ensure we grow profitably, our -- an active forefront of using telematics-based offerings.

We're building an Integrated Digital Enterprise that uses data, analytics, technology and process redesign to improve both our effectiveness and our efficiency. For example, we're a leader in using consumer-generated -- or customer-generated photos to quickly settle auto insurance claims. Our strategy also includes expanding other protection businesses by leveraging our brands, customer base, investment expertise, distribution and capital, which are listed in the lower oval. And that, obviously, began in 1957 with life insurance. 1999, we acquired Allstate Benefits, which provides protection products, such as life and disability insurance to employees at the worksite. And by leveraging our resources, this business has had a compound annual growth rate of 7% for 18 years.

We purchased SquareTrade at the beginning of 2017, and it's growing rapidly and achieving our acquisition objectives. And this year, we also began offering insurance to transportation network companies, such as through Allstate Business Insurance. And we recently closed the acquisition of InfoArmor, which further expands our portfolio of person identity, protection products and services. So this two-part strategy then creates shareholder value in a number of different ways: through customer satisfaction, unit growth, attractive returns on capital. It also ensures we have sustainable profitability and a diversified business platform.

So if we turn to Slide 4. Then as to what we're doing in 2018, the operating priorities we communicate to you and to our employees and teammates. The first 3 priorities, better serve customers, achieve target economic returns on capital and grow the customer base, they are all intertwined to ensure profitable long-term growth. So customers were better served as the Net Promoter Score improved across all of our major businesses. Higher customer retention then at Allstate, Esurance and Encompass as Property-Liability businesses is driving growth.

Our returns remain excellent. The Property-Liability reported combined ratio of 94.3, generated $473 million for underwriting income for the quarter. Allstate Life and Allstate Benefits generated adjusted net income returns on capital of 12.4% and 14.9%, respectively. The overall adjusted net income return on equity was 15.9% for the latest 12 months.

The growth increased as the -- as Allstate and Esurance Property-Liability brands grew policies in force as a result of the higher retention I just mentioned and increased new business. Allstate Benefits continued its long track record of growth with policies in force increasing 5.1% over the prior-year quarter.

SquareTrade added 18.1 million policies over the last 12 months. And the $84 billion investment portfolio generated $844 million of net investment income in the third quarter with a total return of 1.1%. We made good progress building long-term growth platforms. SquareTrade continued to deliver on the success measures that we established at acquisition. The $525 million purchase of InfoArmor will accelerate our expansion to new protection category.

The connected car strategies are also gaining momentum with increased utilization of telematics in the Allstate and Esurance auto insurance businesses. In addition, Arity has substantially expanded its data collection and now has over 55 billion miles of data, which is growing at almost 9 billion miles per month.

Slide 5 provides more information at InfoArmor for those of you who were not able to tie into our call on that. The InfoArmor acquisition closed on October 5 and accelerates our expansion at identity protection. What it does? It provides identity protection products, primarily through voluntary employee benefits channel, which has very attractive acquisition economics. And in an increasingly connected world, customers needs for these products are expected to grow rapidly. And this positions us with a much broader product offering. There are also excellent expansion opportunities used in the Allstate Benefits platform.

As we've done with other acquisitions, we've established measures of success. So it both directs our operating properties and gives us a basis for conversation with you. So InfoArmor is expected to continue to grow rapidly in the voluntary benefits channel, including leveraging the Allstate Benefits platform. Long-term success will also require expanding the product offering and broadening distribution. And lastly, the acquisition should be accretive to adjusted net income by 2021.

John will now go through our Property-Liability results in more detail.

John Edward Dugenske
President

Thanks, Tom. On Slide 6, you can see that Property-Liability results remained strong. Net written premium increased 5.9% in the third quarter, driven by accelerated growth in the Allstate and Esurance brands. The recorded combined ratio of 94.3 was 0.4 points higher than the third quarter of 2017 due to higher non-catastrophe, weather-related losses in homeowners, increased growth-related expenses and small net unfavorable non-catastrophe prior-year reserve reestimates versus a large positive benefit in the prior-year quarter. This was partially offset by lower catastrophe losses and improved auto insurance accident frequency. Unfavorable non-catastrophe prior-year reserve reestimates of $12 million reflected $113 million in favorable reestimates for Allstate Protection auto and homeowners insurance, which was more than offset by $42 million of adverse development in commercial auto for policies written in 2015 and 2016 and an $80 million increase in discontinued lines and coverages reserves based on our annual review.

The 3-year survival ratio for asbestos, environmental and other is 10.2 as of September 30, 2018. Non-catastrophe prior-year reserve changes for the first 9 months of 2018 increased underwriting income by $178 million versus a positive impact of $312 million for the same period in 2017. The underlying combined ratio, which excludes catastrophes and prior-year reserve reestimates, was 86.6 for the third quarter of 2018. This was 2 points above the prior year quarter. As you know, our underlying combined ratio guidance is for the full year, and for the first 9 months of the year, the underlined combined ratio was 85.4 at the favorable end of the annual outlook range of 85 to 87.

For the first 9 months of 2018, the underlying combined ratio increased 0.8 compared to the prior year.

Slide 7 covers operating results for Allstate Brand Auto insurance, where policies in force increased and margins were similar to last quarter. Starting with the bottom-left chart, policies in force grew by nearly 400,000 or 2% in the third quarter of 2018. The renewal ratio of 88.7 was an improvement of 1 point from the prior-year quarter, benefiting from our focus on improving the customer experience and a stable rate environment.

New issued applications grew year-over-year for the seventh consecutive quarter, increasing 16% compared to the third quarter of 2017. As you can see in the right-hand box, the recorded combined ratio for the third quarter was 92.9, 1.8 points better than the prior-year quarter, and generated $368 million in underwriting income. This includes over $90 million in favorable prior-year reserve reestimates in the third quarter. The primary drivers of profitability improvement were increased average earned premium, lower catastrophe losses and a broad-base decline in accident frequency, partially offset by higher claim severity, particularly in the property damage coverage.

Claim severities have been slightly above general inflation trends as more sophisticated cars increase both repair costs and the number of total losses. The underlying combined ratio of 92.5 in the third quarter of 2018 included an underlying loss ratio of 66.8 and was in line with the second quarter performance as accident frequency trends remained favorable.

Slide 8 covers Allstate Brand Homeowners insurance results, which continued to generate attractive returns. Starting in the bottom left, policies in force grew 1.2% compared to the prior year as both the renewal ratio and new issued applications increased. The bottom-right chart provides detail on profitability. The homeowners insurance recorded combined ratio was 88 in the third quarter. Performance for this line is better evaluated over a 12-month period given weather seasonality and variability. Allstate Brand Homeowners insurance generated $826 million of underwriting income with a recorded combined ratio of 88.1 over the last 12 months. The underlying combined ratio of 65.4 in the third quarter of 2018 was slightly above our target and was primarily driven by adverse non-catastrophe, weather-related losses.

Slide 9 provides financial highlights for Esurance and Encompass. Esurance continued to accelerate growth while improving underlying profitability in the quarter. Esurance net written premium grew 14.6% compared to the prior-year quarter. This reflects increased average premium in auto and homeowners insurance and a 7.4% increase in total policies in force due to higher retention and new issued applications in auto insurance. The increase in new issued applications is partially due to additional marketing spends in the third quarter. Homeowners net written premium grew 25% in the third quarter compared to the prior-year quarter, reflecting an increased focus on a multi-line product offering. The recorded combined ratio of 102.1 in the third quarter was 2.3 points better than the prior quarter, as shown on the upper right, due to the improvement in both the loss and expense ratios. The underlying combined ratio of 99.2 was 1.3 points better than the prior-year quarter, as both auto and homeowners insurance results improved. At the bottom, Encompass net written premium in the quarter was in line with third quarter 2017 as the increase in auto and homeowners insurance average premium was offset by an 8% decline in policies in force. Encompass's recorded combined ratio of 96.1 in the third quarter of 2018 was 6.9 points higher than the prior year, partially driven by increased catastrophe losses of $23 million in the quarter. The underlying combined ratio of 89 for the third quarter was 3.5 points higher than 2017's third quarter. This was due to higher non-catastrophe, weather-related losses in homeowners insurance and an increased expense ratio.

Now I'll turn it over to Mario.

Mario Rizzo
Executive VP & CFO

Thanks, John. We have expanded the section on Service Businesses since their strategic and economic value can get overshadowed by the Property-Liability businesses.

Slide 10 highlights the results and measures of success for SquareTrade and Arity. SquareTrade made progress on the 3 objectives supporting its acquisition as domestic policies in force increased, loss experience improved, and the business is expanding beyond U.S. retail. SquareTrade written premium increased 86.5% to $194 million in the third quarter of 2018 due to the continued growth in U.S. retail as SquareTrade became the exclusive protection plan provider for a leading U.S. retailer during the quarter.

Revenues were $128 million, and adjusted net income was $7 million in the third quarter.

Arity continues to invest in advancing our telematics platform by providing device and mobile data collection services and analytical solutions to both Allstate-affiliated insurance operations and third parties. In the third quarter, Arity had revenues of $22 million, primarily related to affiliate contracts. Active telematics connections increased to $9.6 million, led by the addition of Life360, the world's largest family driving network. Life360's millions of global users better understand their driving behavior and receive personalized insurance offers from utilization of Arity's software developing kit.

As a result, total miles collected reached 55 billion, which is now increasing at a rate of almost 9 billion miles per month. This additional data enables Arity to provide better insurance risk scores for a broader group of drivers.

Slide 11 provides details for Allstate Dealer Services and Allstate Roadside Services. Allstate Dealer Services provide vehicle financing gap coverage and vehicle service contracts. It is primarily distributed through auto dealerships. Revenues were $102 million for the quarter and $298 million for 9 months. Adjusted net income was $3 million in the third quarter of 2018, benefiting from profit improvement initiatives and improved profitability of the gap product offering.

Allstate Roadside Services provides roadside assistance to Allstate customers and to white label arrangements with third parties, such as car manufacturers. It is focused on enhancing the customer experience by providing fast and dependable service, using the blended traditional and crowdsourced rescue network optimized through analytics and mobile technology. Revenues were $77 million for the quarter and are slightly down from the prior-year quarter. Expenses associated with the provider network and technology contributed to a decline in income compared to the prior-year quarter.

Turning to Slide 12. Let's review Allstate Life, Benefits and Annuities. Allstate Life generated adjusted net income of $74 million in the third quarter, shown on the bottom-left chart. This was due to a lower effective tax rate, higher premiums and increased net investment income. Allstate Benefits adjusted net income, shown in the middle chart on the page, was $32 million in the quarter. The $4 million increase from the prior-year quarter was primarily driven by increased premiums and a lower effective tax rate. Allstate Annuities, on the right, had adjusted net income of $20 million in the quarter, which was $35 million lower than the prior-year quarter, primarily due to lower performance-based investment results compared to a very strong prior-year quarter. Adjusted net income return on equity remains low due to the relatively high regulatory capital requirements.

Slide 13 highlights our investment results. The investment portfolio is proactively managed based on relevant market conditions and corporate risk appetite to optimize return per unit of risk. The chart at the lower left of the slide shows net investment income for the third quarter was $844 million, which was flat to the third quarter of 2017. Market-based investment income, shown in blue, increased slightly and reflects higher purchase yields and a modest duration extension for the fixed income portfolio, partially offset by a reduced allocation to high yield bonds. Performance-based investment income, shown in gray, generated $214 million of income in the third quarter, a decrease of 6% over a strong, prior-year quarter, primarily reflecting more moderate asset appreciation. Our performance-based investments, which has -- which have increased over the last few years, now total $8 billion, almost 10% of the total portfolio. The components of total return are shown in the table on the lower right. The positive 1.1% return in the quarter was supported by a stable contribution from income, shown in blue, and positive equity valuations, shown in red. Those were slightly offset by lower fixed income valuations, due to increased market yields, shown in gray. The 12-month trailing return for the period was 2.1%.

Slide 14 provides an overview of returns and capital. We continue to generate attractive returns on capital. Adjusted net income return on equity, shown in the bottom-left chart, was 15.9% for the 12 months ended September 30, an increase of 2 points compared to the prior-year period. Book value per share increased to $60.79 or 9.2% since the third quarter of 2017 as higher earnings and a 4.1% reduction in shares outstanding offset the impact of dividends, share repurchases and a decline in fixed income on realized gains and losses.

Our capital position remained strong, and we returned $385 million to common shareholders in the third quarter, bringing the total cash return to shareholders in the first 9 months to $1.6 billion, as you can see on the bottom-right chart. We continue to proactively manage our capital.

Yesterday, the board authorized a new $3 billion share repurchase program, which we expect to conclude by the end of April 2020. The new program may be funded by potential preferred stock issuances of up to $1 billion. Additionally, we closed on the acquisition of InfoArmor on October 5 for $525 million and redeemed $385 million of our preferred shares on October 15.
Now we'll open up the line for questions.

Question and Answer

Operator

[Operator Instructions] Our first question comes from the line of Elyse Greenspan from Wells Fargo.

Elyse Beth Greenspan
Wells Fargo Securities, LLC, Research Division

My first question. You guys saw higher non-cat weather losses in your homeowners book, both in the Allstate Brand and in Encompass. Can you just talk through what you think was causing that in the quarter? And kind of the outlook there, do you think that, that's something that you expect to continue? Are you going to take more price in the business? Or what's the outlook, I guess, for the margins for the homeowners business that we should think about in the fourth quarter and beyond?

Thomas Joseph Wilson
Chairman, President & CEO

Elyse, thanks for the question. It's obviously something we've looked at. I'll give you just a quick overview, and then Glenn can take you through the specifics of the quarter. The homeowners business continues to generate really attractive returns for us. So 88 combined ratio, $574 million of underwriting income over the last 12 months. Obviously, amounts move in between various categories, whether that's catastrophes or other related losses. And you have a lot of volatility embedded deep in homeowners. The net of all that, though, is we're very comfortable with the business and take down -- we have rates priced in various states. We'll do that. Glenn can talk about the specifics of the quarter.

Glenn Thomas Shapiro
President of Allstate personal lines & Director

Yes, thanks, Tom. Yes. Just to add on that. It's interesting as you look at the weather patterns for the year. And we mentioned in the last quarter that we were at the upper end of our underlying target that we have for homeowners. And then we went a little bit above that this quarter. There is some shifts between catastrophe and non-catastrophe losses. So If we look at the overall weather events, we've got a similar number of weather events during the year. But more of them are not triggering a catastrophe rating, and fewer of them are triggering catastrophe. [Seen us]and shift between those, said another way and put kind of simply -- we've got more rain and less hail this year. And as an overall result produced, like, in the quarter, an 88 combined ratio, which is pretty favorable, but we see some shift between those numbers. It is something we're keeping an eye on. We do have areas of the country. As you know, we take rate views state-by-state in areas that we do have need. And we are moving on those needs for a rate in those local markets. But broadly, we feel, as Tom said, very comfortable with our overall profitability in homeowners.

Elyse Beth Greenspan
Wells Fargo Securities, LLC, Research Division

Okay, great. And then my second question on your auto business. Within the Allstate Brand, you guys have been taking less rate. As a really testament, you've been able to really improve the margins of that business. And so as we start to think about potentially -- and you saw higher severity in the quarter and still beneficial frequency. But it seems like that's not necessarily expected to continue. Do you think we're still in an environment where your rates can more or less stay stable as you pursue growth? Or do you see maybe a higher severity trends having an impact on your rating levels from here?

Thomas Joseph Wilson
Chairman, President & CEO

Elyse, I would answer that. We don't really project what the rates will be. We react to what costs and trends are. And so the adjustment is necessary. And we're getting a really good return in the auto business today. We like that return. And so we're growing the business. So we're comfortable with the overall profitability. And as -- whether frequency doesn't continue to go down or severity goes up a little more, we're -- we factor all of that in. As you note, the paid numbers that you see in the supplement are up this quarter. But that's really only one little component we use to establish profitability. We feel good about the results that we have.

Operator

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

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

I sort of want to build on Elyse's question. And -- first of all, I -- we have to recognize that you are, indeed, achieving targeted returns across your business. And -- but I was looking at Page 3 of your press release and specifically, the chart where you talk about the underlying combined ratios. And it looks -- in -- like in 5 of the 7 categories, on an underlying basis, you're reporting an uptick, not only in the third quarter 2018, but also on the 9-month basis. And so as we think about the future for Allstate, analysts are always focused on the sustainability of your current results and so perhaps, you could provide us a perspective on how you see these trends? And what we should be thinking about going forward?

Thomas Joseph Wilson
Chairman, President & CEO

All right, sure, Greg. The -- let me answer it a couple of different ways. First, we feel very good about the returns we're getting in the business and that the results this year are in line with what we expected. So as you know, we don't give earnings guidance. But as a result of that, you all have to make estimates. To help you do that, we give you an underlying combined ratio. But that's only one part of the picture. And then what we do is give you a whole bunch of detailed information under that to enable you to even make a more specific pick. And I think, in some ways, that it's necessary. We believe we need to be fully transparent. But in other ways, you can kind of, sometimes, drag it down into the micro. So your question was really about the macro. And when you look at the auto insurance business, with a combined ratio of 93, that's a 7 point pretax margin. In addition, given the timing, the claim payouts, you get a little investment income on top of that when your premium-to-surplus ratio can run above 3:1, you can do the math relatively quickly. And on the after-tax basis, that's a really high return on capital at 93 or any other number. So we're about creating shareholder value. We feel good about that. We -- the components change over time. And that's both within a line and then, as you point out, across lines. That's why we give you an underlying combined ratio for the whole company. But the bottom line is all that is very good. There are things that happen that you see in the numbers that I'm sure cause you some issues. So when you look at the paid severity, for example, on property damage, that's up. And we're watching that. What I would tell you, that's just one component that's paid. We don't actually book to paids. We book to what we think the number will be. That's an -- help to us, but we're actually booking it at slightly higher level than you would see in paids because property damage is only 12% premiums anyway. So by giving you that information, what I can tell you is we feel good about the profitability in auto insurance. We feel good about its outlook going forward. And we've shown an ability over time to adjust and get attractive returns on capital. Not included in that sometimes, are, when you're looking forward, what are the positives that don't show up in that investors supplement. And higher interest rates should help raise that investment component for auto insurance going forward. So we feel good about our ability to generate a good return from the auto business. The homeowners business is slightly different. And it really does build on Elyse's question, which is -- so we have a 12 point margin in homeowners insurance. You don't get as much investment income because, obviously, you pay the claims out a lot faster. But -- and it requires a little higher capital. That said, with a margin that's 5 points higher than auto insurance, it still also generates a really attractive return on capital. And we feel good about that business. In -- while it bounces around a lot between the components, which we show you and you see and we talk about because we have -- we benefit from a lot of -- from little turnover in our analyst corps and you know our business really well, so as a result of that, sometimes we get dragged down into the micro pieces that, I would say, that's come up a little bit. And that's a really high return on capital in the homeowners business. And I would point out it's -- over the last year, it's 13 points higher, the margin, which then -- a big competitor of ours who is growing quite rapidly and everybody is excited about. And we're like, "Oh", like you should be excited if you're growing a business that's making a good return. Not for sure if you're not making a great return. So we feel good about our current returns, and we feel good about our competitive position, and we expect to stay there going forward.

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

Thank you for that thoughtful answer. As a follow up, I -- maybe just drill down on the difference between new issued application growth and PIF count growth. And it looked -- both Esurance and Allstate in the auto components, that you're booking some really nice gains on new issued applications. But the PIF count growth is a little bit slower. Perhaps, you could spend a minute and help us reconcile those different trends?

Glenn Thomas Shapiro
President of Allstate personal lines & Director

Yes, this is Glenn. I'll answer for Allstate. We like where we are from a growth perspective. And it kind of ties into your last question Tom's answer too because what -- because we're talking about the returns and everything. We're getting more competitive as this moves. And we're winning in the marketplace. So when you look at the year-over-year growth, whether it's the 2 in auto or 1.2 in home, both of those are being driven right now about 60% by retention. So we're keeping customers that we fought hard to attract in the first place. And about 40% of it is being driven by the increase in applications as you refer. So it's actually a heavier drift from the retention component. But the new business coming in, very favorable as well. And it's a result of us being more competitive. I'm not sure if that's what answers your questions. But that's what we're seeing it come from.

Steven Emil Shebik
Vice Chairman

So if you look at from an Encompass perspective, we're growing up a new business of a very low pace. We took a lot of strong actions in order to rightsize the business given profitability and shrunk the business. So now we're -- we have a -- over half the states in the country and little under half of our premium in those states are now on a growth mode. We're trying to balance profitability and growth. So we're still trying to manage profitability in half the country. In terms of PIF, obviously, we're still going down. But we're going down a lesser rate now. So we feel good on...

Thomas Joseph Wilson
Chairman, President & CEO

You're talking about Encompass?

Steven Emil Shebik
Vice Chairman

Encompass, yes.

Thomas Joseph Wilson
Chairman, President & CEO

Yes. Okay. I think -- I thought the e is for the Esurance.

Steven Emil Shebik
Vice Chairman

Oh, I'm sorry. I actually said Encompass. Too many e's.

Thomas Joseph Wilson
Chairman, President & CEO

Okay.

Steven Emil Shebik

Vice Chairman

Okay, okay.

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

That's okay. You could keep going on Encompass and then hit in...

Steven Emil Shebik
Vice Chairman

I got too many -- I got too many e's. I mean...

Thomas Joseph Wilson
Chairman, President & CEO

And it should encompass into you...

Steven Emil Shebik
Vice Chairman

Okay. So Encompass, obviously, if you look at the premiums are not stabilized. We're still going down in [echo]. We think if that is solely getting better, that decline is getting -- is being reduced. So from an Esurance perspective. Obviously, we're having really good results. We have, as you noted, new businesses going up quite high. We have -- it's very similar to Allstate. Our retention has done very well for us, which is driving a fair amount of that growth. We're also -- because of new advertising campaign, and we think of strong price competitiveness in the marketplace, we're situated very well to continue to grow that business.

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

And just -- that is helpful. Maybe you could just spend a minute and just as a follow-up, and just comment on the commercial lines. Because I think that's where the alliance with Uber is coming in, et cetera?

Steven Emil Shebik
Vice Chairman

Yes, so if you look at commercial lines, virtually all of the increase in premium, written premium for the quarter and for the year is due to the relationship with Uber. And that is -- we had started with 3 states last March. We added New York at the end of the second quarter or at the beginning of the third quarter. So you see the, I believe, $58 million roughly of premium in the third quarter is how we look out over the next couple of quarters, at least. We feel really good about that business. We've established a good relationship with the management. And we believe we're getting good driver scores and all as we look at our performance in terms of claims with the underlying Uber drivers. So we feel good about where that business is. And we would love to continue to grow that business over time.

Operator

Our next question comes from the line of Kai Pan from Morgan Stanley.

Kai Pan
Morgan Stanley, Research Division

My first question here just follow-up on the severity trends. So it's going up a little bit. I just wonder how does that compare with your expectation? And also you don't disclose the BI severity anymore. If anything on that front as well?

Glenn Thomas Shapiro
President of Allstate personal lines & Director

Yes, thank you. This is Glenn. So it is in line with our expectation. And it's interesting, as Tom said before, when you think about what you see in our release, on a quarterly basis, the paid severity, last quarter, you saw a 3.7. We look at a lot of different trends underneath that. We're breaking down all the different coverages between property damage, collision, comprehensive. We're breaking down parts and labor and future trends. And we're booking to a number beyond that. So when the shift between the second and third quarter from a 3.7 to a 7.7, we really see it in a more smooth basis of looking at it. It's up 5 or a little over 5 for the full year. Now that compares to a longer-term trend for both the industry and Allstate closer to 4. So it is elevated. Like, we do see some pressure across the industry in the property damage lines. And what's moving the physical damage is higher repair costs, which was in the disclosure, and John mentioned earlier, with more sophisticated cars, with more expensive parts. Then also an elevation in total losses. And those 2 things are connected because what has happened is repairs have accelerated a little faster than the values of cars. So naturally, if the repairs go up more than the cost of the cars, you trigger total loss on more vehicles. And again, it's something we've seen across the industry. And the key for you, I think, is it's baked into our numbers. So when you see our combined ratios, it's in there, our projection to what we're seeing from an ultimate loss trend standpoint.

Kai Pan
Morgan Stanley, Research Division

What about BI side?

Glenn Thomas Shapiro
President of Allstate personal lines & Director

Yes, sorry. And the BI...

Thomas Joseph Wilson
Chairman, President & CEO

We don't disclose BI. But it would be slightly above general inflation.

Kai Pan
Morgan Stanley, Research Division

Okay. That's great. My follow-up on that is that as I see your pricing sort of increases slowing down but those like a claim severity and a frequency less favorable for frequency trending up. Over long term, you had -- last few years, you have seen your underlying combined ratio have improved from 89% back in 2015. Now to 85 percent-ish. So do -- will we see that ratio drift higher in the coming years? And will you also consider -- Tom, you mentioned your [best] income is going higher. Will that also be part of the consideration what your target of your underlying combined ratio?

Thomas Joseph Wilson
Chairman, President & CEO

I would come back to the conversation we were having with Greg and Elyse, which is our mission is to earn a excellent return on capital for our shareholders on all of our lines. We've done that on auto insurance for a long period of time. When something happens that's unexpected, we take actions pretty quickly. And focusing, first, on protecting returns; second, on growth, that's kind of been our mantra. So I don't really see any change in that going forward. So we don't -- it's about getting good returns for shareholders. And as these pieces bounce around -- Glenn actually mentioned to me this morning, it's going a little bit like having an investment portfolio. Some pieces go up, some pieces go down. But in total, we're getting a good total return on auto insurance, and we expect to continue to do that.

Operator

Our next question comes from the line of Mike Zaremski from Crédit Suisse.

Michael David Zaremski
Crédit Suisse AG, Research Division

In the prepared remarks, you mentioned telematics. I'm not sure if you mentioned increased use of it. But maybe you can just shed light on the goal in terms of penetration for telematics? Or are you providing incentives to your agency force to sell it? I'm just kind of curious how to think about the growth of that over time?

Thomas Joseph Wilson
Chairman, President & CEO

Mike, you should expect the penetration to go up over time. We're pushing hard at it. We have a series of efforts underway in the Allstate and Esurance brands to do that aggressively. We'd like to move that into the Encompass brand as well. We want to do that, first and foremost, because it's really good for the customers. We can give them a more specific price for them. So for example, right now, you estimate where somebody's driving based on where the car is garaged. With telematics, we can determine exactly where you drive not just where it's parked. There are other things that we've expanded the telematics offering to include Milewise. So if you live in New Jersey, and you haven't seen our ads, or you come across the ferry or in the subway -- I'm like really depressed because people like to -- some people like to pay by the mile. They have to pay to have a car covered in case like something happens to it or something steals while it's just sitting, but then some people like to pay by the mile. So it gives us the ability to give a highly specific, individualized price tailored to how they want to use their car. We're also using it to improve their driving experience. So that includes everything, like just telling them how to be a safer driver to maybe some location-based offers to them, car health that we're working on, you heard about the Life360 stuff that Mario mentioned. So we expect to use telematics in an increased -- no, it's not that easy to get from just offering it to getting it used. So we have a number of ways in which we do that. We were first in the market with the mobile app, which is the easiest, lower customer barrier to use. It doesn't enable you to connect the car though to car [post upon]. So we'll work through that. We do not pay special incentives to agency owners to get them to do it because we believe this is in our customers' best interest, but getting them from saying yes to getting them to be connected requires a different set of processes. And we do that differently at Esurance than we do at Allstate. But you should expect that number to continue to go up. I believe in the -- that in the future, this will be the primary driver of insurance pricing in auto insurance because it's every bit as powerful as credit. And for those who've been hanging around auto insurance like I have for a while, credit sort of ripped through the industry and pricing in the early part of the 2000s. And I -- this is a little harder to implement because it requires the customer to do something rather than just find data from TransUnion or some like that. But it's equally as powerful. So it will happen.

Michael David Zaremski
Crédit Suisse AG, Research Division

Okay, that's helpful. And my follow-up is regarding personal auto. Earlier, you were kind of walking us through the high-level economics when you mentioned a 3:1 surplus levels what you guys have always kind of been held to. Given your track record of stable profitability, can that ratio ever move higher one day?

Thomas Joseph Wilson
Chairman, President & CEO

Let me make a general comment about how we think about capital. And Mario can talk about -- specifically about auto insurance. So we've -- over the last decade, we've built a highly sophisticated set of econometric models that help us determine capital at the individual risk level, even below auto insurance, rolling all the way up to the entire company. So we start with individual risk on an individual basis. Then there's all kinds of diversification [coherent] to all kinds of stuff that comes into the numbers. And we use that to price homeowners insurance in Louisiana. We use it to -- so we're -- constantly look at it. Mario can talk about the work we're doing on capital because that is something we have had a long track record on, which is effectively sourcing capital whether that be cap bonds, perpetual, preferred or anything else. So we look at it in lots of different ways.

Mario Rizzo
Executive VP & CFO

Yes. So Mike, I think the 3:1 comment Tom made was kind of a historical industry kind of metric that's thrown around. We, as Tom mentioned, I think take a far more sophisticated and economic approach to capital requirements when we look at the underlying risks in particular businesses and attribute specific levels of capital to that risk. And based on that, we think we're earning really attractive returns in auto. And will continue to do so. So I think your question around, "Can it move up over 3:1," I think our view, based on what we think the economic requirements for auto is, it's probably already there. And the returns that we're achieving in that business are really attractive. And then in terms of sourcing capital for the business over time, I'd say we're constantly looking at ways to improve the return profile, really across all of our businesses. And sometimes, that means using other people's capital and at different return profiles and different return targets as we might for our business. It's more efficient to use that kind of capital. And we use--we've done that in property business with cap bonds and reinsurance. We'll continue to explore it in other lines of business to continue to kind of sculpt the return profile and enhance the -- both the efficiency of our capital structure and the returns that we get on our businesses.

Operator

Our next question comes from the line of Amit Kumar from Buckingham Research.

Amit Kumar
The Buckingham Research Group Incorporated

The first question I have...

Thomas Joseph Wilson
Chairman, President & CEO

Amit, could you speak up just a little bit? It's a little...

Amit Kumar
The Buckingham Research Group Incorporated

Is it better? Is it better?

Thomas Joseph Wilson
Chairman, President & CEO

Yes, that's much better. Thank you.

Amit Kumar
The Buckingham Research Group Incorporated

Sorry. The first question goes back to the discussion on the claims severity side.

I was wondering if we could look at it from a different manner. Can you talk about -- when you look at the new business and the age of the vehicle that is insured, I would assume that there is a very strong correlation between new business and recently manufactured cars. And if that is the case, with ADAS now being standard, could we be surprised by these claims severities continuing to tick up faster than initially anticipated?

Thomas Joseph Wilson
Chairman, President & CEO

Well, we -- first that -- I just want -- the new business is not always new cars. So some renewals are newer cars, and obviously, some new business are older cars. So we do, do make and model pricing. Glenn can talk about the new to renewal loss ratio relative to if we look at -- evaluate the profitability of new business. And then I would say, as it relates to the future, I would come back to the part of -- like, if we see it, we price for it.

Glenn Thomas Shapiro
President of Allstate personal lines & Director

Yes. Thank you, Amit. Taking a couple different ways here. One, just from the balance of new business or balance of growth that we're getting against a 60% of our growth is being driven by retention. So that's a really balanced way to grow. 40% is based on new business. And when we look at the new business from a risk profile, we feel good about where we are from the type of risk we're bringing on, the full coverage, the bundle of policies and the risk trades that we're bringing on. So all of those have been favorable to our expectations. So as we look at new to renewal, it's performing as we expected, and we're very comfortable with the growth. In terms of your comments on newer cars. As we look at data, and it is one of the things we look at relative to all of our trends. How many cars we have in each cohort? The average car park -- average car in the car park out there right now is 11.5 years old. So that moves over time, every year. It moves forward about a year. And what we're actually seeing is, we're right in line with what you'd expect. Every year, we get about a year newer. It just moves exactly about the way you expect it to move. And we're not seeing major shifts along those lines.

Amit Kumar
The Buckingham Research Group Incorporated

Got it. That's actually very helpful. The other question, and the only other question I have, is on the broader discussion on Amazon and Travelers. And I know it's early days in this change. I'm curious would Allstate have an opportunity to partner with them? And with this, although being in early stages, does longer time, does this change the margin dynamics with Amazon and maybe Jet.com and Walmart having these partnerships?

Thomas Joseph Wilson
Chairman, President & CEO

Well, first we go where the customer goes. So where the customer wants to be that's where we'll be. And as you know we have 4 different approaches to doing that: those who want to go to a local agency to get Allstate, a branded product; those who want to do direct, Esurance; and those who want to go to independent agents and don't really care about the brand go to Encompass. And then we don't talk much about Answer Financial, which is our online aggregator, which I believe is probably the biggest in the country, if not the biggest, it's second biggest. And we've been using Arity's data to make it a two-sided advertising platform. So we have some work to do. So we will go wherever the customer wants to go. As it relates to Amazon, SquareTrade is a major player on the Amazon platform, protection policy. So it's a good piece of business for us. We like working with them. We know how to compete aggressively by changing prices every 15 seconds or something there. We need to -- so we're open to doing it whichever way. And I would say, as -- what we've tried to do, Amit, is build a model that's flexible, that leverages those core capabilities that they're in middle of those 2 ovals, and use them to go wherever we want. So if that's -- like if you look at the transportation network companies, our claims experience is a great value to those companies because we're really good at claims, particularly bodily injury claims. And so we're happy to sell insurance to Uber and thrilled about it and like the partnership and like to grow it. So we'll go wherever the customer goes.

Operator

Our next question comes from the line of Brian Meredith from UBS.

Brian Robert Meredith
UBS Investment Bank, Research Division

Two questions for you. First one, Tom, just curious ad spend really kicking up here. I understand profitability is great, and you want to maximize the amount of business you get at these profitability levels. But should we kind of expect those levels to continue here going forward?

Thomas Joseph Wilson
Chairman, President & CEO

Brian, are you talking about the actual reported combined ratio?

Brian Robert Meredith

UBS Investment Bank, Research Division

No. I'm looking at ad spend. Just looking at the amount of...

Thomas Joseph Wilson
Chairman, President & CEO

Oh, I was starting the answer. And I missed that part of question.

Brian Robert Meredith
UBS Investment Bank, Research Division

I apologize. Yes, advertising.

Thomas Joseph Wilson
Chairman, President & CEO

Yes, advertising. Well, it's different by brand, right? So Esurance has dialed up their advertising spend this quarter. And as Steve mentioned, that's led to really good results. We're up 7% in unit over last year. We like that. We've also launched new advertising in the Allstate Brand. And the early read on that advertising is it's effective, and we like it. So as that works we'll roll out. Now I would say that the spend is one thing to think about, but it's also like where do you spend and how do you spend. And that's where you can increase your effectiveness and your efficiency. And we're -- we use a lot of math to decide should it be on TV, where you and everybody else sees it, or is it better in a highly specific, targeted lead or ad that we buy. So we look at it in total. I think our ads -- while we don't -- for competitive reasons, we don't give out ad spend on a forward-looking basis. I would say we like what we see. We want to keep growing. So it -- you probably won't see it come down. How about that?

Brian Robert Meredith
UBS Investment Bank, Research Division

Good. Makes sense. And then another one will -- longer-term thinking here, Tom. I'm just curious with the legalization of cannabis in more and more states and in Canada, what are you guys thoughts with respect to the potential that'll have on claims frequency trends? Or will it have any?

Thomas Joseph Wilson
Chairman, President & CEO

Well, I think, obviously, it will, obviously, if it leads to increased consumption of cannabis that obviously will impact accidents. And we've seen that a little bit in the states, where it has been rolled out. It's a little hard to distinguish. You can't really tell how much of it is because somebody smoked a joint and how much of it is because it was icy outside. But it does appear to have a positive impact being in negative, like increased [audio gap] frequency. Unclear on severity just yet. And so we'll price for it. When it's legal, we're -- whatever is legal is legal. I think the bigger issue there is from a fairness in society standpoint, if somebody is driving under the influence of alcohol or other drugs or the person who is hurt is supposed to be taken care of by that person who caused the problem. And with drug driving, it's relatively easy with breathalyzers to tell at this moment in time, the person was inebriated, and therefore, that led to the cause, and so that then leads to the damages, some of which we have to pay for because we're insuring those people, some of which are things that happen to our customers and we have to defend them in court, which we do to make sure they get the right amount of money back. The more complicated piece on cannabis, is there's not an immediate test when someone's driving. So you can't blow into a breathalyzer and tell whether if somebody is under the influence of cannabis. So we'd like to see some science brought to bear on that. I'm sure science can solve the problem. But if we decided as a society that it's legal to use these drugs, then we should make sure that the infrastructure around making sure people are held accountable for their individual actions is taking -- is improved.

Operator

Our next question comes from the line of Bob Glasspiegel from Janney Montgomery.

Robert Ray Glasspiegel
Janney Montgomery Scott LLC, Research Division

Allstate, question. We've had a little bit of a meltdown in equities. Risk assets being marked down. Some are nervous about trends in private equity, others aren't. What are you doing in general on risk relative to the investment portfolio? And if there was a meltdown on private equities, how much liquidity could you raise?

John Edward Dugenske
President

Yes. This is John. Thanks for the question. I think, first, it makes sense to take a step back and think about how we own all the assets in our portfolio. We're highly integrated. We talked about the capital framework, Mario did earlier and Tom did. We're highly integrated in how the firm thinks about capital across the board. When it comes to any risk asset, performance-based or private equity being one of them, we tend to take a longer-term view on those assets. And they match up quite well versus our overall liability structure, of which some of that is quite long in terms of its duration. Yes, I take a step back while we are seeing volatility in this particular year, we saw a flash kind of late January through middle of February and a little bit this month, while we -- which we've subsequently recovered slightly from. Equities over the last 3 years have returned 17% per annum over that 3-year period. So we really take a long-run view. Now having said that, we do think about it. And we have about half of our equity exposures in public equities, which you're going to see more immediate pricing in. When you look at our performance-based assets, it's not right to think of them as any one thing. We tend to go into more idiosyncratic risk. We go into different parts of the world. We go down in market cap structures, so smaller companies. We also in there have things like real estate, infrastructure, agriculture, farmland. So it's fairly diversified. So -- and it tends to -- transformation and the valuation of those properties tend to take place over multiple years. It's not just a beta along with the equity market. There's a fundamental transfer -- transformation of value that takes place that, at times, we're very involved in. So we look at it. We have a lot of leverage in the portfolio to adjust, not only in private equity, but in other areas. It's more likely that we would adjust in public markets because the transaction costs should be lower. And we have more-than-sufficient, adequate capital and liquidity to deal with any such event.

Robert Ray Glasspiegel
Janney Montgomery Scott LLC, Research Division

I had to step away for a fire drill. Did you quantify the non-cat weather impact, on either the overall combined ratios or homeowners?

Thomas Joseph Wilson
Chairman, President & CEO

No. It's really hard to do, Bob as you know. You can look at the -- underlying combined ratio excludes cap. It's up. It's up in for a whole variety of reasons, some of which is weather. But to determine whether that was the rainstorm in Des Moines or in -- what that would have been last year and how that related to the prior 3 or 4 years, we've not done. It's really impossible to do. What we have said is the business earns an 88 combined ratio, a 12 point margin, really good returns, and that we feel comfortable with it.

Robert Ray Glasspiegel
Janney Montgomery Scott LLC, Research Division

Cool. Just trying to get a sense...

Thomas Joseph Wilson
Chairman, President & CEO

And we don't need to raise price. We raise price by state, like it's -- not every state is the same. Like there are some states where we need to raise homeowners prices. There are other places where we're earning even better than average returns.

John Griek

Head of Investor Relations

Jonathan, I know we're at the top of the hour. We'll take one more question.

Operator

Certainly, our final question then for today comes from Meyer Shields from KBW.

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

If we were to see an uptick in frequency in auto, how quickly can rates respond?

Thomas Joseph Wilson
Chairman, President & CEO

Yes. I would look at what happened in '15 and '16 as a way to get an estimate of that. You saw it tick up quickly then. You saw how quickly we could act. And I think we've learned some. I think actually if we were to relive that story again, we'd spread the rate a little differently. And I think it would -- probably, we would have less decrease in the number of units, but we -- but -- that's the -- but we moved about as quickly you can move given the regulatory environment in that period of time.

Okay. Thank you all for participating. Another great quarter for us, where our strategy's working, we're achieving our operating priorities, and we're going to keep driving shareholder value for -- and we'll talk to you next quarter. Thank you. Bye.

Operator
Thank you, ladies and gentlemen, for your participation in today's conference. This does conclude the program. You may now disconnect. Good day.