S&P Global
Market Intelligence

The Progressive Corporation NYSE:PGR

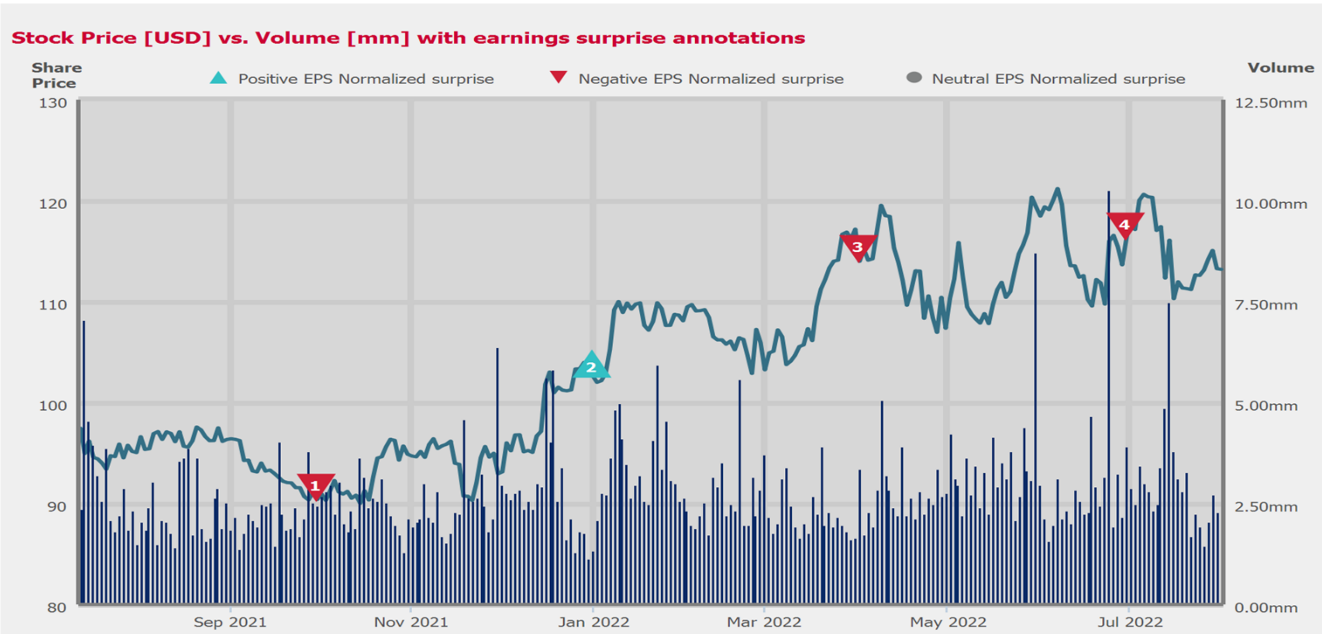
FQ2 2022 Earnings Call Transcripts

Wednesday, August 03, 2022 1:30 PM GMT

S&P Global Market Intelligence Estimates

	-FQ2 2022-			-FQ3 2022-	-FY 2022-	-FY 2023-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	0.93	0.79	(15.05 %)	1.16	4.68	NA
Revenue (mm)	12472.05	12422.10	(0.40 %)	13516.03	50885.63	NA

Currency: USD
Consensus as of Aug-02-2022 6:37 PM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ3 2021	0.22	0.15	1 (31.82 %)
FQ4 2021	1.02	1.08	2 5.88 %
FQ1 2022	1.24	1.15	3 (7.26 %)
FQ2 2022	0.93	0.79	4 (15.05 %)

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Call Participants

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David Pratt
Property General Manager

Douglas S. Constantine
Director of Investor Relations

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Corporate Actuary

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VP & CFO

Patrick K. Callahan
President of Personal Lines

Susan Patricia Griffith
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Presentation

Douglas S. Constantine
Director of Investor Relations

Good morning, and thank you for joining us today for Progressive's Second Quarter Investor Event. I'm Doug Constantine, Director of Investor Relations, and I will be the moderator for today's event.

The company will not make detailed comments related to its results in addition to those provided in its annual report on Form 10-K, quarterly reports on Form 10-Q and the letter to shareholders, which have been posted on the company's website.

This quarter marks a return to our typical format, which is a presentation on a specific portion of our business, followed by a question-and-answer session with members of our leadership team. The introductory comments by our CEO and the presentation were previously recorded. Upon completion of the previously recorded remarks, we will use the balance of the 90 minutes scheduled for this event for live questions and answers with the leaders featured in our recorded remarks as well as other members of our management team.

As always, discussions in this event may include forward-looking statements. These statements are based on management's current expectations and are subject to many risks and uncertainties that could cause actual events and results to differ materially from those discussed during today's event. Additional information concerning those risks and uncertainties is available in our annual report on Form 10-K for the year ended December 31, 2021, as supplemented by our 10-Q reports for the first and second quarters of 2022, where you will find discussions of the risk factors affecting our businesses, safe harbor statements related to forward-looking statements and other discussions of the challenges we face. These documents can be found via the Investor Relations section of our website at investors.progressive.com.

To begin today, I am pleased to introduce our CEO, Tricia Griffith, who will kick us off with some introductory comments. Tricia?

Susan Patricia Griffith
President, CEO & Director

Good morning, and thank you for joining us today. As I stated in my letter, we continue to work through the challenges handed to us through the macroeconomic environment. Uncertainty has been the theme of our post-COVID world, and that has continued into the second quarter. I continue to be encouraged by the way the organization has responded. Flexibility was our theme for the 2021 annual report, and our people have continued to exhibit flexibility into 2022.

During the second quarter, we continued to feel the impact of inflation with used car prices still near all-time highs and continued rising cost to repair vehicles. On the other hand, record high fuel costs and the resulting reduced driving provides a modest tailwind to auto frequency. We will continue to monitor the environment closely and are taking proactive steps to ensure we meet our promise to 96 combined ratio.

As we stated in the first quarter, we believe our major personal auto rate revisions are behind us. and that's reflected in our slowing pace of second quarter rate changes. In the quarter, we raised rates in 17 states, which had about a 2% increase countrywide, bringing our year-to-date rate increase to about 9% and our year-over-year rate increase to about 16%. While these rate changes continue to have the expected effect on PIF growth, I'm encouraged by recent results.

As competitors took rate and we increased our investment in direct acquisition in many markets, we have seen prospect volume rise, and June marked the first month since May of 2021 with year-over-year new app growth in our direct channel. While the path ahead undoubtedly contains many obstacles, I'm encouraged to see our efforts bear fruit.

I'd now like to change focus to the main topic of today's presentation, which is our property business. While our state expansion to write property insurance has enabled us to increase our addressable market and accelerate growth in the important Robinsons segment, it's no secret that we have faced challenges.

Over the last 5 years, we've been unable to consistently run the business at our target margins. And between 2017 and 2021, have posted an underwriting loss. We were the first to admit that we have work to do to get this business on track.

As I mentioned in my letter, our current pricing and underwriting activities do not adequately address weather-driven volatility. And we are in the process of executing a number of steps to turn the business around.

We realize these actions will require more time than originally anticipated to ensure consistent delivery of our target combined ratio for the property business. As such, we have revised our expected underwriting profitability over the coming years, which led to a write-off of $225 million of goodwill, primarily related to our purchase of ARX Holding Corp. The remaining $228 million of goodwill is also primarily attributable to the acquisition and reflects the increase in addressable market we gain for our Agency auto product that bundling represents.

The team of people working on our property business continues to focus time on improving our underwriting, managing risk concentration and more precisely matching rate to risk at a much more granular level. For the last 5 years, Dave Pratt, our soon-to-be retired Property General Manager, has worked closely with senior leaders from ASI as they transformed our property business from a regional carrier to the tenth largest property carrier in the country, now writing in 47 states.

With Dave's impending retirement next year, Tanya Fjare, who has more than 20 years' experience at ASI and Progressive has taken over leadership of our property P&L and is partnering with supporting groups across Progressive from product, claims, IT, legal and finance to ensure we're building the products, experiences and team to create the broadly available and competitively priced and profitable product offering that we've all grown to expect from Progressive. While we cannot change course overnight, today, we will share the steps we are taking today to reach our goal.

For our main presentation today, first, Pat Callahan, our Personal Lines President and nearly 20-year Progressive veteran, will discuss our market opportunity and our investments in property product distribution. Following Pat, Dave Pratt will go into more detail on our results, the investments we've made in people and product and a real-world case study on how our actions have resulted in favorable results. Dave is a 31-year Progressive employee who has held numerous roles throughout his illustrious career. Dave has been an important part of Progressive's success over his decades of service, and we will miss him upon his upcoming retirement.

Thank you again for joining us. And now I'll hand it over to Pat. Pat?

Patrick K. Callahan
President of Personal Lines

Thanks, Tricia. While our focus has historically been on vehicle insurance, we've always recognized that property insurance is an important segment of U.S. personal lines. And as we continue to grow our personal auto business, meeting the property needs of our growing auto customer base is increasingly important.

Over more than a decade, we've regularly shared our investments to meet those needs as part of our Destination Era strategy. These began back in 2008 through our Progressive Home Advantage partnerships. And today, Dave and I will restate the business case for investing in property, share our progress driving market share growth and more importantly, the initiatives underway to ensure that we deliver profitable property growth in support of becoming consumers' and agents' #1 choice and destination for auto, home and other insurance.

The U.S. property and casualty market is almost $800 billion in premiums written and more than 90% of that isn't yet insured with us. Today's focus is on the $381 billion U.S. personal lines market, where we enjoy about 10% of the combined U.S. auto and home market share. We're the third largest auto writer with almost 14% share, while today, we write just below 2% of the U.S. homeowners market.

Despite many reports of its demise due to technology advancements reducing accident frequency, U.S. auto direct premiums written grew about 4% annually over the past 5 years. And at more than $260 billion, the U.S. auto market continues to represent a growth opportunity. The U.S. homeowners market continues to grow faster than auto, at more than 5% annually over the past 5 years and more than 8% growth in 2021.

Recent inflationary forces, loss cost increases and resulting rate increases are further accelerating growth in both the U.S. home and auto markets. Let's break this down by channel and segment.

I expect that many of you are familiar with how we think about consumer market segments across channel, protection needs and auto and home bundle status. The rows on this table are the 3 largest U.S. distribution channels: captive agent, independent agent and direct-to-consumer. While all 3 channels have been growing premiums written, channel share has been slowly migrating from captive agents to direct as technology adoption drives continued e-commerce migration across industries. The independent agent channel continues to maintain share due to its strong consumer value proposition, which combines local agent expertise with the breadth of product availability and depth of carrier options that deliver the ease and savings that consumers value.

The columns here are Progressive's consumer segments from simple needs inconsistently insured, auto-only households or Sams; to continuously insured renters, Dianes; to consistently insured but unbundled homeowners, Wrights; to our well-known bundled auto and home Robinsons. You'll note that our market share is approaching 20% for the combined Sam, Diane and Wrights market, while we remain underpenetrated with Robinsons at less than 3% share. Note that this Robinson share does not include the more than $1 billion written by unaffiliated carriers through the direct Progressive Advantage Agency.

You'll also note that more than half of the combined U.S. auto and home market is bundled. And more than 80% of that is bundled through an agent. The captive agent channel currently over-indexes on Robinson's share, but as more Robinsons migrate to the direct and independent agent channels we'll benefit due to strong market share across each of those channels. Our focus on Robinsons is driven by our untapped potential in this large and growing market segment, which makes up more than half of the total U.S. personal lines market.

We've shared in prior investor presentations that current period financials fail to fully reflect the hidden balance sheet of future growth as our current customers both continue to renew and expand their relationship with Progressive, which delivers both top and bottom line financial benefit for years to come. Investing to expand our offerings to better penetrate the existing approximately $200 billion Robinsons market creates value in 2 critical ways.

First, we drive top and bottom line calendar period unit, premium and underwriting profit growth through acquiring customers who bundle their auto and home today. As I shared on the last slide, more than half of the U.S. auto and home market is bundled. So when these customers shop and switch, it's critical for us to have a competitive bundled offer to meet their needs. The nature of these Robinsons bundled homeowners is inherently more stable than other customer segments. And they also have approximately 3x the policy life expectancy of our Sams segment. Acquiring Robinsons drives growth both today and in future periods.

Second, for more than 85 years, we've been a leader in acquiring simpler needs, monoline auto customers, and we continue to view this as an important pipeline of future growth. Ensuring we have broadly available and competitively priced renters, condo and homeowners offerings is essential to ensure we meet the needs of these customers throughout their lifetimes. As we nurture these younger and simpler needs customers throughout their life events, we create and capture value for the firm today and unlock future growth potential.

Since embarking on our Destination Era strategy, we've made major investments in acquiring ASI, launching new quoting platforms across channels, building our in-house Advantage agency, creating a Platinum offering for our independent agent partners and investing well over $1 billion on bundle and save branding and marketing in just the past 3 years.

These investments are driving Robinsons growth across distribution channels, which validates the potential for us to grow in this important market segment. While our property profitability hasn't consistently met our expectations. We also write more than $3 billion in profitable auto premium for these Robinson households across channels. And while some of that would likely have been accessible without the complementary property offering, we're confident that having broadly available and competitively priced property is helping to drive this growth.

As I shared a few minutes ago, more than 80% of the bundled auto and home business we're looking to acquire is distributed through agents. The Robinson opportunity through independent agents alone represents more than $60 billion in annualized premiums written. And as the largest seller of auto through the independent agent channel, we are well positioned to leverage our massive distribution footprint and more than 85 years of experience selling through agents to grow our share in the channel.

I wanted to highlight 2 key initiatives that facilitate our independent agent channel Robinsons growth. First, recognizing that Progressive has historically been an industry leader in ease of use for agents and customers, we built a streamlined quote experience for the home and auto bundle, which makes it fast and easy for agents to enter customer information once and quote and sell a bundle of most of the Progressive vehicle and property products, either upfront or over time as customers experience life events and need more and/or different protection products.

Second, shortly after buying and controlling interest in ASI, we launched our Platinum program, which affords unique customer and agent benefits for bundling home and auto with Progressive. Over the past several years, we've continued to expand this footprint, bringing our highly competitive nationally-branded and easy to quote and sell bundled offering to leading agencies across the country.

Beyond gaining share of the currently bundled independent agent market, close to $100 billion of Robinsons premium is distributed through captive or exclusive agencies. And this is despite lacking the superior consumer value proposition that results from carrier choice or depth that is available through independent agents.

As a leading nationally-branded auto and home carrier, we believe we are well positioned to continue to both capture share of the existing bundled independent agent market, while also capitalizing on the ongoing shift from captive agents into the independent agent and direct channels.

Despite the majority of Robinsons business being sold through agents today, more than 30% of total auto insurance is sold direct. And we believe as younger auto consumers go through the life events that increase the complexity of their household insurance needs, having broadly available online property insurance will become increasingly important to meet the needs of these future customers.

Property risks are complex. No two homes are alike. They don't come with VINs, and as such, property insurance products have historically been built to be sold through agents. Homeowners, especially first-time home buyers, often struggle to identify important property characteristics like roof shape, shingle type, plumbing type, et cetera. And as such, most property products don't easily translate to online or mobile direct-to-consumer quoting and binding. We continue to invest to make it easier for consumers to quote and buy property insurance online through our multi-carrier HomeQuote Explorer platform.

This proprietary system guide shoppers through the home coverage interview, leveraging data fill and imagery to simplify the quoting process and deliver a multi-carrier shopping experience. This investment is paying off as we continue to lead the industry in desktop homeowner quote initiations.

Additionally, while getting shoppers through the quoting process is half the battle, forcing online shoppers to go off-line and call to complete their sale is an antiquated and poor customer experience. And we've been investing to add online buy button functionality to the Progressive Home Direct property offering with availability now approaching 40 states.

Recognizing the market opportunity ahead of us and the critical role that broadly available and competitively-priced property products play in our future success, let's transition over to Dave Pratt for an update on progress with our property product development and exposure management initiatives.

David Pratt
Property General Manager

Thanks, Pat. I'll review the results in the property insurance business that's underwritten by Progressive, and then talk about the changes we're implementing to position this business for future growth and consistent profitability.

Pat described the huge market opportunity presented by the Robinson bundled customers. Since Progressive acquired a controlling interest in ASI in 2015, we have invested to leverage Progressive's brand and distribution channels to attract and retain Robinson customers. We have rebranded ASI's Progressive Home, expanded the Platinum agent program and built online quoting and buying capabilities, as Pat just described. These investments have helped us more than double the size of this business reaching $2.2 billion in direct written premium last year. We're now the 10th largest homeowners insurer in the United States.

While we're happy with the growth of the property business, we are not satisfied with its profitability. We've seen a consistent pattern over the last 5 years. Our underwriting expenses and non-weather losses have been consistent with our forecasts but weather losses have been much higher than the estimates that we included in our pricing decisions.

In order to diagnose how to address this problem, we'll look at our performance relative to the overall property insurance market. I'll provide an overview of our countrywide performance and then highlight a state case study, focusing on the actions we've taken in Texas.

When Progressive acquired a controlling interest in ASI in 2015, 64% of the company's homeowners premium came from Florida, Texas and Louisiana. We have labeled those as legacy CAT states in the map here. Growth in other states has reduced that legacy CAT mix from 64% to 41% in 2021 direct written premium. But that's still a much heavier mix than the 22% that these states represent of the overall U.S. homeowners insurance market.

The challenges facing the Florida property market have been especially painful for Progressive since it represents almost 1/4 of our homeowners premium. Our Florida direct loss ratio over the last 5 years is 4 points better than the overall industry. But at 74.5%, it's still much higher than our target for the state.

We have grouped the remaining states based on their exposure to volatile weather perils. The yellow states in the center of the country experienced significant hail losses. Our mix of business in those states is consistent with their share of the total industry premium.

The red states labeled moderate volatility are exposed to hurricane risk on the East Coast and wildfires in California, but there are less risky areas inland and away from the areas of the high wildfire risk. Progressive was a new entrant in the California market in 2016 so our mix of business in the moderate volatility states is less than their share of the overall industry.

That leaves the less volatile states in green. As you can see, these more stable markets represented only 27% of our direct written premium last year, much lower than their 40% of total U.S. homeowners premium. In order to build a more stable homeowners book of business, we will limit growth in the volatile states and work to grow our share of premium in the less volatile markets.

You've seen this growth and profitability chart in the past for our auto insurance business. It shows combined ratio on the X-axis and premium growth in the Y-axis. Each dot represents one of the top 10 insurers with the industry total represented by the black dot. We want to be in the upper right quadrant, representing profitable growth.

Over the 5 years from 2017 through 2021, the U.S. homeowners insurance market grew at a 5% annual rate and suffered a combined ratio over 100. As we noted earlier, we're happy with Progressive's growth over that period, but we're certainly not satisfied with our position on the profitability axis.

I talked before about our heavier than industry mix of business in the legacy CAT states. If we adjust Progressive's results by weighting our state level results using the industry's mix of premium by state, our combined ratio would match the industry.

Let's take one more look at our results over the last 5 years before moving on to our plans for shifting the mix to less volatile states. This chart shows our 2017 through 2021 direct homeowners loss ratio for the groups of states described earlier. As you'd expect from the mix adjusted comparison of our results against the industry on the last page, our loss ratios are close to industry results within each group of states. This has been a difficult period for the industry in states with significant exposure to catastrophic weather and our relatively high mix of business in those states has driven our overall property results to be worse than the industry.

I should note that California accounts for 45% of total industry homeowners premium in the states that we've labeled moderate volatility. But California is less than 20% of Progressive's premium from those states. While I'm happy to say that our loss ratio was better than the industry in 5 of those 6 states, our relatively low exposure to California's wildfires in 2017 and 2018, exaggerates our relative performance advantage for this group of states.

It's encouraging to see that Progressive's loss ratio is very close to the industry average in the less volatile states since we have relatively little experience operating in these markets. We hope to see our relative performance improve as we roll out product model improvements. These regional comparisons simply reinforce the point that we need to shift our mix of business to build a property book that is consistently profitable.

I'll talk next about the actions we're taking to accomplish that shift. As Tricia mentioned in her first quarter letter to shareholders, we have begun implementing a plan to shrink our business in Florida and limit growth in the other states with significant exposure to catastrophes. We've taken a number of actions in these states. We've increased rates, particularly for homes with older roofs; we've expanded underwriting eligibility restrictions to ensure that we're writing only business we expect to be profitable; we've introduced targeted nonrenewals in areas with concentrations of risk or segments that are unprofitable; we've introduced cost-sharing initiatives such as higher deductibles and actual cash value coverage on roofs that are nearing the end of their useful lives; and we've improved agency management, including a reduction in our agency force in select markets.

While these changes are important, they're not sufficient. We can't shrink our way to success. So we also need to continue investing in product improvements that will support growth in the less volatile states.

Over the last 4 years, we've made significant investments to develop the organizational capability to build and deliver best-in-class property insurance products. As you can see in the graph on the right, our product teams have grown from just 21 people in September of 2018 to 134 people at the end of this year's second quarter. We have added auto-like capabilities to a team with significant amount of property experience and expertise. I'll briefly describe the new teams that we've added in the product area.

In the second quarter of 2018, we introduced an underwriting analytics team created to advance the science of underwriting and improve our risk selection. In the fourth quarter of that year, we introduced a dedicated research and development organization to focus on product model development and segmentation improvements. In the first quarter of 2019, we introduced a dedicated pricing team. And finally, in the second quarter of last year, we introduced a new rate revision and product delivery team to improve our speed to market so that we can take these new model enhancements and roll them out more quickly. These investments have helped us to improve our product offerings with more improvements still to come.

In 2019, I described our 4.0 property product, which added new coverage features and expanded eligibility to meet the expectations of preferred agencies outside of our legacy CAT states. We have since introduced the 4.1 product model, which allowed us to price the water peril more accurately. These 2 product versions are now live in 41 states that represent 93% of our non-Florida premium.

We'll move to full by-peril rating with the 5.0 product model. We've completed the research work for this new model and IT development work is in process now. The first state is scheduled to go live during the first half of 2023. We expect 5.0 to offer more competitive rates for a majority of shoppers and allow us to further expand the range of risks that we can accept. We will need these improvements to achieve our growth ambitions in the less volatile states.

Now let's look at a case study for how these product improvements can help us improve results. In 2017, our Texas business was too concentrated in the Dallas-Fort Worth area, with that region representing 40% of our Texas business compared with roughly 20% of the single-family homes in the state. We also had too many customers with low wind/hail deductibles, especially in the northern half of Texas that experiences frequent hailstorms. Our customers are often encouraged to file claims after these storms by aggressive marketing from roofers.

While a free roof initially sounds appealing, we found that customers with higher deductibles are less likely to file a claim for minor damage. In order to address these problems, our Texas product manager increased rates, introduced higher deductible requirements for new customers, and improved price segmentation with the introduction of the 4.0 and then 4.1 product models. We have seen significant shifts in our Texas book of business as a result.

The Dallas-Fort Worth mix is now in line with that area's share of homes in the state, our average wind/hail deductible is up 50% and we're attracting more bundled customers and fewer customers with roofs that are nearing the end of their useful life. These changes have resulted in improved performance relative to our competitors in Texas.

In 2018 and 2019, our Texas combined ratio was 10 points worse than the industry. As we've shifted the mix of business, we started to see improvement in 2020 and our 2021 combined ratio was 15 points better than the overall industry in Texas. We were able to accomplish these shifts without shrinking the total business in the state.

We now expect to achieve our target profit margins over time or in an average year, but it's important to note that Texas homeowners results are naturally volatile due to the state's exposure to big hurricane and hail events. That's why we have decided to limit growth in Texas as part of our overall plan to shift our mix to less volatile states. Texas is now well positioned for profitable growth but we wanted to represent a smaller share of our total property premium over time.

I'll close with 2 topics that many of you have asked about. The first is the effect of inflation on our Property business. The table on the left on this page shows our filed rate changes over the last 2.5 years in our core homeowners product. But that table doesn't fully explain the changes in ultimate premiums that our renewing customers experience.

Let me explain that process in a little more detail. When we sell a new homeowners insurance policy, we estimate the cost to replace the home in the event of a total loss. We insist that the agent insure the property for at least that amount to ensure adequate coverage for the customer. We update this replacement cost at every renewal event. If the estimated replacement cost has gone up, we automatically increase the coverage limit to maintain adequate coverage.

Until recently, these renewal adjustments typically increase coverage limits by 2% or 3% at each policy renewal. The blue line in the chart on the right shows the average year-over-year change in these coverage limits by quarter. And you'll see that inflation-driven cost increases during the second half of last year jumped from the traditional 2% to 3% to double-digit increases in average coverage limits.

The orange line shows the average renewal premium increase paid by customers who renewed with us in each quarter. So that orange line is a function not only of our filed rate change, but also the increases in coverage limit to ensure adequate coverage. And then any mix changes that might have resulted from some segments of customers renewing with us at a higher or lower rate as we've changed our product over time.

While we would certainly prefer to keep prices more stable for our customers, this automatic adjustment to maintain appropriate coverage helps us to maintain appropriate rate levels to compensate for increases in claims severity.

And finally, I'll provide a brief update on our reinsurance program. We use reinsurance to protect Progressive's capital in the event of an unusually severe catastrophic event in addition to protecting against unusually volatile property results. Progressive is a large and consistent purchaser of coverage using both traditional reinsurance and ILS markets. We've developed long-term trading relationships with our reinsurance providers, and we strive to keep them well informed about our business results and plans.

We currently retain the first $200 million in loss from a single catastrophe event with reinsurance coverage available above that amount up to a limit of $2.6 billion for a single Florida hurricane. We also have $175 million in coverage available for aggregate losses from 2022 catastrophe events in excess of $575 million. While the total coverage limit and per event retention will continue to evolve to fit the growth of our business, we expect to remain a consistent purchaser of reinsurance coverage. Consistent with this history, we were able to fully place our desired coverage at both the January 1 and June 1 renewal events.

So let me summarize briefly before we take your questions. As Pat described earlier, a competitive property insurance product is required for Progressive to attract and retain bundled auto and home customers. And this segment represents a huge growth opportunity for Progressive.

In the direct channel, our multi-carrier property agency and market-leading quote volume, are driving success. We're investing to improve the profitability in our underwritten property business to support continued Robinson growth in the independent agency channel. Through rate increases, coverage limitations and underwriting eligibility restrictions, we have improved results relative to our competitors.

Best-in-class product design will support growth in the less volatile states, while a reduction in our Florida exposure and growth limits in our other states exposed to volatile catastrophe risk will reduce the volatility of our overall property, results, and we will continue to use reinsurance to protect Progressive's capital from extreme events.
Thanks again for joining us this morning. We'll now begin our live question-and-answer session.

Question and Answer

Douglas S. Constantine
Director of Investor Relations

This concludes the previous recorded portion of today's event. We now have members of our management team available live to answer questions, including presenters, Pat Callahan and Dave Pratt, who can answer questions about the property presentation. [Operator Instructions]

Please note, we have uploaded new PDFs of the presentation, which include all maps and match the webcast feed. These can be pulled from the webcast window and the supporting materials tab in the upper right corner. We apologize for the inconvenience.

We will now take our first question.

Operator

And our first question will come from Elyse Greenspan of Wells Fargo.

Elyse Beth Greenspan
Wells Fargo Securities, LLC, Research Division

My first question is on Personal Auto. So you guys echoed what you said last quarter that the rates are where you need to be in the majority of states, but we haven't really started to see your advertising pick up when you look at the expense ratio that was reported over the quarter. So can you just kind of explain how you're balancing advertising and a return to growth relative to where you are on the pricing side of things?

Susan Patricia Griffith
President, CEO & Director

Absolutely, Elyse. I think the headline for our private passenger auto is we think trends are encouraging, and it's playing out as we had hoped. So like we said, we had the majority of the rates behind us with a caveat of a few larger states. If you look at the 10-Q, our direct prospects are up 5% this quarter. They were down 11% last quarter, and that is with the spend down 7%, as you've identified. So we're spending less per new prospect with a ton of upside because we still don't have local media on in 19 states. That was 26 states in April. We continue to be able to open up with local advertising.

So said another way, competitors are less aggressive due to their profitability challenges. We've seen that play out with some of the Qs that have been reported. And that allows us to acquire leads at a more efficient rate. So we'll continue to spend to get more, but we won't spend unnecessarily to create more business. I think -- I don't usually talk about 1 month in a quarter but I think it's important to know that the prospect volume in June of 2022 was our largest June ever. So we're pretty pleased about incoming volume and excited about continuing that, of course, with the caveat of all things that could happen with -- in this last couple of years.

I think another way to look at it in terms of are we positioned well, and this might be a little bit further afield of your question, but we want to look at average written premium. So if you look at average written premium over 2021, it was 0. In 20 -- in first quarter, it was up about 6%, second quarter up about 11%. So those are written numbers and on average, take 4-ish months to earn in or hit the denominator for the combined ratio.

The numerator is increasing about 7% to 8% based on frequency and severity changes that we've posted. And so right now, with the exception of a couple of states where we need a fair amount of rate, we believe we'll be able to take modest rate increases. We've talked in the past, with the exception of this year, about taking small bites of the apple. We'd like to get into that because we know that our customers want stable rates. So we feel good about our position.

I also feel really great about our continued investment in segmentation. So about 65% of our countrywide premium are on 87. We just rolled out a new product model, 88 in Iowa, and we'll have more information on that. But overall, we feel great. We'll advertise more and open up more local markets as we feel necessary when we have the right rate. And of course, each state is different. But we feel pretty bullish.

Elyse Beth Greenspan

Wells Fargo Securities, LLC, Research Division

And maybe a follow-up to that. You just mentioned modest rate increases from here. When you make that comment, like what are you assuming going forward for severity? How things will trend relative to what we've seen through the first half of the year? And I know frequency, right, was negative in the second quarter, and there was a benefit you guys called out from gas prices. So how are you thinking about severity and frequency from here when you make the comment that you only expect to need to take modest rate increases?

Susan Patricia Griffith
President, CEO & Director

Well, frequency was down about 8%. We're going to continue to watch that. We also look at vehicle miles traveled. And March through May, it was down about 12%. In June and through July, we're seeing it down a little bit more. We're not quite certain of all the reasons behind it. We believe gas prices might be a little bit of that. Gas prices are fairly inelastic. And we also know through surveys that maybe 15% to 20% of the population are still pretty nervous about going out and about. So they still are fearful of COVID and rightly so. So we look at that.

And I think what I'm watching closely, and I don't know that we'll know for a couple of quarters, is how work from home settles in. So I know that -- I talked to a lot of my peers in other industries and there's a lot less people coming in. And could that change after the summer? We don't know. So we're going to watch those 3 things, to look at vehicle, miles traveled and frequency. So I'm going to more watch on those.

As far as severity, we look at the Manheim Index for used car prices. That's ticked down a teeny bit, but still at all-time high. So we'll continue to watch that as well as sort of secondary and tertiary things like labor cost in body shops. If techs are making more and if there is less of a supply of people fixing those cars, we know that rentals could extend longer. So again, we can't predict exactly what's going to happen from the severity trends. But we do obviously account for every single data point as we continue to go. And we look at -- when we're looking at our increases, we bake that in. Do you guys want to add anything to that? You good? Does that answer your question, Elyse?

Elyse Beth Greenspan
Wells Fargo Securities, LLC, Research Division

Yes. That does.

Operator

And our next question will come from Michael Phillips of Morgan Stanley.

Michael Wayne Phillips
Morgan Stanley, Research Division

Two questions on the Home side, both kind of longer-term questions. I guess, first on the distribution of homeowners, you went through the 3, kind of, captive, independent, direct. You didn't mention this, and maybe that's the answer is, do you see any growth opportunities through, I guess, what I'll call, institutional kind of clients or mortgage service providers, homeowners and things like that for kind of longer-term growth in homeowners?

Susan Patricia Griffith
President, CEO & Director

Yes. I would say we'd look for any kind of growth. So I know that we've talked -- we've worked with construction builders before. And we've talked about mortgage companies. We've had actually some tests and things that we've done with some mortgage companies, Rocket Mortgage as an example. Do you want to talk a little bit more about that, Pat?

Patrick K. Callahan
President of Personal Lines

Yes. I mean I think the embedded insurance into transactions or life events where people are acquiring the underlying asset, be it in auto, be it a boat, motorcycle, RV or be it a home, presents a shopping opportunity where we absolutely want to position our products to both facilitate the transaction by ensuring the collateral can transfer and be protected provided it's got some outstanding loan or paper on it. But we are starting to work more with, as you mentioned, digital lenders as well as more traditional lenders through independent agents. So it is a growth opportunity for us, and we are constantly looking at how to position our products best, where consumers want them, need them and, frankly, are shopping for them so we can participate in those transactions.

Michael Wayne Phillips
Morgan Stanley, Research Division

Okay. Perfect. And then second one, again, kind of longer term on homeowners. In Auto, your Snapshot and Telematics have kind of been all the rage and how that could change the pricing in Auto. Longer term, is there kind of an analogy for that in homeowners? It's something to come and make pricing more accurate that companies could start talking about at some point? It sort of analogies to how we drive our car.

Susan Patricia Griffith
President, CEO & Director

Yes, I think there are several analogies. Obviously, the ones that Dave talked about was age of roof, et cetera. But water damage is a lot. So if you can have systems in place that alert you to something if you're out of the home, there's water damage. So we look at all of those things in terms of let's think water damage, think of security systems, think of number of people in the household. So I think there's a lot of related items that we've looked at in the past several years and we'll continue to look at to understand kind of that same rate to risk in home as we have in our auto product.

Operator

And our next question will come from David Motemaden of Evercore ISI.

David Kenneth Motemaden
Evercore ISI Institutional Equities, Research Division

Tricia, you had said that you don't have local media turned on in 19 states in June. That was down versus 26 states in April. Just wondering how much premium do those 19 states represent where you don't have the local media advertising turned on? And could you just talk about how far away you are from turning those on? What sort of metrics you're looking at? And I guess really just wondering how far away you are from turning those on.

Susan Patricia Griffith
President, CEO & Director

Yes, each state is a little different animal, and it really depends on when we got the rate that we needed and when it's earning in and when we feel comfortable that we want to grow and grow profitably. So although we wouldn't share the aggregate premium or the states really necessarily for that matter, we'll continue to assess that channel by channel, state by state as we get the rate that we need in order to be adequate.

John Peter Sauerland
VP & CFO

We can tell you it's well known that there are a few key states where we cannot get rate, and those are significant states. So it's not a small percentage of the U.S. households that is not getting the local media from us. So it's a definite upside for us once we get rate adequate in those states.

David Kenneth Motemaden
Evercore ISI Institutional Equities, Research Division

Got it. Okay. That's helpful. And then if I just look at the severity, up 16% year-over-year this quarter, and I understand BI as a part of that. But I'm just wondering if you can maybe just break out how much of that up 16% is being driven by used car prices specifically?

Susan Patricia Griffith
President, CEO & Director

Yes. A significant part is driven by car prices, total losses, cost to repair. And I talked a little bit about the other parts of that, that go along with that. So parts prices are up around 5%, labor rates are up around 3% and our rental cars are up between 0.5% and 1%. So all those inclusive. A lot of it has to do with car prices, both from a total loss perspective and a used car perspective. And obviously, if the used car prices are up and they're up significantly since pre-COVID, many of those won't be totaled, and the repairs become more expensive.

John Peter Sauerland
VP & CFO

A rough estimate for the impact of vehicle valuation on severity across our physical damage lines is around half. So that's not exactly the cars, but as a walking around number, it's pretty close.

Susan Patricia Griffith
President, CEO & Director

Yes. And severity is up 16% overall, but up in the 20-ish percent rate in both collision and PD. Thank you.

Operator

And our next question will come from Yaron Kinar of Jefferies.

Yaron Joseph Kinar
Jefferies LLC, Research Division

I want to turn back to the homeowners business for a second and maybe tying it to the Robinson. So in the presentation, it kind of show Robinsons making up about 11% of your overall book. Is that generally consistent across the country? Or is the weighting of Robinsons greater in the Southeast and the more volatile states?

Susan Patricia Griffith
President, CEO & Director

Yes, I would say the weighting of Robinsons are greater in the states that we've grown in more historically from ASI, from ARX. And that's also one of the reasons why we want to be able to expand through the country, not just to derisk the portfolio but to growing Robinsons, which is why we will likely add more Platinum agents in those states and reduce Platinum agents in the states we've had before. Do you want to add anything, Pat?

Patrick K. Callahan
President of Personal Lines

Yes. No. I think that's the primary driver, right? We've been in the auto business for 85 years. We've been expanding our property business over the last 5 to 10 to get to the 47% where we write today. So there's still a mismatch between kind of how long we've been in the market and how long we frankly had competitive property offerings to bundle with our auto offerings.

John Peter Sauerland
VP & CFO

And just for clarity there, that 11% includes our customers that are bundled with third-party carriers. So we started offering bundles in our direct channel well before the agency penetration, which we achieved with, again, ASI, ARX. So the distribution of the home is a little more aligned with countrywide because of the footprint of our direct business was obviously countrywide from the inception of direct, and we had homeowner coverage pretty much across the country on the direct side, caveating. Of course, there are a few markets that are troublesome for all carriers. So it's a little tighter there. But generally, we're pretty well distributed for Robinsons on the direct side, a little more concentrated on the agency side.

Yaron Joseph Kinar
Jefferies LLC, Research Division

That's helpful clarification. And I guess my follow-up to that would be then on the goodwill impairment. Is that purely a function of higher-than-expected loss ratio? Or is it also a function of in reaction to that loss ratio slowing down growth in those more volatile states? And I guess what I'm trying to get to also with this question is, I'm assuming that as you're looking to grow in the less volatile states, you're going to encounter separate competition from national carriers that were probably less interested in penetrating the Southeast and in the volatile states.

Susan Patricia Griffith
President, CEO & Director

Yes. I think I'll start with the latter part of your question. Yes, I think the competition will be greater in those states. The goodwill impairment was based on just the significant catastrophic losses that we've had. And when we purchased ARX, we had certain assumptions on combined ratios. And of course, we have a CAT load. It's far surpassed that, as Dave talked about. So it was that. When we -- we periodically look at goodwill. When we looked at it, we took into account the severe catastrophes where we're concentrated as well as just some recent legislation in Florida.

As you know, we wanted to not renew about 60,000 policies. There's some new legislation that requires us or where we'll ask our customers if they had a new roof or the life of a roof is at least 5 years, we will renew them, which will be good because that means they've got a new roof and it's something we'd want to write. But we -- so we're not sure exactly how many of those 60,000 we will not renew. We took that into account when we were looking at the impairment.

Operator

And our next question will come from Andrew Kligerman, Credit Suisse.

Andrew Scott Kligerman
Crédit Suisse AG, Research Division

Starting with the bundling in the Robinsons channel. Independent agents, just by their nature, have relationships with numerous carriers. And so my question is, how does Progressive break into that bundling effort? Maybe tying in pricing into the equation, do you have to provide a significant discount? And could you give a little color around that?

Susan Patricia Griffith
President, CEO & Director

Yes. I mean one of the reasons we purchased ARX was to have access to those bundled customers in the independent agent channel. We know independent agents love our service, love our ability to handle claims well. But what would happen is they would have to write with someone else that they wanted to bundle. So that was a big effort. We are very broadly distributed in our independent agent channel, have over 40,000 independent agents. So what we did was really try to have a few -- or more of a scarcity model on the Platinum program with certain agents, that we wanted to have them write the Robinsons, our auto home bundle, be the #1, 2 or 3 carrier in their firm. So that's sort of how we look at that.

We also then had to make some changes, whether it was compensation changes in the form of higher commissions as well as writing 12-month auto policies to align with those 12-month home policies. So there's about 4,000 Platinum agents across the country. We work well with them. They consider us very preferred in their firms, and that's why we want to make sure that we're adequately priced on both auto and home to continue to grow with those agents.

In fact, I was just with -- we have an agency council that we had an outgoing group and an incoming group, and we talked a lot about efforts to grow, and I'm bullish about being able to do that obviously in the right venues.

Andrew Scott Kligerman
Crédit Suisse AG, Research Division

So attrition, discounting -- material discounts. And any color on that part of the equation?

Susan Patricia Griffith
President, CEO & Director

Well, we rate to have our target profit margin. You get a multi-product discount with the -- when you have multi-products. But we don't -- I don't know that we ever really talk specifically about those amounts.

Patrick K. Callahan
President of Personal Lines

No. To win in the agency channel, we have to have a viable value proposition for both the clients of the agency and for the agents themselves. So on the client side, we have to have competitive and stable pricing, we have to have a quality product and we have to have really competitive pricing. And that's where, as Dave mentioned, we've got work to do to expand the perils that we write, improve the segmentation and, frankly, just have more competitive pricing for the agent's clients.

And then on the agent side, we have to have great ease of use and competitive compensation for the effort it takes to write a policy with Progressive. And that's where, as Tricia mentioned, the Platinum program has competitive offering of compensation for our agents that pays more based on how much and what quality of business or type of business they're placing with us over time.

And then we're known for ease of use through great systems and technology over many, many years. So not explicitly buying market share or, as you said, buying shelf space for a proxy. We are competing based on a quality of a competitive product for the clients in the agency channel and our value proposition for the agents who sell it.

Andrew Scott Kligerman
Crédit Suisse AG, Research Division

Got it. Very, very helpful. And then just with regard to the auto side. Non-rate actions this quarter, any color that you could provide around that magnitude? What types of non-rate actions you've been taking and plan to take?

Susan Patricia Griffith
President, CEO & Director

Yes, it's really dependent on each state. So in some states, we've had some underwriting and bill plan restrictions. Obviously, an easier way to go is what I've talked about in terms of turning local media off. And those are, for the most part, what we use to try to stall growth a little bit when we don't have adequate rates.

Operator

And our next question will come from Josh Shanker of Bank of America.

Joshua David Shanker
BofA Securities, Research Division

In the prepared presentation, you made a comment that the average PLE of a Robinson was up 3x that of a Sam. I remember from a presentation maybe in 2013 or 2014, you made the comment that the lifetime value of a Robinson was probably 4x to 5x that of a Sam. You've had a decade of experience now. And obviously, in this period of time, you've seen in disruptive pricing, how quickly the Sams leave and the Robinsons stay. Can you talk about that PLE statistic versus the lifetime value statistic? It would suggest there's a multiplier to lifetime value, maybe there's ticket size or maybe you've updated your thoughts on the value proposition of the different segments?

John Peter Sauerland
VP & CFO

Sure. The lifetime value calculation would include not only the PLE difference but the average premium difference. So we target common margins across segments of the business. So for -- across the auto program, we're targeting similar margins, but different segments have different average premiums as well as policy life expectancy and you sort of multiply those together, and that's how you come to a bigger lifetime value.

Joshua David Shanker
BofA Securities, Research Division

And that 4 to 5 is still probably close to accurate?

John Peter Sauerland
VP & CFO

That's -- probably.

Susan Patricia Griffith
President, CEO & Director

I think, generally, we have to look -- we have to go back and look at the specific math, but I would say probably generally.

Joshua David Shanker
BofA Securities, Research Division

All right. And thinking about the next couple of years and looking back to maybe '16, '17, '18, can we talk about the efficacy of a national ad campaign strategy versus targeted paid search spend and whatnot. At the early stages, when your pricing is adequate and the rest of the market pricing is still trying to play catch up, what does that mean for the marketing strategy? Do you need to spend to get customers to come to Progressive? Or is there a period where the customers elect to come because of your brand recognition and whatnot, where the acquisition costs are lower in the early stages of a hard market?

Susan Patricia Griffith
President, CEO & Director

I think you do a little bit of both. I mean I think a lot of it depends on what the competition is doing. So I talked -- when Elyse asked the question, I talked about efficiently acquiring leads has to do with the competition in the digital space. So we -- the national brand is really important. It is one of our pillars -- our strategic pillars. So we want to be the brand that talks about savings protection. We want to be known that gives consideration. We want to be on the short list.

And then the local marketing really through most of online search. That's a nice lever to be able to turn off and on when we want to grow. But again, that's very dependent on supply and demand and what's happening in the industry with our competition. So I feel like we're in a good position now. Again, we have some states we want to turn on. John talked about a couple of large states we'd love to get adequate rates in so we can continue to grow. But we feel like we're in a good position. We have some levers, and we've had a tremendous amount of growth in the last 5 years.

In fact, we've added 7 million PIFs and grown Auto PIFs 70%. So -- and that was coming off the last hard market. I'm not going to say that we're going to grow that same amount in the next couple of years, but that's always been our playbook to position ourselves, to get out ahead of rate, have a lot of different levers on marketing and then move as quickly as we can.

John Peter Sauerland
VP & CFO

Josh, if I might add a little bit there. I think that's a great question. And I think the answer is plays to our strengths. So if you look at the percentage of folks coming to shop at Progressive that we would attribute to mass media from the kind of the time frame that you talked about to today, it has shifted a lot to much more specifically attributable media and we are great at analyzing the data fairly real time and making decisions very quickly to be able to redeploy dollars to go to the most effective way of bringing people in.

So I think it's because of technology and the data available increasingly in a real-time basis that is allowing us to get more and more of our media spend really, really effective. Mass media, as Tricia mentioned and our brand are obviously the first step that's crucial to have that brand awareness, but then the agility and the data and analysis that goes into really targeting, again, I think, plays to our strengths and has allowed us to continue to grow advertising spend and be super efficient.

Operator

And our next question will come from Tracy Benguigui of Barclays.

Tracy Dolin-Benguigui
Barclays Bank PLC, Research Division

Okay. I didn't hear my full name. My first question, 2 quarters ago, you were telling me you have a first -- when you have a first-party total loss collision, you're going to pay that immediately. So you'll recognize the elevated cost of new and used cars in real time. But on a third-party perspective, there's often a delay in subrogation. Can you provide an update on the life cycle of claims? How you feel about the strength of reserves for claims that you were notified last year that may only be settling now? And I guess, ultimately, I'm just trying to understand if you think Auto is becoming more of a medium tail line these days from short tail?

Susan Patricia Griffith
President, CEO & Director

Yes, I would say it's still a short tail. I think in the last couple of years, when you look at the data on subrogation from a property damage, whether it's incoming or outbound, there's been delays for many different reasons. And probably more recently, in the last couple of quarters has been on staffing. You've looked at the unemployment rate, and I know myself, along with many of my peers have wanted to really get ahead of staffing, and it's been a little bit more challenging.

Personally at Progressive, we feel like we're in a really good position right now. I wouldn't necessarily have said that a couple of quarters ago. So the timing depends on when you're able to settle that claim and then, of course, get the paperwork to the other company and of course, for us, either we're paying out to them or they're paying out to us. So I think it's still short tail. I think that will -- hopefully, we expect it will level out at some point when staffing is normalized across the industry, and we get back to sort of claims as usual.

I will say that, that is an important piece because anytime that you can get salvage or subrogation settled more timely, that hits the bottom line. In fact, I was talking to our claims President a few weeks ago, and we feel like we are very adequately staffed in claims, and we're actually going to move some people over to subrogation and salvage towards -- in the near future until the end of the year to get some of those closed in a more timely fashion.

Tracy Dolin-Benguigui
Barclays Bank PLC, Research Division

Okay. So can I infer from your comments on staffing that you feel good about the strength of your reserves or claims that you were notified last year only settling now?

Susan Patricia Griffith
President, CEO & Director

Yes, I feel very comfortable. Gary, you can comment on this. We have our head of actuary here. But I feel very good about our strength of reserves. To date, we're about 0.6 points on the CRM favorable. We were favorable in this quarter, and we feel really good. And part of our reserving that we look into, and Gary, you can talk about this, is we have a robust role forward process where we take into account in existing and new features, inflationary factors.

Gary S. Traicoff
Corporate Actuary

Sure. Thanks, Tricia. Yes. So good question. To Tricia's point, overall, we feel very good about our reserves, right? Our goal is always adequate reserves, with minimal variation and our philosophy has been very consistent over the long term. We have developed unfavorably year-to-date, about 0.6 points on the combined ratio; Personal Auto, about 0.3 point; and Commercial, about 2%. That's in line with where we've been in the past at midyear. And if you look historically, we've ended the year generally within 0.1 or 0.2 points.

To Tricia's point -- and we do have a paper that we publish on our investor site, so you could read more detail about our methodology. But we will look at about 25% or a little bit over 25% of the reserves monthly. And then on the other 75%, we have an inflation factor that we apply. So if any new features come in or existing features, they automatically go up with inflation based off severity.

As features age, as they become attorney-repped, et cetera, we have automatic adjustments for those. So we feel that we've kept up very well with the rising costs. And to your point, Tracy, we have seen somewhat of a slowdown relative to closing claims compared to the past, just with everything going on over the last couple of years. But because of that mechanism we have that we can adjust as they age, as they become attorney-repped, et cetera, naturally, we've been able to keep up just as we would have intended.

Tracy Dolin-Benguigui
Barclays Bank PLC, Research Division

That's great color. Also one of your large competitors is no longer selling auto insurance in California. So I was wondering what your appetite is these days to write business in California.

Susan Patricia Griffith
President, CEO & Director

We would love to write more business in California. It is the most populous state. Unfortunately, right now, we don't -- we aren't able to get adequate rates. And once we're able to do that, we are open for business and we'll write as much as we can. Right now, there's about 30 auto programs representing close to half the California market that have rate increases pending. We have 1 pending in one of our auto programs from January, we'll likely have at least another one in the near future.

So if we can get the rate that we need to be adequately rated, we want to write all the business we can. The moratorium on rate increases in California is unfortunate because we don't think it serves the consumers of California, and you only have a couple of things to do. And there's a couple of levers that we talked about, and we'll use those tactics to slow growth, but we want to be a part of the future California market, and we'll do what we can to get there.

Tracy Dolin-Benguigui
Barclays Bank PLC, Research Division

So when you mentioned that it doesn't serve California consumer as well, could you envision a full market growing in California for auto? Is it -- if auto really becomes unavailable?

Susan Patricia Griffith
President, CEO & Director

What? I'm sorry, what -- could you repeat your question? I didn't hear that.

Tracy Dolin-Benguigui
Barclays Bank PLC, Research Division

Yes. You were saying that the rules there don't really serve consumers well. And if there is lack of appetite by auto insurers to write business in California, do you think there would be a residual market created, let's say workers comp?

Susan Patricia Griffith
President, CEO & Director

Got it. Got it. Okay.

Patrick K. Callahan
President of Personal Lines

Yes. It may not -- we've seen residual markets come and go in various states over many decades. And as you note, generally, when there's not a willing voluntary private market participation, there has to be a backstop given the mandatory insurance requirements. So could there be growth of a residual market in California? Absolutely. And there, it's up to the regulator to decide if that's a path that they want to go down.

I think we've seen historically states like New York, where it grew rapidly. And then with voluntary participation, there was better options, more competition and consumers benefit when there's availability that brings competition that drives affordability. And carriers compete on both price and service whereas the backstop residual markets, unfortunately, typically provide a minimum level of both. So is it possible? Absolutely. Is there precedent? Yes, we've seen markets where voluntary participation shrinks and residual markets grow. And therefore, it could happen in California.

Operator

And our next question will come from Ryan Tunis of Autonomous Research.

Ryan James Tunis
Autonomous Research LLP

Tricia, first question, I think I heard you make the comment that you won't say you'll grow the next 2 years like you did 5 years after the last hard market we had in 2016. When we think about the mid-teens type of PIF growth you had coming out of that last hard market, could you just kind of compare this hard market to that? Like what are some of the relative challenges?

Susan Patricia Griffith
President, CEO & Director

Well, I think -- and my point, Ryan, was more of it's a really big ship now. So it's a much bigger ship than it was back in 2016. So as a percentage basis, growth growing 70% in Auto is going to be tough. The bottom line is we will grow as fast as we possibly can at or below our target profit margins. And that's what we're going to do as the hard market continues.

It's sort of hard to foreshadow what will happen right now because I feel like we're right in the midst of it. And we have the rate that we're earning in, yet to earn in and more advertising to open up and then, of course, a lot of it depends on what the competition is doing.

So the reason for saying that was just that we have grown a tremendous amount and just any company when you get the size of us, it's harder to grow as quickly on a percentage basis.

Ryan James Tunis
Autonomous Research LLP

Makes sense. And then I guess my follow-up is just trying to figure out what I'm missing on thinking about some of the rate adequacy comments. So it sounds like you've got about 7 points of rate earn in and out and you feel like you're done with -- you still feel like you're done in most of the big actions you have to take. But I think you mentioned that repair cost is still adding 3 to 5 points. Frequency is, I think, 8 points lower today than it was a year ago, and we're in a work from home environment then, too. So like is your rate adequacy comment all sort of backward looking? Or like have you started thinking a little bit about what do you think prospective loss trend might be in 2023?

Susan Patricia Griffith
President, CEO & Director

I mean we're always thinking about the future, but we got out ahead of rates. So if you think about 2021, we had about 8 points and most of that was in the second half. We have 9 points year-to-date with the 5 points earning in. So I feel -- that's why I said we may have modest rate increases. And again, there are a couple of states where we need a lot more rate, and that's on average. So when I talk about the 8 points, 9 points and the 5 yet to earn in, that is very different depending on different states, but on average. So that's where we feel good. Likely, we'll have to take some modest rate increases as we watch the trends, but we will do that as we see the trends unfold.

Ryan James Tunis
Autonomous Research LLP

And I guess my last one is just -- and it was a comment in the 10-Q about really focusing on retention, which makes sense given some of the PLE decline. But I was wondering if -- is there a strategy here where you feel it makes more sense to pass through a little bit less rate on the renewal book and maybe focus less on new business? Is that why you feel good about storing the 96% that the strategy is more sort of retention focused than new app focused at this point. I was just -- I just wanted to kind of clarify that comment in the Q.

Susan Patricia Griffith
President, CEO & Director

Yes. Yes our -- where we want to grow is PIF growth. And so that includes both the new and renewal business. And retention has always been our holy grail. You pay a lot to get a customer in and you want to keep them through stable rates and great service. Obviously, when you have to crank up rates a lot when trends change dramatically, you're going to lose people. So we knew that would happen. And -- but we want to keep everybody we can at or below our target margins for the renewal business.

And then new business, obviously, we want to come in because we want to take advantage of a competitive market when others are raising rates after we've raised rates. So both are important. PIF growth is our preferred measure of growth, and that will take a longer time. New business is more precise, more day-to-day. PIF growth will take a little bit longer since we've had some degradation in PLE, and we're looking forward to starting to ramp up PIF growth.

Operator

And our next question will come from Derek Han of KBW.

Dong Yoon Han
Keefe, Bruyette, & Woods, Inc., Research Division

Just wanted to follow up on the last question. How should we think about the time frame for reaccelerating PIF growth, especially as you pull back in property?

Susan Patricia Griffith

President, CEO & Director

I think it will be a little bit different, likely in the different channels. And I don't want to signal exactly when we'll see it grow. A lot will depend on the caveats that we talked about with states opening up, media opening up and getting our rates stable. I don't want to signal that. I'll let you know as it unfolds.

John Peter Sauerland
VP & CFO

I'll just offer. It's also very dependent upon the competitive market. So we've seen a few competitors report second quarter, combined with over 100. We have 1 competitor who is reporting their rate increases monthly. We see another place where in large markets, we see very mature competitors taking multiple double-digit increases in very short periods. So it's an environment that's pretty hard. And if competitors continue to take aggressive action, we're going to be able to get back to PIF growth much faster than if they don't, both obviously on the new side. But the retention is not only a function of our rate increases, it's relative to what our consumers can find out in the marketplace when they go shop and if competitors have all raised rates as well, then our retention will improve.

So it's really difficult to project. I think all of our product managers are taking the right actions at the local level. And as we continue to note, if we can get rate adequate in some key markets, we'll be in even better position to grow.

Dong Yoon Han
Keefe, Bruyette, & Woods, Inc., Research Division

Okay. That's really helpful. And then Tricia, when you say that most rate increases are behind you, does that mean rate filings or implemented rate changes or something else?

Susan Patricia Griffith
President, CEO & Director

Yes. It just means that the majority of the rate increases that we were able to get, again, the caveat with a couple of states, are on The Street. And then that's why I wanted to try to walk through a little bit about how we think about them earning in. And so when you have the rate, it's going to take some time to earn in. And we feel good about that we're in the heart of that and that we still have 5 more points to earn in as we speak.

Dong Yoon Han
Keefe, Bruyette, & Woods, Inc., Research Division

Got it. And then if I could just squeeze in one last question. Does your Personal Auto pricing assume that currently elevated overall inflation rates are going to filter into the medical cost components?

Susan Patricia Griffith
President, CEO & Director

Yes. We look at inflation differently with medical and physical damage. But we see BI trends up a bit, general damages specifically with attorney-repped. And of course, we look at medical inflation as well when we look at our rates for each line coverage, whether it's medical payments or bodily injury.

Operator

And our next question will come from Mike Zaremski of BMO.

Michael Zaremski

Great. First question, I'm curious, in light of your experience with ARX over the past years, when we think about Progressive's growth strategies in both on the commercial BOP side specifically, and I guess in home as well, has that experience change your view on M&A in terms of kind of large-scale ARX's all in over $1 billion. Does that change your view on kind of where M&A fits in accelerating those growth strategies?

Susan Patricia Griffith
President, CEO & Director

I think we always learn every time there's an acquisition, and we haven't been a big acquirer over the years, I think we've learned a lot of lessons. I think any new product that you go into, you learn. And so when we went on -- when we went direct, we didn't make money for quite some time because we were learning. We do the same with every new product. But I think -- I look at acquisitions more of is there some technology that we want? Is there some access we want? So ARX was access. Is this an easy way to continue our portfolio? So that's one of the reasons why we acquired Protective on the commercial line side because we knew we had the acumen to look at smaller fleets. They have medium to larger fleets. So that was something that was important to us as we grow into the fleet program. That's really how I look at it.

I think acquisitions, if you don't do them very often, you're always going to learn a lot. One of the things that we have built since then is an area of the company where we look at M&A and we look at what we need in order to be successful in that. And that's within our strategy team. And so we're getting our arms much better around that. I think that's what ARX taught us is that you have to have probably a lot more investments early on in order to get your arms around the product. And we're doing that with Protective. I'm very excited about the Protective acquisition, where we're at. It was much different than ARX just as a learning and how we can leverage that much more quickly.

Michael Zaremski

So I guess as a follow-up, Tricia. On the commercial BOP side, given you're entering a lot of new states and some new products, do you feel comfortable with your level of expertise?

Susan Patricia Griffith
President, CEO & Director

Not at this point. We'll get there. The first, we know -- first, wanted to create the BOP products, and we went really small. So if you think about small business, it's usually defined as 100 employees or less. We're at 20 employees or less. We're very, very surgical to understand that rate to risk and we wanted to expand it out to the states. So we're in 37 states. We're learning every day. As we learn more, just like we have in many parts of our commercial business, we'll be able to expand that. So we get more and more comfort every single day.

Michael Zaremski

Okay. Great. And my follow-up is pivoting to the -- to your presentation today. I think you mentioned over $1 billion of home premiums written on unaffiliated carrier balance sheets. Just curious, maybe you could shed some light on those partnerships. And just -- is some of that business in states you'd like to grow in and might be kind of up for grabs over time as you expand your appetite in certain states?

Susan Patricia Griffith
President, CEO & Director

Yes. We've had what we've called Progressive Advantage Agency for many, many years, and we continue to build a stable of carriers that can serve many different value of homes. And some of those are -- many of those are in places where we're going to grow. But the partnerships are really incredible, and they want to grow with us, and it's all about the right rate at the right time. So we continue to grow there. We've put it online with our HomeQuote Explorer, where we have a buy button in -- I forget how many states.

John Peter Sauerland
VP & CFO

38 for Progressive Home.

Susan Patricia Griffith
President, CEO & Director

38 for Progressive Home. So yes, we continue to invest in there. It's nice to have the partners to work with. And again, we've always been about choice and we want to make sure if our rate isn't the best, that we have opportunities to be able to have our customers still bundle with Progressive Auto and those partnerships.

Douglas S. Constantine
Director of Investor Relations

That appears to have been our final question. And so that concludes our event. Tonya, I'll hand the call back over to you for the closing scripts.

Operator

Certainly. This concludes the Progressive Corporation's Second Quarter Investor Event. Information about the replay of the event will be available on the Investor Relations section of Progressive's website for the next year. You may now disconnect.