COMPANY PROFILE

The Allstate Corporation

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COMPANY OVERVIEW

The Allstate Corporation (Allstate or 'the company') is one of the leading property and casualty insurance groups in the US. The company is engaged in the personal property and casualty insurance business and the life insurance, retirement and investment products business. Allstate markets private passenger auto and homeowners insurance under the Allstate, Encompass, and Esurance brand names. The company primarily operates in the US, where it is headquartered in Northbrook, Illinois, and employed 41,600 employees, including 41,100 full-time employees and 500 part-time employees, as of December 31, 2015.

The company recorded revenues of $35,653 million during the financial year ended December 2015 (FY2015), an increase of 1.2% over FY2014. The operating profit of the company was $3,282 million in FY2015, a decrease of 22.5% over FY2014.The net profit of the company was $2,055 million in FY2015, a decrease of 25.2% over FY2014.

KEY FACTS

Head Office	The Allstate Corporation 2775 Sanders Road Northbrook Illinois 60062 USA
Phone	1 847 402 5000
Fax	
Web Address	http://www.allstate.com/
Revenue / turnover (USD Mn)	35,653.0
Financial Year End	December
Employees	41,600
New York Stock Exchange Ticker	ALL

SWOT ANALYSIS

The Allstate Corporation (Allstate or 'the company') is engaged in the personal property and casualty insurance, life insurance, and retirement and investment products business. It is the largest publicly held personal lines insurance company in the US. The company's diversified product portfolio protects it against demand fluctuations for certain offerings, and helps it compete against players in regional markets. However, natural disasters and increasing competition could adversely affect the company's profit margins.

Strength	**Weakness**
Strong market position in the property and casualty business Diversified product portfolio and multi distribution channels increase brand loyalty and customer retention Efficient expense management helping in increasing underwriting profitability	Lack of international presence increases business risk Weak cash flow from operations
Opportunity	**Threat**
Growth of global property and casualty insurance market likely to increase revenues Organic growth initiatives may help in benefitting from the US life insurance market expansion	Intense competition likely to decrease market share and profitability Rising fraudulent activities may keep margins under check Increased incidence of natural disasters testing claims paying capability

Strength

Strong market position in the property and casualty business

Allstate has a strong market position in the property and casualty insurance business and is the largest publicly held personal lines insurance company in the US. The company offers auto, home insurance, retirement and investment products in approximately 16 million households in the US through more than 12,500 exclusive Allstate agencies and financial representatives. The company is the second largest personal property and casualty insurer in the US on the basis of 2014 statutory direct premiums earned. In addition, it is the nation's 19th largest issuer of life insurance business on the basis of 2014 ordinary life insurance in force and 31st largest on the basis of 2014 statutory admitted assets. Allstate's Encompass brand is among the top 20 largest providers of personal property and casualty insurance products through independent agencies in the US for 2014. Strong market position in the property and casualty business has enabled the company to develop a proprietary database of underwriting and sophisticated pricing, which helps the company to accurately price risks and cross sell products within its customer base.

Diversified product portfolio and multi distribution channels increase brand loyalty and customer retention

Allstate has a diversified product portfolio of various insurance lines, including auto, property, life and commercial. The company offers its products through two segments: Allstate protection and Allstate financial. Allstate protection segment sells private passenger auto and homeowners insurance. Allstate protection segment also produces and sells specialty auto products including motorcycle, trailer, motor home and off-road vehicle insurance policies; specialty property products including renter, landlord, boat, umbrella, manufactured home and condominium insurance policies; roadside assistance products; guaranteed automobile protection and vehicle service products; and commercial products. Allstate financial segment provides life insurance, voluntary accident, and health insurance, and retirement and investment products. The company's principal products are interest-sensitive, traditional and variable life insurance; voluntary accident and health insurance; and fixed annuities including deferred and immediate. Allstate exclusive agencies and exclusive financial specialists also sell the following non-proprietary products, including mutual funds, fixed and variable annuities, disability insurance, and long-term care insurance in addition to Allstate financial products. Allstate provides insurance products to more than 16 million households through an exclusive network of 12,500 exclusive agencies and financial representatives in the US and Canada, as well as through independent agencies, call centers and the internet. Allstate follows a sophisticated pricing method where the risk is matched to the price.

The company's wide distribution network enables the company reach its customers both through traditional and nontraditional means. In addition, it also enhances the cross-selling opportunities for the company. The diversified product portfolio and wide distribution network of the company increases the market share and revenues by retaining customers.

Efficient expense management helping in increasing underwriting profitability

Allstate's expense management showed improvement in the recent years. This is evident from the favorable improvement in its combined ratio. For insurance companies, combined ratio is the ratio of claims and claims expense, amortization of deferred policy acquisition costs, operating costs and expenses and restructuring and related charges to premiums earned. Lower combined ratio is better as that indicates higher operating margins. During FY2011-15, Allstate's combined ratio declined to 94.9% in FY2015 from 103.4% in FY2011. As a result, the company's operating profit increased from $959 million FY2011 to $3,282 million in FY2015. Efficient expense management is helping in increasing the underwriting profitability of Allstate.

Weakness

Lack of international presence increases business risk

The company's operations are concentrated in the US. This increases the risk of negative financial impact due to events that affect the US economy. For FY2015, the US accounted for almost all the revenues for the company. The concentration of operations in the US not only increases its exposure to local factors but also deprives the company of higher revenues from high growth emerging markets in Asia and other Latin American countries. Though the company has been consolidating its presence in Canada, it is still not likely to entirely mitigate the risk of carrying the US centric operations.

Weak cash flow from operations

Allstate's cash flows declined in FY2015. The company's cash from operations declined from $4,242 million in FY2013 to $3,616 million in FY2015. This is primarily due to higher claim payments, the proceeds received in 2014 from the surrender of company owned life insurance, and higher income tax payments. A decline in cash flow from operations might result in a decrease in the company's capacity to pay dividends to its shareholders, which in turn could reduce investor confidence. In addition, declining cash flows could upset the group's expansion plans.

Opportunity

Growth of global property and casualty insurance market likely to increase revenues

The global property and casualty insurance market is growing at a steady pace. In 2015, the global property and casualty insurance market grew by 4.8% over 2014 to reach a value of $ 1,649.4 billion, according to MarketLine. As per industry estimates, net income among property and casualty insurers rose by 5% in 2015's first half, to $31 billion. Similarly, net written premiums rose by 4.1%. Furthermore, MarketLine estimates that in 2016, the global property and casualty insurance market would have a value of $1,733.4 billion, an increase of 5.1% since 2015. Allstate provides various property and casualty coverage products including home/property, commercial, health insurance and other specialist insurance services. Given the company's extensive distribution channel, brand leadership and customer access, Allstate would benefit from the positive outlook of property and casualty insurance market.

Organic growth initiatives may help in benefitting from the US life insurance market expansion

The US life insurance market is growing at a steady pace. According to MarketLine, in 2015, the US insurance market grew by 4.1% over 2014 to reach a value of $574.3 billion. In 2020, the US insurance market is forecast to have a value of $717.9 billion, an increase of 25% since 2015. Some of the company's organic growth initiatives which could help in benefiting from the market expansion include: the launch of Allstate IncomeProtector and Allstate GrowthProtector annuities in 40 states of the US; launch of a new insurance policy Allstate Whole Life Advantage; the launch of GoodForLife, a multi-coverage life insurance product in the state of Illinois; the launch of Drive Wise, a telematics offering that gives customers discounts based on their actual driving behaviors; the launch of Good Hands Roadside, a pay-as-you-use roadside service; and the launch of Claim Satisfaction Guarantee for auto insurance. These organic growth initiatives may help the company in benefiting from the US insurance market expansion.

Threat

Intense competition likely to decrease market share and profitability

The US financial services market, being one of the most matured markets worldwide, is characterized by intense competition in all fields. Especially, the market for life insurance, retirement and investment products continues to be highly fragmented and competitive. As on December 31, 2014, there were approximately 400 life insurance companies in the US, offering almost identical insurance products. Further, the competitive pressure in the insurance market is growing due to several factors, which include cross marketing alliances between unaffiliated businesses, as well as consolidation activity in the whole financial services industry. Allstate, for instance, faces stiff competition from companies such as State Farm, Progressive, Nationwide, Farmers, Travelers, and USAA. Some of the firms such as State Farm become a threat due to their size and their ability to provide a host of other services. The company faces intense competition in the private passenger auto insurance as well as homeowners insurance from companies like State Farm and Farmers. The company is already facing the consequences of increased competition in terms of lower revenue growth as compared to its competitors. Owing to increasing competition in the market, the company could witness further decline in its revenues as well as profit margins.

Rising fraudulent activities may keep margins under check

Increasing insurance frauds have been taking a toll on the general insurance industry. The Insurance Information Institute estimates that fraud accounts for 10% of the property/casualty insurance industry's incurred losses and loss adjustment expenses, or about $30 billion a year. This fraud results in higher payouts for insurance companies in terms of claims. Considering Allstate's scale of operations in property and casualty insurance market, the mounting trends of insurance frauds could increase its claim losses and may pull down its profit margins going forward.

Increased incidence of natural disasters testing claims paying capability

There is general consensus that major climate changes are likely to occur in the coming decades and insurance companies face a trend towards higher losses as population densities continue to grow in catastrophe-prone areas. The incidence of natural disasters has been increasing over the last 20 years. Particularly the trend has been strengthening over the past five years ending 2015. In 2015, natural catastrophes caused $90 billion in overall losses and $27 billion in insured losses worldwide. The costliest natural catastrophe of 2015 in terms of overall economic losses was the series of winter storms that struck the northeastern US and Canada in February. Overall losses from this event totaled $2.8 billion, while insured losses were $2.1 billion. Though the 2015 losses were lower than those in 2012 ($160 billion overall and $65 billion insured losses), the death toll at 23,000 was significantly higher than that in 2012 (9,000). Increasing trend in natural disasters is expected to continue in the near future. Considering the fact that Allstate is one of the leading players in insurance industry, increase in natural disasters will impact the company's profitability.