S&P Global
Market Intelligence

The Allstate Corporation NYSE:ALL

FQ1 2020 Earnings Call Transcripts

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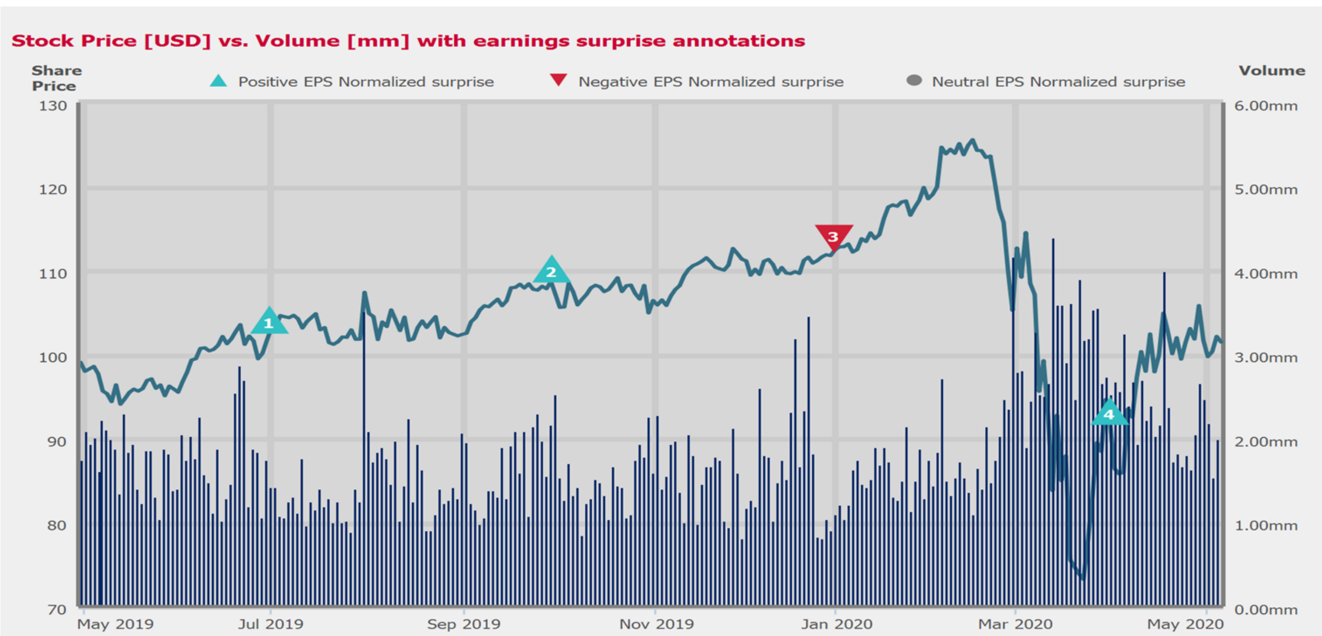
S&P Global Market Intelligence Estimates

	-FQ1 2020-			-FQ2 2020-	-FY 2020-	-FY 2021-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	3.31	3.54	▲6.95	2.33	11.10	10.81
Revenue (mm)	9363.00	9235.00	▼(1.37 %)	9291.50	37495.04	40106.50

Currency: USD
Consensus as of May-06-2020 10:34 AM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ2 2019	1.55	2.18	▲40.65 %
FQ3 2019	2.57	2.84	▲10.51 %
FQ4 2019	3.21	3.13	▼(2.49 %)
FQ1 2020	3.31	3.54	▲6.95 %

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Call Participants

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Presentation

Operator

Ladies and gentlemen, thank you for standing by, and welcome to The Allstate First Quarter 2020 Earnings Conference Call. [Operator Instructions] And now I'd like to introduce your host for today's program, Mark Nogal, Head of Investor Relations. Please go ahead, sir.

Mark Nogal
Head of Investor Relations

Thank you, Jonathan. Good morning, and welcome, everyone, to Allstate's First Quarter 2020 Earnings Conference Call. After prepared remarks, we will have a question-and-answer session.

Yesterday, following the close of the market, we issued our news release and investor supplement, filed our 10-Q and posted today's presentation, along with our reinsurance update on our website at allstateinvestors.com.

Our management team is here to provide perspective on these results and further context on our response to the coronavirus pandemic.

As noted on the first slide of the presentation, our discussion will contain non-GAAP measures for which there are reconciliations in the news release and investor supplement and forward-looking statements throughout Allstate's operations. Allstate's results may differ materially from these statements, so please refer to our 10-K for 2019 and other public documents for information on potential risks.

And now I'll turn it over to Tom.

Thomas Joseph Wilson
Chairman, President & CEO

Good morning. Thank you for joining us from wherever you are sheltered in place.

Let's jump right in with Allstate's response to the coronavirus pandemic on Slide 2.

Allstate has been helping customers overcome catastrophes for 89 years, and we've learned to act decisively, quickly and put customers first. As a result, we've led the industry in helping customers. We created a Shelter-in-Place Payback program of more than $600 million. Special payment plans are being used for customers experiencing financial challenges. Auto insurance coverage was expanded to cover the use of personal vehicles to deliver food, medicine and other goods for commercial purposes. Allstate Identity Protection is being offered for free for the rest of the year to all U.S. residents, given the increased exposure to cybercrime.

Business continuity plans were executed. Virtual sales and support capabilities were expanded. And we leveraged our digital innovations such as QuickFoto Claim and Virtual Assist to better protect our customers, employees and agents.

Employees and Allstate agents moved to more than 95% working remotely, and we altered a number of business practices to support our agents and employees.

At the same time, Allstate is financially strong with significant capital and liquidity. In February, we reduced our public equity holdings by $4 billion to reduce the amount of economic capital back in the investment portfolio. But this turned out to be good timing because it enabled us to reduce the impact of the market downturn in March. And as Mario will cover later, we will maintain our share repurchase program given the strong capital position.

For our communities, the Allstate Foundation announced an additional $5 million, that's on top of the money we normally grant every year, which is substantial, to help deal with the pandemic and double demand for Allstate employees' need.

Move to Slide 3. Let's touch base with Allstate's strategy. As you know, our strategy has 2 components: increase personal Property-Liability market share and expand into other protection businesses. This 2-part strategy leads to our 5 annual operating priorities, which is shown on the right side of this page, and we made good progress around all 5.

If you move to Slide 4, Allstate had strong operating and financial results in the first quarter. Total revenues of $10.1 billion declined 8.3% for the prior year quarter due to capital losses instead of capital gains in the prior year. If you exclude the impact of the realized capital losses, revenues increased 2%, driven by a 4.4% increase in Property-Liability insurance premiums, which you can see from the table.

Net income of $513 million declined to the prior year quarter's increased underwriting income, was more than offset by capital losses and charges for pension and postretirement benefits.

Adjusted net income, shown in the middle of the table, was $1.1 billion in the quarter or $3.54 per diluted share, which was significantly above the prior year, reflecting lower catastrophe losses. Returns were excellent with adjusted net income return on equity improving to 18.2%.

Mario will now discuss the first quarter results in more detail.

Mario Rizzo
Executive VP & CFO

Thanks, Tom, and good morning, everybody.

Let's go to Slide 5 to discuss the strong performance of our Property-Liability segment. Starting with the chart on the left, policy and premium growth continued, with excellent recorded and underlying profitability. Underwriting income of $1.35 billion in the first quarter was $645 million higher than the prior year quarter with a combined ratio of 84.9.

The improvement to prior year was driven by several factors, including lower catastrophe losses, increased premiums earned and lower auto accident frequency from the decline in miles driven. Auto accident frequency was significantly lower in the quarter, with property damage gross frequency down 12% compared to the prior year quarter. For the month of March, property damage gross frequency declined 27% compared to the prior year, as miles driven dropped significantly, as states began implementing social distancing measures. These benefits were partially offset by increased severity and the Shelter-in-Place Payback expense.

The chart on the right shows our Property-Liability expense ratio over time and specifically highlights the $210 million Shelter-in-Place Payback expense we recorded in the first quarter, which increased the expense ratio by 2.4 points. Excluding this impact, the expense ratio improved by 1 point compared to the prior year quarter, reflecting continued progress on enhancing the customer value proposition, which is one of the key components of our Transformative Growth Plan.

Let's go to Slide 6, which highlights investment performance for the first quarter. As you'd expect, our first quarter investment portfolio results reflect the impact of the market volatility caused by the coronavirus. As shown in the table in the middle of the page, total return for the first quarter was a negative 2.4%, largely reflecting lower portfolio valuation. While the decline in treasury rates supported fixed income prices, the significant widening of credit spreads more than offset that benefit, and interest-bearing valuation decline reduced return by 1.9%. Lower equity valuations further decreased returns by another 1%.

The chart shows net investment income of $421 million in the quarter, which was $227 million lower than the prior year. We recorded a loss of $208 million for performance-based results in the first quarter, as shown in gray. As you may recall, the income on our limited partnership is typically booked on a 1-quarter lag.

Performance-based income related to fourth quarter 2019 sponsored financial statement was $176 million. We also recorded write-downs of $137 million on 4 underperforming private equity investments. In a typical quarter, this is where our process would have ended. However, given market volatility and economic disruption, we also recognized declines in the value of limited partnership interest, where we had enough information to make informed estimates rather than solely relying on sponsored financial statement as of December 31. This included updating publicly traded investments held within limited partnership to their March 31 market pricing, which reduced investment income by $52 million.

We also did not recognize $195 million of unrealized valuation increases reported in sponsor's fourth quarter financial statements. The sum total of these 4 items generated the $208 million performance-based loss in Q1. Because these investments exhibit idiosyncratic risk and return, future gains and losses are uncertain. But we believe utilizing this approach in the quarter is a better indication of current value.

Income from the market-based portfolio, shown in blue, was lower than the prior year quarter by $19 million, reflecting the impact of lower reinvestment rates. We expect this trend to continue to the extent reinvestment rates remain below average interest-bearing portfolio yield.

Let's turn to Slide 7 to discuss our portfolio positioning. We take a disciplined and proactive approach to managing the investment portfolio risk and return profile, and our positioning has mitigated the impact of the current crisis. As you can see in the chart on the left of the page, the portfolio is largely made up of high-quality fixed income securities with substantial liquidity. We extended the duration of our Property-Liability portfolio last year, which was support -- which has supported both income and returns in the lower-rate environment. We are conservatively positioned in sectors more susceptible to the pandemic and continue to monitor those exposures closely. To provide transparency into these exposures, we have enhanced our Form 10-Q disclosures.

We also have a 13% allocation to performance-based investments and public equity securities, down from 18% at year-end 2019, which backed long-dated liabilities and capital. As you can see in the chart at the bottom right, in February, we reduced our equity exposure by $4 billion, primarily through the sale of public equity securities with proceeds invested in high-quality fixed income. These trades were executed at an average price equivalent of 3,281 on the S&P 500 compared to the March month end level of 2,585. We continue to proactively employ a disciplined risk-and-return framework to the portfolio as economic conditions evolve.

Now let's turn to Slide 8 to review results for the Life, Benefits and Annuities segment. Allstate Life, shown on the left, generated adjusted net income of $80 million in the first quarter, an increase of $7 million compared to the prior year quarter, driven by lower operating costs and expenses. Allstate Benefits' adjusted net income of $24 million in the first quarter was $7 million below the prior year quarter. The decline was due to higher operating costs and expenses, driven by increased investments in technology and higher DAC amortization.

Allstate Annuities, shown on the bottom right, had an adjusted net loss of $139 million in the first quarter, primarily due to the performance-based investment results we discussed earlier.

Coronavirus claims did not appear to materially impact any of these businesses in the first quarter, though we continue to monitor developments closely.

Now let's turn to Slide 9 to talk about our Service Businesses. The Service Businesses continued to increase the number of customers protected with policy in-force growth of 35.4% to 113.7 million. This is largely due to the increase in Allstate Protection Plans.

Revenues, excluding the impact of realized gains and losses, grew 18.2% to $454 million in the first quarter.

Adjusted net income improved to $37 million in the first quarter, reflecting an increase of $26 million compared to the first quarter of 2019, driven by growth of Allstate Protection Plans and improved profitability at Allstate Roadside Services.

Slide 10 highlights Allstate's attractive returns and strong capital position. While the impact of the coronavirus drove financial market instability and led to a decline in shareholders' equity, Allstate's diversified business model, substantial earnings capacity and strong capital and liquidity enables us to manage effectively through this pandemic. We have $3.4 billion in parent company holding deployable assets and $8.8 billion of highly liquid securities saleable within 1 week.

We continued to generate strong returns on capital with an adjusted net income return on equity of 18.2% as of the end of the first quarter, while returning $670 million to common shareholders in the quarter through a combination of $511 million in share repurchases and $159 million in common stock dividends. We plan to continue share repurchases under our current $3 billion program, which is expected to be completed by the end of 2021.

And now I'll turn it over to Glenn to discuss the coronavirus impact on auto insurance and how we're leveraging data and insights to make decisions.

Glenn Thomas Shapiro
President of Personal Property-Liability of AIC

Thanks, Mario, and good morning, everyone. Let's go to Slide 11, which looks at the potential impacts of coronavirus on auto insurance. Profit has been, and will be, impacted by a reduction in miles driven, which will lower overall loss costs. While this has been significant, it will decline over time as the economy begins to reopen, and there are several offsets.

First, the reduction of drivers on the road has increased driving speeds, which can lead to increased severity per claim. We'll also likely incur additional bad debt from some customers who have chosen to take extended payment terms.

On a longer-term basis, if the global auto parts supply chain is disrupted or parts prices are raised by auto manufacturers, this could increase repair costs. The pandemic and economic slowdown will also impact growth. If loss costs continue to be below prior year, the lower required rate increases will limit average premium growth.

On the positive side, the Shelter-in-Place payment could have a favorable impact on retention.

The impact on new business is unclear since reduced vehicle sales can lower new business, but economic conditions may increase shopping levels. And we've seen an increased customer interest in telematics, and we're well positioned with both Drivewise and Milewise, the latter of which charges customers' insurance by mile. Getting ahead of these trends will be important to grow profitably as we continue to manage profitability and competitive position on a market-by-market basis and will enable us to be precise in our responses.

Let's now move to Slide 12. As a customer of Arity, we have access not only to our data, but insights from a much broader data set, some of which is shown on this slide. Telematics-based pricing allows you to factor in things like how much someone drives, where they drive and how they drive.

Our telematics products enable us to do that for individual customers, which when combined with a broader set of data, enables us to make better judgments market by market.

For example, based on 3.5 billion trips from February through April, the upper-left graph shows that miles driven declined sharply in mid-March and then began a slow increase since then. You can also see that those states that had stay-at-home orders had a bigger decline in driving.

In the upper right, you can see there's also a difference between rural areas at the top of the chart, which declined by about 20%, and urban areas at the bottom, which declined by about 50%. The bottom-left graph shows that while some drivers are not driving at all, those are the bars to the left, about 20% of drivers are actually driving more than they did before mid-March.

Arity also provides a Drivesight score, which is a measure of driving risk. The lower the score, the higher the risk. As you can see on the bottom right, the mean risk has increased despite fewer cars on the road, which correlates to the data that shows some drivers are driving faster. The net of all of this is that Allstate has the data and business processes to proactively adjust to a changing operating environment.

I'll now pass it back to Tom.

Thomas Joseph Wilson
Chairman, President & CEO

Thank you, Glenn.

To move to Slide 13, we want to discuss how we've moved past the emergency of moving people to work from home to the immediate of creating a Shelter-in-Place Payback to implementing intermediate-term actions. In this type of environment, you obviously have to look where you step, but you also have to decide where you want to walk. And as we look into the future, there's not that much clarity, right? Who will move back into offices? Will as many people still need to commute to work? What happens to the investment market? And of course, the answer is nobody knows. There are so many possibilities you can get frozen into inaction. So we used scenario planning to see what the future path look like under alternative assumptions.

This came out of Royal Dutch Shell in the '70s, and it works kind of like this. You find 2 things that will be the primary drivers of change. In this case, we selected the length and depth of the health crisis, which is shown at the top of the box on the bottom of that page, and the severity of the economic downturn from disruptive to severe, which is shown on the vertical axis. You then create 4 scenarios to represent a range of possible outcomes.

As you can see from the slide, the best case in the upper right, we've labeled Sigh of Relief. The health care crisis is over relatively quickly and the economy is disrupted, but government support enables us to bounce back with them. In the worst case, in the lower right, is distracted by the virus. It reflects a significant health impact with repeated lockdowns over the next couple of years. The decline in GDP is greater than The Great Depression, but it doesn't last as long because of the government fiscal monetary action.

For each scenario then, we look at a range of outcomes, including consumer behavior, auto insurance accidents and investment returns. This helps us decide what actions we should do, even though we do not know what the ultimate outcome will be. It also helps inform what not to do. And it enables us to establish road signs for each scenario, which improves our ability to forecast the direction we're headed. There are, of course, similar consequences in the scenarios, which help determine what actions to take, which is shown on Slide 14.

In many of the outcomes, revenue growth is constrained because of fewer auto accidents, deteriorating incomes, increased unemployment or lower interest rates. As a result, we are accelerating our Transformative Growth Plan, which will improve customer value with increased utilization of new technologies, lower costs and new auto insurance products. And as you know well, the investment markets will be more volatile in many of these scenarios. As a result, we're evaluating our strategic asset allocation.

Many of us have found that we can adopt new technologies pretty quickly. Like who knew you can have so many Zoom or Teams or Skype meetings in one day? As a result, we're going to maintain a strong commitment to telematics and expanding the Integrated Digital Enterprise.

Consumer behavior is also likely to change to focus on the quality and breadth of their protection. And this is where Allstate is headed, with the second part of our strategy, is to provide a broader array of protection offerings from auto insurance to include things like your phone and your identity.
Now we'll open 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 is just on frequency. You guys provided some pretty good disclosure on the drop in miles driven, and I believe you said it started to bounce back from the COVID woes. So as we're thinking about Q2, so April and May kind of to date, how do you think about the frequency benefit that we might see over that period compared to what you saw towards the later stages of March?

Thomas Joseph Wilson
Chairman, President & CEO

Elyse, let me start, and then toss it over to Glenn. Well, it is -- obviously, as people start to drive more, they'll get in more accidents. So we expect that to head up. Where it will end up is hard to predict at this point because you don't really know when people are going to go back to the office and how many people will even go back to the office site.

It is -- as I talk to other companies, it's pretty clear to me that we found that we've built the infrastructure to do remote workforce. At Allstate, we've already had about 15% of our people remote before this. We think we can probably do more. So that would obviously lead to fewer people driving to and from work, but it's hard to predict exactly where the number comes out. Glenn, do you have anything you want to add to that?

Glenn Thomas Shapiro
President of Personal Property-Liability of AIC

Not too much. I think Tom -- as Tom said, you've got some unknowns in there, which would include, if you go on the other side of it, some pent-up demand. If you think about people who postponed trips, who postponed visiting relatives and want to catch up on it, so you could have some sort of fits and starts with some of the long-lasting, as Tom described, downward pressure on driving and, therefore, frequency, but also some potential short-term bubbles where people want to get out there because they're a little bit stir-crazy.

Elyse Beth Greenspan
Wells Fargo Securities, LLC, Research Division

Okay. That's helpful. And then my second question is on buybacks. I know you guys have said you expect to maintain your buyback program. So as we think about the completion of that program, I believe it runs through the end of 2021, should we think about kind of an even pace of buybacks from here? Would there be some slowdown over the next couple of quarters? Or just given the capital position, you kind of expect that to be evenly maintained as we work our way through 2021?

Thomas Joseph Wilson
Chairman, President & CEO

Mario, will you take that question?

Mario Rizzo
Executive VP & CFO

Sure. Elyse, thanks for the questions. So I think the place I'd start, Elyse, is we feel really good about our capital and liquidity position, $3.4 billion of holding company assets, $8.8 billion of readily available liquidity, $3.7 billion of dividend capacity out of our insurance companies into the holding company for the year. And our businesses are performing really well.

So I think I'd say we expect to complete the program by the end of next year just like our Board authorized. And we've got a lot of flexibility in terms of how we execute it, but we would expect to just continue to buy back shares over that time period.

Operator

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

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

First question will be on the expense ratio, the underlying expense ratio improvement. Can you talk about what -- and you provided just a basic comment on it in your prepared remarks. Can you give us more color on that? And maybe talk about maybe how that fits with the sequential decline in Allstate Agency's and LSPs? And is that part of your integrated services platform rollout?

Thomas Joseph Wilson
Chairman, President & CEO

Mario, why don't you take expenses? And Glenn, will you take the agent?

Mario Rizzo
Executive VP & CFO

Yes, sure. So when you look at the expense ratio in the quarter, you saw a 1 point sequential decline year-over-year in the expense ratio. And first thing I'd say is, reducing our cost continues to be a core part of our transformative growth strategy. And when you kind of deconstruct where the improvement came from, it's about 50-50, not quite between acquisition costs and operating costs.

And obviously, those are 2 core parts of our cost structure, and we saw improvement in both. And we're going to continue to be focused on reducing those costs going forward to enhance our competitive position to still take growth and be a core part of transformative growth for us.

We're also going to continue to invest in the things we need to invest in for transformative growth, things like technology and marketing. But we're focused going forward on continuing to reduce costs over time.

I'll turn it over to Glenn to talk a little bit about the agency part of it.

Glenn Thomas Shapiro
President of Personal Property-Liability of AIC

Yes. Greg, thanks for the question. In terms of the LSP count and agent count, you hit on part of it in your question with integrated service. When you look at licensed sales professionals, and in spite of the word sales being the operative word there, they spend only about 40% of their time on sales, about 60% on service. That's been a historic number.

And one of the things we're committed to is taking a lot of the transactional work out, both through self-service capabilities as well as integrated service over time, so that they're increasing that percentage of time they're selling and not having to do as much of that transactional work. So we'll probably see that change over time. And that's really part of our overall transformative growth work that we're doing.

And in terms of the agency count, we're really focused on growth and growing with quality in terms of the agency force. So coming into this year, I think everybody knew we changed compensation a little bit, where we moved variable compensation from renewal to new, part of it. And we also increased expectations for production on our agency force because we really want to grow with those agents that are looking to invest and grow in their business.

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

The next -- my follow-up question is on the investment portfolio. First of all, as an observer, I have to acknowledge the brilliance of your decision to sell the public equities in February. It's stunning. But as I look at the adjustments you made to the limited partnerships, do you think that this is a permanent change to your valuation approach on a quarterly basis? Or -- and I guess the other adjacent question was -- would be that in your adjustments to the first quarter results on LPs, did it include an assessment for all of the LPs or 100% of the portfolio? Or what percentage of the portfolio wasn't covered by your valuation reassessments?

Thomas Joseph Wilson

Chairman, President & CEO

Greg, thank you for the comment on equity. I just want to be clear. It was done on a risk and return basis. So we just looked at the capital up on it. We looked at the prospective outlook, and we decided that wasn't as good a return on those -- on the amount of capital we had to have up on equity.

We obviously -- it was good timing, but it wasn't like we knew the market crash was coming. But it also shows the benefit of having business processes that are metric-driven that you stick to them, whether that's the way you invest or what Glenn was talking about in terms of how our business processes and our metrics work for changing frequency by state and doing pricing by state.

Mario, will you take the question on accounting on this performance-based investment?

Mario Rizzo
Executive VP & CFO

Sure, Tom. So Greg, I guess where I'd start is, as we've said in the past, generally, we record performance-based income on a 1-quarter lag based on the partner financial statements as of the prior quarter end. So for example, in the first quarter, we would have relied on year-end partner financial statements. And that's typically how we would approach the accounting.

However, our accounting policy does require that when a material market event occurs, and we have information available to make informed estimates, that we need to take that information into account. And that's what we did this quarter. So we made the 2 adjustments, the -- marking the public equity holdings in some of the partnership holdings to March 31 levels, and then suppressing the increases in unrealized valuation on securities that were reflected in the year-end financial statement. We did that because that's part of the accounting policy because there was a material market event in the quarter.

The other piece was the -- just our normal watchlist process where we go through every holding. And to the extent we believe we need to impair a holding, we do that. And that was worth $137 million in the quarter on 4 specific holdings. So absent another market disruption event, let's say, hopefully, we avoid one this quarter, we'll go back to what our typical process would be. But because there was this disruption event in the first quarter, our policy required that if we had additional information that we could make good estimates based on, we should do that. And that's exactly what we did.

Operator

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

Jon Paul Newsome
Piper Sandler & Co., Research Division

I was hoping you could talk a little bit about or give us some color on where the acceleration will come in the Transformative Growth Plan? What will change? You mentioned you're thinking of accelerating it.

Thomas Joseph Wilson
Chairman, President & CEO

Thanks, Paul. It is -- obviously, it's a multifaceted program, right? The idea is to increase customer access. And that was putting together the -- using the Esurance capabilities on direct under the Allstate brand to expand there. It's to reduce our cost structure, and it's to use technology to enable us to launch new products and lower our cost structure. So the -- Glenn can talk about the progress on Esurance and the Allstate brand, and that's been great. And we're headed down the path to have start operating under the Allstate brand on a direct basis this year.

The -- on the cost reduction, it will accelerate some of the stuff we do on cost reduction, and it will also accelerate some of the work we're doing on building new technologies, particularly as it looks things like Milewise and Drivewise. Before, when you sold insurance by the mile, we're, I think, one of the few large companies that do that. The people didn't really know what it's about today with Shelter-in-Place Payback from us or the actions of our competitors. People are paying attention now and saying, "Oh, maybe I do want to pay by the mile." So we will push harder on the new product efforts as well.

Glenn, do you want to pick up the Esurance and Allstate brand part? And maybe talk as well about the Esurance growth in the first quarter since that may be on people's mind as it relates to transformative growth.

Glenn Thomas Shapiro
President of Personal Property-Liability of AIC

Yes. So I'll start with the Esurance growth piece, and then I'll go into the -- what we're doing as far as the transformation because really transformative growth and the brand changes had nothing to do with the growth in the first quarter. It was actually a 3-part story. Esurance was having increased loss trends in the latter part of last year. We needed to take some pricing and underwriting actions. We did, which is good because we've gotten the profitability in line as a result. But what typically happens with that is you take a little bit of a hit on your retention and your new business as that happens. And that was happening towards the very end of the year and into January.

Now once those prices have worked their way through, we actually reinvested some marketing. We were doing pretty well in February and early March when quoting kind of fell off the table in the middle of March. So you have these sort of 3 windows to like a slow start in January, some really nice momentum in February, early March, and then everything fell off the table there for a few weeks.

Fortunately, as we've seen from external indices, shopping has returned and is expected to actually accelerate going forward. So we've got some good optimism there as to how it moves forward in terms of Esurance growth.

In terms of transformative growth and where we're going, Jonathan Adkisson, who's the President of Esurance and took over now as our head of the direct business, has been working with both teams and bringing it together in such a way that we increase or improve our sales process under the Allstate brand. We improve our online quote flow. And so those are already in process and happening on a day-by-day basis. It's a continuous improvement effort. What is still to come is our pivot on branding and how we invest in marketing for the Allstate brand to go to market as both a direct and agency-driven brand as well as our work with online leads.

Jon Paul Newsome
Piper Sandler & Co., Research Division

Somewhat relatedly, could you talk a little bit about what happened with retention? Did it also have a kind of similar 3 different periods like the sales did during the quarter?

Thomas Joseph Wilson
Chairman, President & CEO

Glenn, will you take that?

Glenn Thomas Shapiro
President of Personal Property-Liability of AIC

Sure. Retention, I would say no. Retention really -- there's no impact yet from coronavirus because it's kind of a lagging metric. It includes midterm cancellations that you're measuring at the point of when they would have renewed.

So to the extent that we see impact, whether favorable or unfavorable from coronavirus, I think we'll see that on a go-forward basis from a retention standpoint. We still are in a pretty good space from a retention standpoint. We're down year-over-year, but off of a fairly high watermark, still running 88% retention in auto and feel fairly good about where we are. And we continue to work hard to do well for our customers. I think our response to coronavirus and the multiple areas that we were very quick to respond for customers can and, hopefully should, help us from a retention standpoint, and it's something we continue to work at.

Operator

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

David Kenneth Motemaden
Evercore ISI Institutional Equities, Research Division

Just a question for Tom on investments. And you mentioned -- just in terms of reducing the equity allocation during the quarter, you mentioned you looked at the return and the capital required and decided to reduce it. I guess are there -- I guess, how are you thinking about the allocation to equities and LPs at 13% of the portfolio going forward? Do you expect to do more of this? And maybe if you could help me understand how much capital that freed up by reducing the $4 billion worth of equities?

Thomas Joseph Wilson
Chairman, President & CEO

Okay, David. Thank you for the growth time question. I'll talk about the logic for the equity. John can then talk about the process we're looking at in terms of going forward, which you talked about at the end is -- which is really your question, where should you invest in this kind of environment? And the answer is, we don't know, but we've got a pretty good process, going to figure out what we think is the best option.

First, the equities. A large portion of the equity portfolio back to payout annuities, which are long-dated liabilities, think of them like a pension plan. And so you don't want to be invested in fixed income for annuities that are going to pay out in 10, 20, 30 years. So that's appropriately at the liability match. And that's sort of a bottom. We don't want to move away from that matching because it would be bad long term economically. And you don't want to start to be picking when you trade in or out.

On the other hand, some of our equities just are capital that we use to support the business and that we are a little more flexible with. And we brought down the -- when we look at economic capital, which is amount of capital we think we need to put up for risk, we thought we had -- it wasn't a good enough return for us. So that was why we reduced it, which is really related to sort of the equity portfolio of the overall entity, not specific asset liability matching.

As it relates to the amount of freed up capital, David, from a statutory capital standpoint, it obviously reduces your capital a little bit. But we're long capital as it is. And so we don't look at it as though we had to free up capital to buy shares back or anything like that. We just look at it pure economics. What's the right thing to do for shareholders on a long-term basis? And it did free up some economic capital, some statutory capital, but it doesn't really make a difference in the amount of capital we have available to either do share repurchases or buy something like that.

John, do you want to spend a minute on what we're doing on the strategic asset allocation?

Unknown Executive

Yes. Thanks, Tom. And David, thank you for your question. As a regular matter of course, we take a disciplined approach to investing and thoroughly look at the -- managing both the risk and return trade-offs. We do that both directly in the investment department, but then that's highly integrated with the way we think about return and risk opportunities across the firm, as Tom had mentioned.

One of the key things that we do is, first, we have a -- what I believe to be a strong team of about 400 investment professionals and -- that are deeply experienced. And we are in a number of different markets and look at price action, fundamental, economic drivers, technical observations across those markets. We also bring in, on a regular basis, keen insight from people from the outside, whether that's from our dealer relationships, whether that's via specific consultants or economic research teams that we have subscriptions to and try and formulate, at any point in time, the best risk return trade-off for the portfolio, especially given the business lines that we're associated with.

As Tom mentioned, if you -- candidly, if you go back a little more than a year ago, we started to see that the return per unit of risk, as we perceived it in the marketplace, was flattening out, and we became a little bit more concerned about whether investment markets offer the best opportunity. What transpired since then is that the Fed became pretty active last year, as we've all seen. We took that as an opportunity to add duration to the portfolio, which is paying benefits today. So it's tantamount to our desire to be proactive with our investment portfolio and integrate it to the rest of the firm.

As we moved into the end of this year, one of the things that we noticed is that there was a limit to what the central banks could do to continue to push on returns of growth assets or risky assets. We thought that what we had observed in 2019 is not much earnings growth, and there is a fair amount of multiple growth. And we just thought that, that was likely coming into the end. As Tom said, we really didn't predict that there's going to be an event. But the one thing we all recognize as an enterprise that if there was an event, we weren't really giving much compensation for that. So we incorporated this equity trade in February, albeit at very good levels.

The way that we accomplish this on a daily -- on a regular basis and quarterly, we sit down in an investment group and we go through what we call a capital allocation process. And we spend 2, 3 days deeply looking at markets, and then we share that with the rest of the enterprise.

David Kenneth Motemaden
Evercore ISI Institutional Equities, Research Division

Got it. And if I could, just one follow-up. Just on the expense ratio, the 23.4 in the quarter, how should I think about that for the rest of the year, just given potential top line pressure, offset by what sounds like ramp-up of the transformative growth as the year progresses?

Thomas Joseph Wilson
Chairman, President & CEO

Mario, do you want to take that?

Mario Rizzo
Executive VP & CFO

Sure. Again, what I'd say is, I'd reiterate. Look, a core part of our strategy is to continue to look to take costs out of the system and the general downward view of our expense ratio to improve competitive position.

Having said that, you did say, you articulated a couple of the items that are going to cause some choppiness in that. Number one is the outlook on revenue, which there's uncertainty around that, but also, we're going to continue to make investments in things, like I said, technology and marketing. So I guess what I'd say is, look, our focus is still on reducing costs and driving the expense ratio down over time.

I'm not going to sit here today and give you an exact trajectory of what that's going to look like. But strategically, that continues to be a core part of what we're trying to do.

Thomas Joseph Wilson
Chairman, President & CEO

So what we try to do is manage it down, but not do it stupidly, right? So like, as Glenn mentioned, we have to reposition the Allstate brand to go even more aggressive into driving the direct growth. And that's going to cost some money. So we'll do what we think is economic for shareholders. And then we think if we do it on an upfront, it works out so we achieve our overall objective.

Operator

Our next question comes from the line of Jimmy Bhullar from JPMorgan.

Jamminder Singh Bhullar
JP Morgan Chase & Co, Research Division

So I had a couple of questions. First, maybe just on the auto business, if you could talk about competition as you're looking at the business through the rest of the year. Everyone's margins are actually obviously pretty strong. Do you see, at some point, companies start to adjust pricing based on sort of whatever the new normal is in terms of driving behavior? And have you seen any indication of companies getting a little bit looser on renewal terms recently?

Thomas Joseph Wilson
Chairman, President & CEO

Let me start, maybe talk about process, Jimmy, and Glenn can fill in some specific thoughts he has. So it's -- obviously, we did the Shelter-in-Place Payback, and everybody followed relatively quickly. That doesn't mean that we really only have the idea, it just means that everybody thought that with margins where they were, it was fair to give it back to customers or at least that was our view.

And whether that people will continue to do that or not, it's hard to tell. What I do know is that because we have a business model which is run by market, by line, by coverage, with all kinds of data, both our telematics data, our own historical data, our claim data and the information we get from Arity, will be incredibly precise and surgical about the way we react. I can't speak to what other people do.

Glenn, is there anything in the competitive environment that is clearer today than -- and has been kind of murky, is I would say, but anything you would add to that?

Glenn Thomas Shapiro
President of Personal Property-Liability of AIC

Yes. What I would say is, we're clearly going to be in a very benign rate environment, that might be an understatement, and -- for some period of time. What I haven't seen is, in the competitive environment, anybody making a more durable or permanent change to their premiums, meaning a rate reduction that is over a permanent price filing for rate reduction. Because I think, like us, I'm sure others see that like this came on fast. Like I don't think anybody predicted that when we came into this year, we were going to have an event that would drive mileage down by 50% or whatever the numbers are by state. And it can go away fast, too.

So I think everybody's looking at this, I know we are, from the standpoint of how do we react in real time, make good decisions, doing the right thing by market with precision, as Tom said, with our customers in mind, but not do anything that we then have to rebound on. And it wouldn't be good for anybody to overplay it a hand and then have to go take rate increases afterwards.

So I think what you're going to see is a very benign, flat rate environment as opposed to a negative one.

Jamminder Singh Bhullar
JP Morgan Chase & Co, Research Division

And then on the sales or top line growth environment in sort of the Services, Benefits or Life businesses, should we assume that because the COVID and sort of Shelter-in-Place, that you'll see a drop-off in sales in some of these businesses in the near term?

Thomas Joseph Wilson
Chairman, President & CEO

Let me have Don answer about the Services Business, particularly Allstate Protection plans, which, as you saw, is just continuing to grow incredibly rapidly. And I hate for that story to get lost amongst the coronavirus part. And then I would just -- I think I could summarize it to say, in Life, that we haven't had much growth there in the last couple of years, and we're really trying to still reboot that growth strategy.

Don, do you want to...

Dogan Civgin
Chief Executive Officer of Protection Products & Services- AIC

Sure. So I think, obviously, each of the businesses are going to be impacted by different trends. Some of them will be driven by frequency such as our roadside business. Some will be driven by auto sales and kind of general economic conditions like a dealer services and so forth. So I think every business will be impacted by some different factors.

Allstate Protection Plans, which has continued to have terrific growth, first, on a broader level, they've been growing for a number of quarters. So this is not unique to the first quarter of 2020. And so we've been really pleased with the overall growth and overall improvement in profitability that they've been able to exhibit.

Now when you look at the first quarter, you might look and say, "Well, their -- most of their sales are through retail, and retail is suffering," which is maybe true in general, but you have to get a little bit more nuance and look at the types of customers they have, the types of retailers we do business with and, to some extent, what's being purchased at retail right now.

So when you look at SquareTrade's kind of largest B2B customers, they tend to be the larger one-stop shops, where people have been going to shop more frequently since coronavirus hit because they want to get all of their purchases done with one stop if they can do so.

Second, a lot of what's been purchased, as people have been adapting to the home environment, has been kind of getting home offices set up, to some extent, entertainment setup because they're going to be stuck in their houses for some period of time, which obviously come with the opportunity for extended warranties as well as the stimulus check impact which put funds in people's pockets to be able to then go out and spend. So when you look at what their particular type of customer was looking for, the first quarter after coronavirus saw a nice increase.

It's hard to tell whether that will last and how long that will last, but I think at some point, the overall trends in retail will be a headwind for Allstate Protection Plans. But at least in the short term, it's actually been a nice tailwind. I would also say that new business, which they've picked up a number of large accounts recently, both domestically and overseas, rollouts of those programs have slowed down a little bit as people have been trying to figure out how they're going to get those stores open. And there was a slight, I would say in the first quarter, benefit from claims dip as people submitted fewer claims after the virus hit for some period of time.

So overall, trends continue to be really strong. Hard to tell what the impact is going to be on Allstate Protection Plans long term from the virus. But in kind of the immediate term, it's been good for their top line.

Jamminder Singh Bhullar
JP Morgan Chase & Co, Research Division

Okay. And just lastly, any comments you have on long-term strategy for the annuity block and the likelihood of a scale or reinsurance of that business?

Thomas Joseph Wilson
Chairman, President & CEO

Sure. Let me jump at that, Jimmy. First, on the -- I should also point out on more longitudinal perspective, Allstate Protection Plans now has over 100 million policies in force. Don, I think it was about 30-plus when we bought it, right, -- 30 million plus.

Dogan Civgin
Chief Executive Officer of Protection Products & Services- AIC

Yes.

Thomas Joseph Wilson
Chairman, President & CEO

So it's had a tremendous run not to be swept under the carpet. It's really a great team. As it relates to annuities, it's a huge drag on our ROE because we -- as I mentioned earlier, we have a lot of equities behind that portfolio because we believe that's the right thing to do. So our 18.2% includes a large drag on it from the annuities. If we could find a way to eliminate that drag, we would do so. But we only want to do it with some place where our customers will be well taken care of because this is largely written on our paper. And we don't want to give somebody a whole bunch of investments and say, "Good luck, and we hope you pay the people off when you get there." And they do something stupid.

So we are managing it well as it is today. Either we will find a solution, that could be a reinsurance solution, it could be a sale, it could be we just keep it, we run it differently. In any event, it will go away in terms of its drag on ROE when the new long-dated accounting -- long-dated annuity accounting comes in place where you'll have to mark that to market. We don't -- we think that, that accounting is a little rough. On the other hand, it will eliminate the drag on overall ROE.

Operator

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

Charles W. Lederer
Crédit Suisse AG, Research Division

This is actually Charlie on for Mike. Can you talk about your commercial lines exposures outside of commercial auto? And specifically, can you talk about business interruption exposure in general, whether you've seen claims and if your policies have virus exclusions?

Thomas Joseph Wilson
Chairman, President & CEO

Don, any report?

Dogan Civgin
Chief Executive Officer of Protection Products & Services- AIC

Okay. Charlie, so in our business insurance, we do actually have exclusions for disruption caused by the pandemic and so we -- like many others do. And so there's a lot of noise out there about implementing requirements for insurance companies to go back and provide coverages that were not only excluded explicitly, but were also not priced for.

And so we would be against obviously that.

Having said that, our exposure is relatively small. There's about 60,000 policies in total that we have that sort of exposure, which as I said, is explicitly excluded. So it's a relatively small number for a company like Allstate.

Charles W. Lederer
Crédit Suisse AG, Research Division

Got it. And then on the Shelter-in-Place Payback included in the expense ratio in the first quarter, does that imply the charge for the second quarter will be the balance to get to the $600 million you guys have talked about? And is there a potential for further premium reductions, either larger discounts per month or an extension of the duration of the discounts?

Thomas Joseph Wilson
Chairman, President & CEO

Mario, if you'll take the second -- the first piece and then make sure we talk about all the other things, whether it's bad debts or anything else coming up in the quarter. As it -- Charlie, as it relates to another Shelter-in-Place program, what we said is, we're always going to treat our customers fairly. This came along quickly. We moved within 10 days to get people what was a relatively easier to implement in terms of it ubiquitous across the country, ubiquitous by customer. Everybody got 15% in April and May. And we felt we needed to do that because they were all struggling. The government money had not yet come into people's home. So we even provided the opportunity for them to get cash, even though they might have gone on a deferred payment plan with us.

And so that was -- it was done because we need -- knew our customers needed help, and we need to do it fast. If frequency were to stay down because of something that was not continuous, so we thought it was Shelter-in-Place for a longer period of time when you look at those graphs that Glenn showed. If it stayed down there, we may want to do something else for our customers to reflect the fact that they're not driving as much. This time though, it will be much more precise. And so we'll use all the data we have to -- as Glenn talked about, some people are driving more, but it doesn't feel like they should get a Shelter-in-Place Payback, right? It doesn't seem as fair to somebody who's not driving the car at all.

The same thing about which area you live in, you live in an urban area or rural area. Is your -- what kind of driving? Are you a really fast driver? Now not everybody's on telematics, so we can't get it as precise as we would like. But we are working on a more comprehensive approach should frequency stay down, and we will do what we think is fair for our customers.

Mario, do you want to take the second quarter impact from what we've already done?

Mario Rizzo
Executive VP & CFO

Sure. So on -- with respect to the SIPP payment, we saw we recorded a portion of it in the first quarter. The balance will be recorded in the second quarter. So that one's pretty straightforward. That will happen. When we kind of decided on the SIPP payment, one of the things we explicitly factored in was the potential for bad debt expense associated with the special payment plan that we're allowing our customers to opt into. As we evaluated the number of customers that had opted into that as of the end of March, along with our historical bad debt experience, the impact in the first quarter from a bad debt perspective was pretty immaterial.

Obviously, we will look at the number of customers that have signed up as well as the exposure going forward. And we'll take that into account in the second quarter in terms of establishing bad debt prospectively. But first quarter was reasonably immaterial. Second quarter, we'll take a look at the analysis. We'll update it appropriately, and then we'll record something incremental in the second quarter.

Operator

Our final question then for today comes from the line of Yaron Kinar from Goldman Sachs.

Yaron Joseph Kinar
Goldman Sachs Group Inc., Research Division

Just want to go back to distribution a little bit. Can you maybe talk about how the agency channel is impacted by Shelter-in-Place environment and the -- with customers potentially looking for lower price options as well? And with that, maybe also touch on kind of the timing of shifting the agent variable compensation to a -- more to a new business generation and how that has been impacting the sales force?

Thomas Joseph Wilson
Chairman, President & CEO

Glenn will be the best person to answer that question.

Glenn Thomas Shapiro
President of Personal Property-Liability of AIC

All right. Thanks, Yaron. First of all, when you think about the impacts of coronavirus, I think it's important, there's all different types of businesses that have to close down all the way up through businesses that actually benefit because they're in the type of business that wins in this type of new environment. The agents kind of fall in the middle of that because if you think about their revenue stream, it is still significantly renewal compensation. Our total compensation to the agency force, and if you break down to any individual agent, will range somewhere between 90% and 100% or, in some cases, even above 100%. Some are growing more post middle of March versus before. So the core of their income remains. So you've got that piece.

In terms of how it impacts their business, I think that, that will be something to watch and something to see. I agree that people will be looking for value as they go forward. But I also think our agents have really been able to show their value in this process. I don't think there's another time in our company history where I could make the following statement: Over the course of the last 6 weeks, almost all of our agents have called almost all of their customers. So you've got this really unique period of time where, a, people are more available to be reached; b, they have more questions, and they really want to hear from their trusted adviser; and c, our folks are just committed to that because of a national crisis.

And so I think that there's this moment in time where at least some portion of our customer base will really see the value of what they've gotten out of their agency relationship and having a trusted adviser. That said, everything Mario and Tom and others have talked about on this call about transformative growth is, we've got to keep taking costs out of our system and be a more affordable and more competitive value for consumers going forward, which is why we're accelerating the Transformative Growth Plan.

Yaron Joseph Kinar
Goldman Sachs Group Inc., Research Division

Got it. Understood. And then maybe one quick follow-up. Milewise, you talked about potentially accelerating it. I think as of year-end, you were in 14 states. Any thoughts as to how quickly you can really expand the program to all 50 states?

Thomas Joseph Wilson
Chairman, President & CEO

Glenn, do you want to give an update on that?

Glenn Thomas Shapiro
President of Personal Property-Liability of AIC

Yes. So we're in 16 states and moving as quickly as we can on it. Certainly, the pandemic has shown a light on the value of a pay-per-mile product, and we're seeing a nice uptick in the demand for it. You see kind of 2 effects in the public right now. One is just the acceptance of the notion that telematics is going up as a result of all of this, and two is actually the over-demand for something like Milewise is going up. We have some states up 30% in terms of their sales since the middle of March and seeing double-digit percentages regularly on a week-by-week basis of the new business being sold in Milewise versus other products. So we think it's a great opportunity. It will absolutely be part of our filings that we're doing broadly across the country to try to expand and do more for consumers as a result of the pandemic.

Thomas Joseph Wilson
Chairman, President & CEO

Okay. Thank you all. Allstate is in a strong position. We know how to protect our customers from life's uncertainties, and we'll continue to do that as we navigate through this crisis. So thank you for participating, and we'll talk to you next quarter.

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