

ALLSTATE CORP
Form 10-K
February 20, 2013

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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549**

FORM 10-K

ý **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 2012

OR

o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934**

For the transition period from _____ to _____

Commission file number 1-11840

THE ALLSTATE CORPORATION

(Exact name of registrant as specified in its charter)

Delaware
(State or Other Jurisdiction of
Incorporation or Organization)

36-3871531
(I.R.S. Employer
Identification No.)

2775 Sanders Road, Northbrook, Illinois 60062
(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code: (847) 402-5000

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, par value \$0.01 per share	New York Stock Exchange Chicago Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes X No _____

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Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

Yes No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company)

Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

The aggregate market value of the common stock held by non-affiliates of the registrant, computed by reference to the closing price as of the last business day of the registrant's most recently completed second fiscal quarter, June 30, 2012, was approximately \$16.88 billion.

As of February 1, 2013, the registrant had 477,446,258 shares of common stock outstanding.

Documents Incorporated By Reference

Portions of the following documents are incorporated herein by reference as follows:

Part III of this Form 10-K incorporates by reference certain information from the registrant's definitive proxy statement for its annual stockholders meeting to be held on May 21, 2013 (the "Proxy Statement") to be filed not later than 120 days after the end of the fiscal year covered by this Form 10-K.

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Part I

Item 1. Business

The Allstate Corporation was incorporated under the laws of the State of Delaware on November 5, 1992 to serve as the holding company for Allstate Insurance Company. Its business is conducted principally through Allstate Insurance Company, Allstate Life Insurance Company and their affiliates (collectively, including The Allstate Corporation, "Allstate"). Allstate is primarily engaged in the personal property and casualty insurance business and the life insurance, retirement and investment products business. It conducts its business primarily in the United States.

The Allstate Corporation is the largest publicly held personal lines insurer in the United States. Widely known through the "You're In Good Hands With Allstate®" slogan, Allstate is reinventing protection and retirement to help individuals in approximately 16 million households protect what they have today and better prepare for tomorrow. Customers can access Allstate products and services such as auto and homeowners insurance through 11,200 exclusive Allstate agencies and financial representatives in the United States and Canada, as well as through independent agencies, call centers and the internet. Allstate is the 2nd largest personal property and casualty insurer in the United States on the basis of 2011 statutory direct premiums earned. In addition, according to A.M. Best, it is the nation's 16th largest issuer of life insurance business on the basis of 2011 ordinary life insurance in force and 23rd largest on the basis of 2011 statutory admitted assets.

Allstate has four business segments:

Allstate Protection Discontinued Lines and Coverages

Allstate Financial Corporate and Other

To achieve its goals in 2013, Allstate is focused on the following priorities:

- grow insurance premiums;
- maintain auto profitability;
- raise returns in homeowners and annuity businesses;
- proactively manage investments; and
- reduce our cost structure.

In this annual report on Form 10-K, we occasionally refer to statutory financial information. All domestic United States insurance companies are required to prepare statutory-basis financial statements. As a result, industry data is available that enables comparisons between insurance companies, including competitors that are not subject to the requirement to prepare financial statements in conformity with accounting principles generally accepted in the United States of America ("GAAP"). We frequently use industry publications containing statutory financial information to assess our competitive position.

ALLSTATE PROTECTION SEGMENT

Products and Distribution

Total Allstate Protection premiums written were \$27.03 billion in 2012. Our Allstate Protection segment accounted for 92% of Allstate's 2012 consolidated insurance premiums and contract charges. In this segment, we principally sell private passenger auto and homeowners insurance through agencies and directly through call centers and the internet. These products are marketed under the Allstate®, Encompass®, and Esurance® brand names.

Our Unique Strategy

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Allstate serves four different consumer segments with distinct interaction preferences (advice and assistance versus self-directed) and brand preferences (brand-neutral versus brand-sensitive).

Allstate brand auto and homeowners insurance products are sold primarily through Allstate exclusive agencies and serve customers who prefer local personal advice and service and are brand-sensitive. Allstate brand sales and service are supported through call centers and the internet. In 2012, the Allstate brand represented 92% of the Allstate Protection segment's written premium. In the U.S., we offer these Allstate brand products through approximately 9,300 Allstate exclusive agencies in approximately 9,000 locations. We also offer these products through approximately 1,800 independent agencies in primarily rural areas in the U.S. In Canada we offer Allstate brand products through approximately 670 producers working in five provinces across the country (Ontario, Quebec, Alberta, New Brunswick and Nova Scotia).

Encompass brand auto and homeowners insurance products, largely sold in the form of a package policy, are sold through independent agencies and serve customers who prefer personal service and support primarily from an independent agent and are brand-neutral. In 2012, the Encompass brand represented 4% of the Allstate Protection segment's written premium. In the U.S., we sell Encompass brand products through approximately 2,800 independent agencies. Encompass is among the top 15 largest providers of personal property and casualty insurance products through independent agencies in the United States, based on statutory written premium information provided by A.M. Best for 2011.

Esurance brand auto insurance products are sold directly to consumers online, through call centers and through select agents, including Answer Financial, and serve self-directed, brand-sensitive customers. In 2012, the Esurance brand represented 4% of the Allstate Protection segment's written premium.

Answer Financial, an independent personal lines insurance agency, serves self-directed, brand-neutral consumers who want a choice between insurance carriers and offers comparison quotes for auto and homeowners insurance from approximately 20 insurance companies through its website and over the phone and receives fee income for this service.

The 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 sold primarily through auto dealers; and commercial products for small business owners. We also participate in the involuntary or shared private passenger auto insurance business in order to maintain our licenses to do business in many states.

Through arrangements made with other companies, agencies, and brokers, the Allstate Protection segment offers non-proprietary products to consumers when an Allstate product is not available. As of December 31, 2012, Allstate agencies had approximately \$1.2 billion of non-proprietary personal insurance premiums under management, primarily related to property business in hurricane exposed areas, and approximately \$140 million of non-proprietary commercial insurance premiums under management. In addition, Esurance had \$26 million of non-proprietary premiums written in 2012, primarily related to homeowners and motorcycle insurance that Esurance does not currently offer and renters insurance that Esurance does not offer in all states. Answer Financial had \$442 million of non-proprietary premiums written in 2012.

Competition

The markets for personal private passenger auto and homeowners insurance are highly competitive. The following charts provide the market shares of our principal competitors in the U.S. by direct written premium for the year ended December 31, 2011 (the most recent date such competitive information is available) according to A.M. Best.

Private Passenger Auto Insurance

Homeowners Insurance

Insurer	Market Share	Insurer	Market Share
State Farm	18.1%	State Farm	20.4%
Allstate	10.5	Allstate	9.1
GEICO	9.2	Farmers	6.0
Progressive	8.1	Liberty Mutual	5.4
Farmers	6.0	Travelers	4.7
USAA	4.6	USAA	4.5
Liberty Mutual	4.6	Nationwide	3.9
Nationwide	4.1		

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In the personal property and casualty insurance market, we compete principally on the basis of the recognition of our brands, the scope of our distribution system, price, the breadth of our product offerings, product features, customer service, claim handling, and use of technology. In addition, our proprietary database of underwriting and pricing experience enables Allstate to use sophisticated pricing to more accurately price risks and to cross sell products within our customer base.

Our sophisticated pricing and related underwriting and marketing programs use a number of risk evaluation factors. For auto insurance, these factors can include but are not limited to vehicle make, model and year; driver age and marital status; territory; years licensed; loss history; years insured with prior carrier; prior liability limits; prior lapse in coverage; and insurance scoring based on credit report information. For property insurance, these factors can include but are not limited to amount of insurance purchased; geographic location of the property; loss history; age, condition and construction characteristics of the property; and insurance scoring based on credit report information.

Our primary focus in using sophisticated pricing methods has been on acquiring and retaining profitable business. The aim has been to enhance Allstate's competitive position with respect to "target" market segments while maintaining or improving profitability. "Target customers" generally refers to consumers who want to purchase multiple products from one insurance provider including auto, homeowners and financial products, who have better retention and potentially present more favorable prospects for profitability over the course of their relationships with us. We provide and continue to enhance a range of discounts to attract more target customers. For example, we discount auto insurance to attract and retain target customers. In many states, we discount homeowners insurance for customers who insure their automobiles with Allstate.

Allstate differentiates itself from competitors by offering a comprehensive range of innovative product options and features. Allstate's Your Choice Auto® insurance allows qualified customers to choose from a variety of options, such as accident forgiveness, safe driving deductible rewards and a safe driving bonus. We believe that Your Choice Auto insurance promotes increased growth and increased retention. We also offer a Claim Satisfaction GuaranteeSM that promises a return of premium to Allstate brand standard auto insurance customers dissatisfied with their claims experience. Allstate House and Home® insurance is our new homeowners product that provides options of coverage for roof damage including graduated coverage and pricing based on roof type and age. Good Hands® Roadside Assistance is a new service that provides pay on demand access to roadside services.

Geographic Markets

The principal geographic markets for our auto, homeowners, and other personal property and casualty products are in the United States. Through various subsidiaries, we are authorized to sell various types of personal property and casualty insurance products in all 50 states, the District of Columbia and Puerto Rico. We also sell personal property and casualty insurance products in Canada.

The following table reflects, in percentages, the principal geographic distribution of premiums earned for the Allstate Protection segment for 2012, based on information contained in statements filed with state insurance departments. No other jurisdiction accounted for more than 5 percent of the premiums earned for the segment.

New York	10.2%
California	9.9
Texas	9.5
Florida	8.0
Pennsylvania	5.4

We continue to take actions to support earning an acceptable return on the risks assumed in our property business and to reduce variability in our earnings. Accordingly, we expect to continue to adjust underwriting practices with respect to our property business in markets with significant catastrophe risk exposure.

Additional Information

Information regarding the last three years' revenues and income from operations attributable to the Allstate Protection segment is contained in Note 19 of the consolidated financial statements. Note 19 also includes information regarding the last three years' identifiable assets attributable to our property-liability operations, which includes our Allstate Protection segment and our Discontinued Lines and Coverages segment. Note 19 is incorporated in this Part I, Item 1 by reference.

Information regarding the amount of premium earned for Allstate Protection segment products for the last three years is set forth in Part II, Item 7 Management's Discussion and Analysis of Financial Condition and Results of

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Operations, in the table regarding premiums earned by brand. That table is incorporated in this Part I, Item 1 by reference.

ALLSTATE FINANCIAL SEGMENT

Products and Distribution

Our Allstate Financial segment provides life insurance, voluntary accident and health insurance, and retirement and investment products. Our principal products are interest-sensitive, traditional and variable life insurance; voluntary accident and health insurance; and fixed annuities including deferred and immediate. Our institutional products, which we most recently offered in 2008, consist of funding agreements sold to unaffiliated trusts that use them to back medium-term notes issued to institutional and individual investors. The table below lists our major distribution channels for this segment, with the associated products and targeted customers.

As the table indicates, we sell Allstate Financial products to individuals through multiple intermediary distribution channels, including Allstate exclusive agencies and approximately 1,230 exclusive financial specialists, workplace enrolling independent agents and independent master brokerage agencies, specialized structured settlement brokers, and directly through call centers and the internet.

Allstate Financial Distribution Channels, Products and Target Customers

Distribution Channel	Proprietary Products	Target Customers
<p>Allstate exclusive agencies (Allstate Exclusive Agents and Allstate Exclusive Financial Specialists)</p>	<p>Term life insurance Whole life insurance Interest-sensitive life insurance Variable life insurance Deferred fixed annuities (including indexed and market value adjusted "MVA") Immediate fixed annuities Workplace life and voluntary accident and health insurance⁽⁴⁾</p>	<p>Middle market⁽¹⁾, emerging affluent⁽²⁾ and mass affluent consumers⁽³⁾ with retirement and family financial protection needs</p>
<p>Independent agents (as workplace enrolling agents)</p>	<p>Workplace life and voluntary accident and health insurance⁽⁴⁾</p>	<p>Middle market consumers with family financial protection needs employed by small, medium, and large size firms</p>
<p>Independent agents (through master brokerage agencies)</p>	<p>Term life insurance Interest-sensitive life insurance Variable life insurance Deferred fixed annuities (including indexed and MVA) Immediate fixed annuities</p>	<p>Emerging affluent and mass affluent consumers with retirement and family financial protection needs</p>
<p>Structured settlement annuity brokers</p>	<p>Structured settlement annuities</p>	<p>Typically used to fund or annuitize large claims or litigation settlements</p>
<p>Broker-dealers (Funding agreements)</p>	<p>Funding agreements backing medium-term notes</p>	<p>Institutional and individual investors</p>
<p>Direct (includes call centers and the internet)⁽⁵⁾</p>	<p>Term life insurance Whole life insurance Interest-sensitive life insurance</p>	<p>Middle market⁽¹⁾, emerging affluent⁽²⁾ and mass affluent consumers⁽³⁾ with family financial protection needs</p>

(1)

Consumers with \$35,000-\$75,000 in household income.

(2)

Consumers with \$75,000-\$150,000 in household income.

(3)

Consumers with greater than \$150,000 in household income.

(4)

Interest-sensitive and term life insurance; disability income insurance; cancer, accident, critical illness and heart/stroke insurance; hospital indemnity; limited benefit medical insurance; and dental insurance.

(5)

Internet sales are not available in all states.

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Allstate exclusive agencies and exclusive financial specialists also sell the following non-proprietary products in addition to Allstate Financial products: mutual funds, fixed and variable annuities, disability insurance, and long-term care insurance. As of December 31, 2012, Allstate agencies have approximately \$8.5 billion of non-proprietary mutual funds and fixed and variable annuity account balances under management.

Competition

We compete on a wide variety of factors, including the type and level of service provided by distribution systems, product offerings, the positioning of brands, financial strength and ratings, prices and the level of customer service. With regard to funding agreements, which we most recently offered in 2008, we compete principally on the basis of our financial strength and ratings.

The market for life insurance, retirement and investment products continues to be highly fragmented and competitive. As of December 31, 2012, there were approximately 430 groups of life insurance companies in the United States, most of which offered one or more similar products. According to A.M. Best, as of December 31, 2011, the Allstate Financial segment is the nation's 16th largest issuer of life insurance and related business on the basis of 2011 ordinary life insurance in force and 23rd largest on the basis of 2011 statutory admitted assets. In addition, because many of these products include a savings or investment component, our competition includes domestic and foreign securities firms, investment advisors, mutual funds, banks and other financial institutions. Competitive pressure continues to grow due to several factors, including cross marketing alliances between unaffiliated businesses, as well as consolidation activity in the financial services industry.

Geographic Markets

We sell life insurance, voluntary accident and health insurance, and retirement and investment products throughout the United States. Through subsidiaries, we are authorized to sell various types of these products in all 50 states, the District of Columbia, Puerto Rico, the U.S. Virgin Islands and Guam. We also have sold funding agreements in the United States.

The following table reflects, in percentages, the principal geographic distribution of statutory premiums and annuity considerations for the Allstate Financial segment for 2012, based on information contained in statements filed with state insurance departments. No other jurisdiction accounted for more than 5 percent of the statutory premiums and annuity considerations.

California	11.2%
Texas	8.5
Florida	8.3

Additional Information

Information regarding the last three years' revenues and income from operations attributable to the Allstate Financial segment is contained in Note 19 of the consolidated financial statements. Note 19 also includes information regarding the last three years' identifiable assets attributable to the Allstate Financial segment. Note 19 is incorporated in this Part I, Item 1 by reference.

Information regarding premiums and contract charges for Allstate Financial segment products for the last three years is set forth in Part II, Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations, in the table that summarizes premiums and contract charges by product. That table is incorporated in this Part I, Item 1 by reference.

ALLSTATE EXCLUSIVE AGENCIES

As described above, Allstate exclusive agencies offer for sale products related to both the Allstate Protection and Allstate Financial segments. They offer Allstate brand auto and homeowners insurance policies; 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; and commercial products for small business owners. Allstate exclusive agencies and exclusive financial specialists offer various life insurance and annuity products, as well as voluntary accident and health insurance products. In addition, arrangements made with other companies, agencies, and brokers allow Allstate exclusive agencies the ability to make available non-proprietary products to consumers when an Allstate product is not available.

In the U.S., we sell these Allstate brand products through approximately 9,300 Allstate exclusive agencies in approximately 9,000 locations. In addition, these agencies employ approximately 20,000 licensed sales professionals

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who are licensed to sell our products. We have strategies to assist agency owners of all sizes and tenure to be successful. We are planning to grow the number of exclusive agencies following several years of decline primarily resulting from agency consolidations and mergers, consistent with our prior plans. We pursue opportunities for growing Allstate brand exclusive agency distribution based on demographic shifts and market conditions.

We support exclusive agencies in a variety of ways to facilitate customer service and Allstate's overall growth strategy. For example, we offer assistance to Allstate exclusive agencies with sales and business processes and we provide education and other resources to help them acquire more business and retain more customers. Our programs to support our exclusive agencies and help them grow larger include offering financing to agents to acquire other agencies and awarding additional resources to better performing agencies. We support our relationship with Allstate exclusive agencies through several national and regional working groups:

The Agency Executive Council, led by Allstate's senior leadership, engages exclusive agencies on our customer service and growth strategy. Membership includes 20 Allstate exclusive agency owners selected on the basis of performance, thought leadership and credibility among their peer group.

The National Advisory Board brings together Allstate's senior leadership and a cross section of Allstate exclusive agents and exclusive financial specialists from around the country to address national business issues and develop solutions.

Regional Advisory Boards support Allstate exclusive agency owner engagement within each of Allstate's regional offices in the U.S. and within Canada.

Allstate's strategy is to help improve individual agency success, new business sales, customer satisfaction, retention and productivity. Allstate is striving to help develop stronger, more valuable exclusive agencies with resources to build stronger customer relationships, provide differentiating levels of service by focusing on more complex customer needs, and support technology that enables customer self-service for simpler needs.

Over a two-year period that began in 2012, Allstate is transitioning to a new compensation structure for Allstate exclusive agencies. The structure rewards agencies for delivering high value to our customers and achieving certain business outcomes such as product profitability, net growth and a diverse product mix. This cost neutral change will include a shift to a higher proportion of variable compensation and bonus. In 2012, base commission rates remained unchanged, and the annual bonus was based on portfolio growth and household cross-sales. In 2013, a portion of base commission will become variable compensation, focused on agency success factors and customer experience. Other elements of exclusive agency compensation and support include start-up agency bonuses, marketing support payments, technology and data allowances, regional promotions and recognition trips based on achievement.

Since Allstate brand customers prefer personal advice and assistance, beginning in 2013 all Allstate brand customers who purchased their policies directly through call centers and the internet will be assigned an Allstate exclusive agency relationship. We believe this will more effectively address customer needs while not significantly increasing costs.

OTHER BUSINESS SEGMENTS

Our Corporate and Other segment is comprised of holding company activities and certain non-insurance operations. Note 19 of the consolidated financial statements contains information regarding the revenues, income from operations, and identifiable assets attributable to our Corporate and Other segment over the last three years.

Our Discontinued Lines and Coverages segment includes results from insurance coverage that we no longer write and results for certain commercial and other businesses in run-off. Our exposure to asbestos, environmental and other discontinued lines claims is presented in this segment. Note 19 of the consolidated financial statements contains information for the last three years regarding revenues, income from operations, and identifiable assets attributable to our property-liability operations, which includes both our Allstate Protection segment and our Discontinued Lines and Coverages segment. Note 19 is incorporated in this Part I, Item 1 by reference.

RESERVE FOR PROPERTY-LIABILITY CLAIMS AND CLAIMS EXPENSE

The following information regarding reserves applies to all of our property-liability operations, encompassing both the Allstate Protection segment and the Discontinued Lines and Coverages segment.

Reconciliation of Claims Reserves

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The following tables are summary reconciliations of the beginning and ending property-liability insurance claims and claims expense reserves, displayed individually for each of the last three years. The first table presents reserves on a gross (before reinsurance) basis. The end of year gross reserve balances are reflected in the Consolidated Statements of

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Financial Position. The second table presents reserves on a net (after reinsurance) basis. The total net property-liability insurance claims and claims expense amounts are reflected in the Consolidated Statements of Operations.

Gross

(\$ in millions)

	Year ended December 31,		
	2012	2011	2010
Gross reserve for property-liability claims and claims expense, beginning of year Esurance acquisition on October 7, 2011	\$ 20,375 (13) ⁽²⁾	\$ 19,468 487	\$ 19,167
Total gross reserve adjusted	20,362	19,955	19,167
Incurring claims and claims expense			
Provision attributable to the current year	20,356	20,914	19,327
Change in provision attributable to prior years	179	174	(105)
Total claims and claims expense	20,535	21,088	19,222
Claim payments			
Claims and claims expense attributable to current year	12,936	14,105	12,087
Claims and claims expense attributable to prior years	6,673	6,563	6,834
Total payments	19,609	20,668	18,921
Gross reserve for property-liability claims and claims expense, end of year as shown on the Loss Reserve Reestimates table	\$ 21,288	\$ 20,375	\$ 19,468

Net

	Year ended December 31,		
	2012	2011	2010
Net reserve for property-liability claims and claims expense, beginning of year Esurance acquisition on October 7, 2011	\$ 17,787 (13) ⁽²⁾	\$ 17,396 425	\$ 17,028
Total net reserve adjusted	17,774	17,821	17,028
Incurring claims and claims expense			
Provision attributable to the current year	19,149	20,496	19,110
Change in provision attributable to prior years	(665)	(335)	(159)
Total claims and claims expense	18,484	20,161	18,951
Claim payments			
Claims and claims expense attributable to current year	12,545	13,893	12,012
Claims and claims expense attributable to prior years	6,435		