S&P Capital IQ

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The Progressive Corporation NYSE:PGR

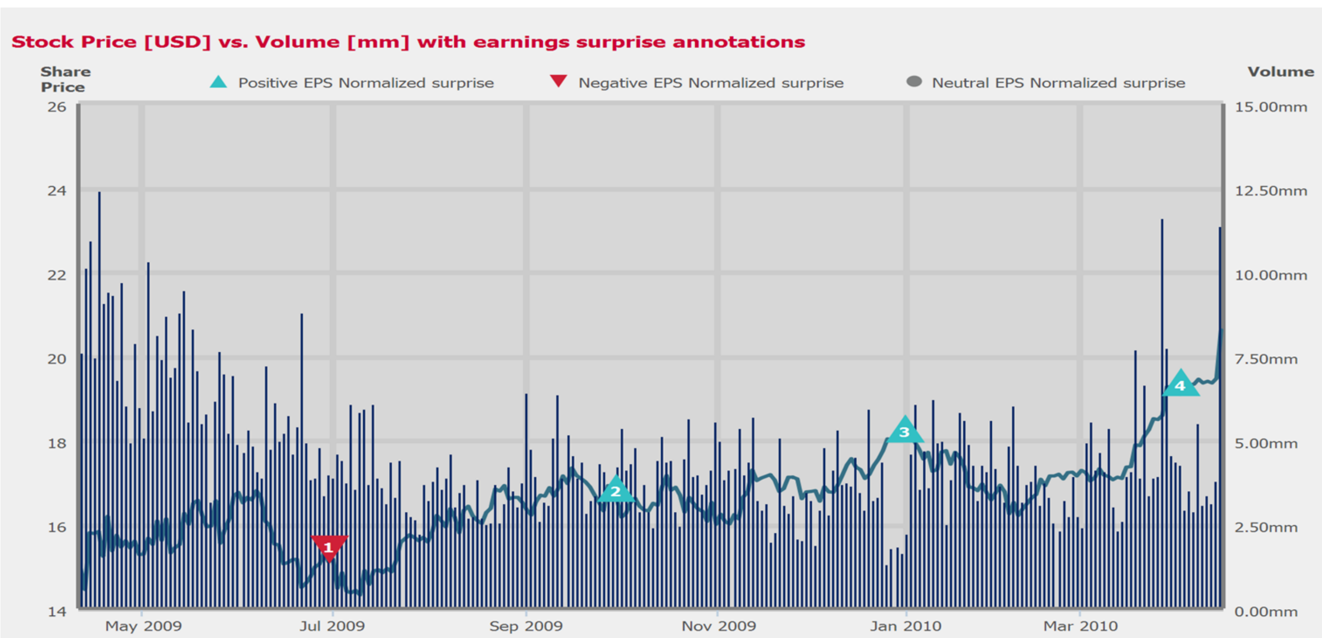
FQ2 2010 Earnings Call Transcripts

Friday, August 06, 2010 2:00 PM GMT

S&P Capital IQ Estimates

	-FQ2 2010-			-FQ3 2010-	-FY 2010-	-FY 2011-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	0.35	0.38	▲8.57	0.34	1.49	1.56
Revenue (mm)	3701.87	3707.90	▲0.16	3728.16	14711.26	15485.36

Currency: USD
Consensus as of Aug-01-2010 12:47 PM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ2 2009	0.36	0.35	▼1 (2.78 %)
FQ3 2009	0.33	0.36	▲2 9.09 %
FQ4 2009	0.37	0.41	▲3 10.81 %
FQ1 2010	0.38	0.41	▲4 7.89 %

Call Participants

EXECUTIVES

Brian C. Domeck
Former Vice President

Clark Khayat

Glenn M. Renwick
Non-Executive Chairman

William M. Cody
Chief Investment Officer

ANALYSTS

Ian Gutterman
Adage Capital

J. Paul Newsome
Sandler O'Neill

Joshua David Shanker
Deutsche Bank AG, Research Division

Matthew G. Heimermann
JP Morgan Chase & Co, Research Division

Meyer Shields
Stifel, Nicolaus & Company, Incorporated, Research Division

Michael Steven Nannizzi
Oppenheimer & Co. Inc., Research Division

Vinay Gerard Misquith
Crédit Suisse AG, Research Division

Presentation

Operator

Welcome to the Progressive Corporation's Investor Relations Conference Call. [Operator Instructions] The company will not make detailed comments in addition to those provided in this quarterly report on Form 10-Q, Shareholders' Report and Letter to Shareholders, which have been posted to the company's website, and will use this conference to respond to questions. Acting as moderator for the call will be Clark Khayat. At this time, I will turn the call over to Mr. Khayat.

Clark Khayat

Thank you, and good morning. Welcome to Progressive Second Quarter Conference Call. Participating on today's call are Glenn Renwick, CEO; and Brian Domeck, CFO. Also on the line is Bill Cody, our Chief Investment Officer. The call is scheduled to last about an hour.

Statements in this conference call that are not historical facts are forward-looking statements that are subject to certain risks and uncertainties that could cause actual events and results to differ materially from those discussed herein.

These risks and uncertainties include, without limitation, uncertainties related to estimates, assumptions and projections generally; inflation and changes in interest rates and security prices; the financial condition of, and other issues relating to the strength of, and liquidity available to, issuers of securities held in our investment portfolios and other companies with which we have ongoing business relationships, including counterparties to certain financial transactions; the accuracy and adequacy of our pricing and loss reserving methodologies; the competitiveness of our pricing and the effectiveness of our initiatives to retain more customers; initiatives by competitors and the effectiveness of our response; our ability to obtain regulatory approval for requested rate changes and the timing thereof; the effectiveness of our brand strategy and advertising campaigns relative to those of competitors; legislative and regulatory developments, including but not limited to, healthcare reform and tax law changes; disputes relating to intellectual property rights; the outcome of litigation pending or that may be filed against us; weather conditions; changes in driving patterns and loss trends; acts of war and terrorist activities; our ability to maintain the uninterrupted operation of our facilities, systems and business functions; court decisions and trends in litigation and healthcare and auto repair costs; and other matters described from time to time by us in other releases and publications.

In addition, investors should be aware that Generally Accepted Accounting Principles is prescribed when a company may reserve for particular risks, including litigation exposures. Accordingly, results for a given reporting period could be significantly affected if and when a reserve is established for one or more contingencies. Also, our regular reserve reviews may result in adjustments of varying magnitude if additional information regarding claims activity becomes known. Reported results therefore may be volatile in certain accounting periods.
With that, we are now ready for our first question.

Question and Answer

Operator

[Operator Instructions] Our first question today is from Vinay Misquith with Crédit Suisse.

Vinay Gerard Misquith
Crédit Suisse AG, Research Division

How's the rollout of the new product model that you refine segmentation resulted in lower overall pricing?

Glenn M. Renwick
Non-Executive Chairman

That rollout continues on and it's always hard to sort of answer a question on a relative basis. But for the most preferred sector, I think when we told you may be in June that, that product design had a lot of good features in it across the board. But if you had to single out one significant change, it was a little bit more of an opportunity to go up to the preferred market in a way that is continuing to build on the information we've had. Clearly, that's not new for us, but we get more and more experience in that area, and that model reflects it. So if I was to answer that question, I would say in general, a little bit more aggressive pricing. Actually, I'll take that word back. It's not aggressive, just good pricing for the preferred sector and generally reflecting all of our best product features and where we can give greatest segmentation opportunity and discounts to those who deserve it. This product is our best in the market ever.

Vinay Gerard Misquith
Crédit Suisse AG, Research Division

And has it changed the pricing on non-preferred customers?

Glenn M. Renwick
Non-Executive Chairman

The nonstandard sector, the answer is yes. It changes the prices because we do that sort of all the time. But this product model, while good for that sector, the real emphasis is more on the preferred. Having said that, let me make sure that there's no doubt that our emphasis on nonstandard mid-market is an area we have lots of experience in. So the rate of change of our knowledge and product is not as great as it might be of the other end of the spectrum, and our interest and intensity on that marketplace doesn't waver at all. In this particular climate, we are seeing perhaps a little bit more pressure in that environment, little less demand. But for the most part, our nonstandard in both channels is actually performing very well for us.

Vinay Gerard Misquith
Crédit Suisse AG, Research Division

As a follow-up, this is more a philosophical question. Has the Personal Auto business become more transactional, whereas in the past, you might have bought Homeowners and Auto and stayed with a carrier for a long time? Do you feel that customers are now willing to shop around more instead of disaggregate these two pieces?

Glenn M. Renwick
Non-Executive Chairman

I'll break that part into two pieces, more transactional and disaggregation. I would say on average, yes, it is more transactional today, and you reach that conclusion simply by thinking that we're collectively, as an industry, putting several billion dollars into advertising, telling people to be more aware of the choices that they have available to them and they can make. And probably, if I contrast that to -- I don't know, just go back to sort of early 1990s Proposition 103, one of the key things that consumers ultimately were saying through that Proposition is we didn't understand that prices between insurance companies were that much different. Frankly, after that, we created a comparative pricing service, which you're well aware of. I think that environment has changed dramatically. I don't think consumers today think that all insurance companies are the same. They've got lots of messages that say that they're not. So they're interests are well served in looking around. And then we reported during the aftermath of really the height of the economic crisis that we had a very high demand in our direct channel, and it has continued for some time. And again, while we can't always know what motivates a consumer, we always speculated that was simply people taking a great deal more interest in their personal finances and saving money where they could. So the transaction volume has increased simply because: a, marketing; b, greater availability of means and channels, the internet being primary amongst them. Mobile will sort of be in that league in a few years. So transactional, I would say yes. Absolutely. Doesn't, on the other hand, mean that retention has failed. So for those who actually have good services and products and those transactions that brought new customers, we've been able to show you, and we showed you in June, that our retention has monotonically increased now for several years. With regard to bundling, as much as it would be in Progressive's best interest to see everybody buy the best-of-breed product, Auto and Homeowners, and combine those in a way that makes sense, I would say the predominant prices in the industry today is still bundling from the same carrier. However, as you've seen from our reported results and some others, GEICO would be another company that tends to use their own best-of-breed auto products combined with an accommodating homeowners' product, that is something that the offer -- that offering really, for all intents and purposes in the market, is relatively new, sort of within the last decade and more concentrated in the last five years, and seems to be appealing to people in ways that perhaps reflects to the strength of the brand that the company is offering them. So we offered under the Progressive Home Advantage moniker, and the Progressive brand is appealing for people. And we're selling a very comfortable amount of our package policies. And we hope that that'll become something that consumers accept in even greater numbers. And from what we see so far, we are very encouraged.

Operator

Our next question is from Meyer Shields with Stifel, Nicolaus.

Meyer Shields
Stifel, Nicolaus & Company, Incorporated, Research Division

Glenn, does the pricing for the segmentation data from Snapshot indicate any significant market segments where Progressive can earn better than the 96% combined ratio?

Glenn M. Renwick
Non-Executive Chairman

Surely, from Snapshot, as we talked to you in June about, I think we really are well advised just to say, "Let's talk about that in two quarters from now." The data from Snapshot at that configuration is way too immature to draw conclusions to the extent that, clearly, the UBI, and it was just really the usage base that's the core of all of this is something that we had a lot of experience with. And we've actually showing you on different locations that we believe that as a predictor of pure premium segments, it's extraordinarily good. So the answer is yes, it's an extraordinarily good segment there for pure premium. Snapshot, as the reconfiguration of it, we really don't have a significant data to report on that. And to get to the other phraseology of the question, not really a question of whether we would find a segment that we could write at a combined ratio of less than 96%. We try to normalize all segments. And frankly, if that segment was sizable enough, we would use the pricing power of that segmentation to allow us to get greater numbers in that and still meet our target combined ratio.

Meyer Shields
Stifel, Nicolaus & Company, Incorporated, Research Division

Right, that's assuming that there is enough elasticity, I guess, on the margins.

Glenn M. Renwick
Non-Executive Chairman

Yes. I mean, the fact is there are segments of this business. I don't know that we got a lot of specific facts on this. There are segments of this business that are relatively inert, people that have bought their insurance policies and they're not quite, in response to the first question, not as transaction-oriented as others. This is an opportunity for us to have an offering, which is new, different, distinctive and might very well appeal to a segment that we don't get at. And if that segment is such that their loss cost, and this exposes those loss cost to be favorable, it may be our opportunity to really get some serious marketing influence.

Meyer Shields
Stifel, Nicolaus & Company, Incorporated, Research Division

We've been talking for a while about the agent's shift to competitive raters, and I'm wondering if we're at a point now where sort of the bulk of that mindset has changed so that you can track the trends in your hit ratio as being meaningful.

Glenn M. Renwick
Non-Executive Chairman

Can you just say the last piece of that question again? You faded out.

Meyer Shields
Stifel, Nicolaus & Company, Incorporated, Research Division

I'm trying to understand whether there are credible trends in your hit ratios that would delineate the overall competitive position based on how you're doing with non-competitive raters?

Glenn M. Renwick
Non-Executive Chairman

Brian, maybe you got that as well. I'm sure that I totally got your question, so redirect if you need to. But to the extent that we talked about comparative rating become a shifting paradigm, I think that shift is largely in place now and that the sort of results in conversion ratios and quoting activity that we see is more normalized. So we probably went through a period of knowing it was going to change somewhat, and it did. Now I think that we are actually very comfortable with that, and we've reported that we've responded in our own presentation of rates well in that regard. But I don't see a mega shift happening. There may be states that are a little bit more active than others, but for the most part, that shift is over. Brian, can you talk on that?

Brian C. Domeck
Former Vice President

I think the shift to comparative raters and the usage in the agency channel, I mean, it's in a migration over time. And I think it's fairly entrenched in those agents if they're going to avail themselves of that. Certainly, that has driven what we call our "volume up", in particularly in the more preferred segment of the marketplace. As a result of more closed, we have actually seen our conversion rate decrease slightly relatively in the second quarter, relatively flat for the year. But I think most of that migration is over now. And certainly, we actually look at conversion rates on an individual state level relative to our positioning in that front. But in terms of the migration, I think it's largely already done.

Operator

Our next question is from Matthew Heimermann with JPMorgan.

Matthew G. Heimermann
JP Morgan Chase & Co, Research Division

First, can you just -- and I apologize, I can't remember if this was covered at the Analyst Day or not, but with respect to kind of the efforts to improve agency relations, for lack of a better description, can you talk a little bit about two things, one, whether or not, changes in commission ratios will play a significant role on that? And the second thing is, from an outsider's perspective, how would you recommend that we think about monitoring the progress in that area?

Glenn M. Renwick

Non-Executive Chairman

We touched on it, but not necessarily those exact questions. When we talk to the first question, we really don't have any macro changing commissions planned, so we've talked to you before that we run our commission level of 10, 10.5 in the agency channel. What we did talk about was a bullet point in our Progressive on a Page strategy that we shared with you, and that was that specific agents who have engaged with us and who sell more preferred policies. And in their agency, we are a valued writer of preferred business. But we are planning -- we're more than planning. We've already rolled out, and we'll continue to roll out a program we call Signature, and that is a multi-product program for an agent, including some marketing activities that we can support them on and other things that John Barbagallo covered in his comments. But it does involve increased commission. And that's a program that needs to be somewhat earned by the agencies. So it's really a contractual commitment to give us a certain volume of business and keep that program, and that program carries with it an increased commission. We also talked about what's the implication of an increased commission, does that mean pricing effect? And what we said is far from clear yet, if we get the kind of business that we're looking for, we may very well be able to handle that commission load with relatively little pricing impact. To the second point on progress with agent relationships, while there are always different views, we have our own monitoring and NPS, Net Promoter Score, that we track our agents with. And while there may be issues in the marketplace from time to time, and there's always going to be some issues around commission, we feel very comfortable with our agent relationships that we have. Comfortable is not a state that we necessarily rest on. And our sales leadership, our agent relationship sales are doing a lot of work to continually improve that. We've got agent advisory councils. We bring our agents into Cleveland and share with them what's going on in the company. We try to do many special events. Again, we got the Signature Program. So our own internal measure of NPS is the way that we would track that. To be perfectly frank with you, I am not aware of any measure that I would feel totally comfortable with being global enough with 38,000 agents to suggest that there is anything credible from an external perspective. And our internal measures are really vast, so I don't plan to change and share those. They are favorable and showing a continued favorable improvement, but there's nothing particularly dramatic to report there.

Matthew G. Heimermann
JP Morgan Chase & Co, Research Division

First, with respect to, for the preferred agent. I'm assuming that part of the goal there is to sell the packaged products. So I guess, should we think about the potential commission upside for those agents being similar to what other independent agency companies might pay for a package, which is probably at least on new business, probably more like 15?

Glenn M. Renwick
Non-Executive Chairman

Yes. I think that's reasonable of thinking that we will have a split between new and renewal, but 15 is probably a better way to think about the net.

Matthew G. Heimermann
JP Morgan Chase & Co, Research Division

And then with respect to tracking the agency progress, I guess, is it fair to say that Net -- I would assume that Net Promoter, there's a relationship between share of office and Net Promoter Score. But I guess maybe more broadly, can you may be touch on of those 38,000 agents that you might have a business relationship with, I guess, how many of those agents are you in the top three of their office from an auto production standpoint?

Glenn M. Renwick
Non-Executive Chairman

That's a fair question, and I don't know that they -- right off the top of my head, so I'd rather not even take a stab at that. And it may well be off by more than I would like to be. So fair question, I don't know the answer. Happy to report on that if you...

Matthew G. Heimermann
JP Morgan Chase & Co, Research Division

Well, I'm just curious, if going forward, do you think that might be a fair way to think about the relationship you...

Glenn M. Renwick
Non-Executive Chairman

You made a comment that is NPS a way to think about share of agency. That may not necessarily be quite as direct relationship as we might all like. There are many, many agents that think extremely highly of Progressive, but they have other credible carriers. In some cases, they are comfortable packaging, as I said, the home, and home and auto together, with a carrier that they've got a long-established relationship with. But it doesn't mean that they don't have a very strong feeling and relationship with us. It's just a question of how they use us in the agency. We clearly are trying to become more of a first choice, a more mono-line preferred auto. We are clearly in many, many, many, many agents. And I wish I knew the number, I don't know how to wing it. But I think sort of preferred choice for nonstandard mid-market. I think we're there in maybe even in the vast majority of agencies. We're not necessarily there as the preferred carrier of choice, and we're gaining in that regard. Maybe your question is prompted some thinking of just how can we calibrate and report some credible measure of that gain. I'll take that as a to-do. And with regard to the Homeowners combination, that's another way of giving agents something that truly is an opportunity to give us a different positioning in the agency. And while that will remain a work in progress for some time, we've got off to a very good start, but I think we've still got more work to do on making those two products work exactly the way the agents would like them to work, and we're very committed to getting that done. So your question is really sort of how are we penetrating agents from the many, many, many years ago. We were a Asia [ph], a good choice for market of last resort. We're very, very differently perceived in the agency channel today, and we've still got our ways that we think we can penetrate agents even greater. I will give some thought to how we might be able to calibrate that and give you some meaningful measure.

Operator

Our next question is from Michael Nannizzi with Oppenheimer.

Michael Steven Nannizzi
Oppenheimer & Co. Inc., Research Division

Just a portfolio question, if I could. So the duration came down from 2.3 years to a couple of years. It looks like you sold some longer-term security, bought short term, which makes sense. One question, just how much of that lower duration is a result of the change in fair value in the mortgage backs?

William M. Cody
Chief Investment Officer

None, I would say. Nothing material. This is Bill Cody, by the way. That was a conscious effort on our part to reduce the portfolio duration as rates came down.

Michael Steven Nannizzi
Oppenheimer & Co. Inc., Research Division

It looks like you're allocating more funds to corporate. Have you talked about how much is BBB? You mentioned investment grade and below, but just the BBB and below category of your runoff for cash flows from operations?

William M. Cody
Chief Investment Officer

Cash flows from operations, we treat cash from operation as same as cash from the portfolio and the runoff when we look at investments. So we have our overall portfolio credit rating constraint, which we've held relatively steady at the AA level. Corporates that we've added have been mostly in that BBB range more recently. But I don't think we've broken that out publicly. We consider doing that though.

Michael Steven Nannizzi
Oppenheimer & Co. Inc., Research Division

And so it's shorter duration, is it fair to assume that the intersection of you're buying shorter duration, lower-rated corporates? Or you're buying lower-rated corporates and also short duration, maybe treasuries or something else?

William M. Cody
Chief Investment Officer

What we've added, let's say, in the quarter has been a mix of corporates in that intermediate duration range, I think, in the kind of two- to five-year range and a little bit out longer than that where they've been some opportunities in corporates. We've probably added a little bit over $400 million of corporates on the quarter. We also added some of the ABS sector and in the CMBS sector, where we saw some opportunities there. Most of the ABS and CMBS has been in the higher-rating categories.

Michael Steven Nannizzi
Oppenheimer & Co. Inc., Research Division

So the orientation clearly, sensitive to inflation. As the environment has changed, I mean, do you have thoughts on your outlook for inflation and maybe how any changes there might change your perspective on reinvestment in the portfolio?

William M. Cody
Chief Investment Officer

Sure. I think what you're noting is where we are defensively positioned on the rate front. Our view is that inflation, although it's low and likely to stay low near term, the deflation stories that we're hearing about or the discussions about deflation, it's certainly not our base case or very high-probability case. So we're just more defensively positioned against, let's say, even a rising or steady rate of inflation or reasonable rate of inflation. As you look at that rates at very low levels, say, two-year treasuries at 50 basis points and three is at 75, and five, it's at 1 1/2%, that really doesn't buy us much in the way of protection against the rising rates at any point before we have a loss from a total return perspective. So what we've done is keep the duration short and look for solid credits, whatever they happen to be rated because we don't focus on that as much, but solid fundamental credits that will perform well in even a weak economy and provide us with some reasonable return on an absolute basis under most any plausible circumstance. Just as a follow-up, we did shrink our treasury and cash position net together on the quarter. So if you look at the net buying, those will reduce a small amount over the quarter.

Operator

Our next question is from Paul Newsome with Sandler O'Neill.

J. Paul Newsome
Sandler O'Neill

One of your competitors mentioned to me the other day that they felt that advertising spend, which had gotten, obviously, it's a lot through you folks and through the rest in the industry, had reached essentially a point of diminishing returns. And I think some of this argument was the direct business was going to end up with a rising expense ratio as the ad spends sort of -- each of the incremental dollar gives you less. I was curious if you had seen that in your own data and if this is that that's something that could actually happen?

Glenn M. Renwick
Non-Executive Chairman

Let me answer that without necessarily commenting on someone else's view of it. We clearly have communicated pretty often, I hope, that we'll spend as much money in advertising as we think is appropriate relative to the yield we get from that. So on numerous occasions, even on this call, we've discussed, we don't have a fixed budget, so we're not out there spending it. So we're calibrating all the time to the yield that we get on our advertising dollar spent. Any advertising dollar spent is going to be additive to the expense ratio. That's by definition. We have not spend as much as some in the marketplace, and we intend to do that because we're focused on the effective yield. I would tell you that there is probably -- there is almost mathematically a cost at which the marginal dollars spent can become ineffective. We're always trying to spend up to the point that we think that the marginal dollar, the last dollar we've spent, is still effective relative to the overall yield on the book. Knowing exactly where that is, hard to know. We look at it simply from our own results, and I wouldn't be in major opposition to saying that the amount of advertising for the entire industry now may be close to its long-term peak than they're not, but we'll see. I think all we can really do is just manage our own spending very wisely, and we have resisted it many times in the past, where we didn't feel we should spend more because the yield didn't seem to be worth it. When we've got our products priced at a great level and our conversion rates are high, we can afford to spend. It's also a function of the effectiveness of the creative. So right now, we feel that our creative is working quite well for us. So it's a combination of things, I think, on a macro basis. Yes, I don't think we're going to see advertising in the industry doubled, and we may be at closer to the top, but only time will tell.

Brian C. Domeck
Former Vice President

This is Brian. Just a few additional thoughts. As Glenn talked about and we mentioned in June, we measure our yield based on cost per sale relative to a targeted acquisition cost, that which we've incorporated in our pricing. And that cost per sale would be a function of a couple of things. One, how many people do we get to quote with us and then our conversion rate on that. So even if the number of prospects or the number of shoppers, which has still increased for us, but if that were to -- the rate of change were to slow down, as our conversion rate has improved, that has enabled our cost per sale to still meet our targeted acquisition cost. And the other component piece is, if your policy life expectancy stays longer, you can increase as you can have a higher targeted acquisition cost. So our policy life expectancy has been growing over the last few years, and so it's a combination of those. But if the question were really the advertising spend relative to the number of shoppers, that incremental cost is likely increasing. And for us, we have seen it increase. I suspect, in the whole industry, it has increased somewhat.

Operator

[Operator Instructions] Our next question is from Josh Shanker with Deutsche Bank.

Joshua David Shanker
Deutsche Bank AG, Research Division

My question, which I think might have been answered in Meyer Shields' question, I was wondering when we might see the first commercial advertising of Snapshot, and likewise, when I might be driving by the first agency that I see a Progressive sign outside of it and the new Signature Agent-type formats?

Glenn M. Renwick
Non-Executive Chairman

I'm happy to give you more information on that next time we talk, but I would set your expectation at first quarter for commercials on Snapshot. And the reason to that is the effectiveness of advertising that we really put our money behind is national. We don't advertise something on a national basis when we don't have it deployed in sufficient quantity to appeal to almost all viewers. So the first quarter would be my guidance on your first question, and I'll update that at the next conference call, if you remind me. With regard to Signature, you should've already been able to drive by many agents countrywide for many years, displaying Progressive signs. And specifically, the Signature Agent designation, we have no current plans for changing that sign. The Progressive sign is really all that's important. The Signature is really a business-to-business relationship between Progressive and the agent. I don't think that's of great value to the consumer at this point.

Joshua David Shanker
Deutsche Bank AG, Research Division

And then in terms of the rollout of Snapshot, how many states should we expect then by the end of 3Q? And how about by the end of 4Q?

Glenn M. Renwick
Non-Executive Chairman

I'll give you the guidance relative to your first question of advertising. We would expect to have it in about 75% of our written premium base before we did advertising to the general public.

Operator

Our next question is from Ian Gutterman with Adage Capital.

Ian Gutterman
Adage Capital

I also had a Snapshot question if I can. How common will it be for someone to get close to that 30%, say, 20% to 30% discount, or is more normal going to be, say, 5% or 10%?

Glenn M. Renwick
Non-Executive Chairman

Brian, do you have some data on that?

Brian C. Domeck
Former Vice President

The expected average discount would be higher than that 5% to 10% range that you referenced. Modestly higher than that 10% range is what we expect, and we'll see over time, as we figure out which customers take advantage of the program, et cetera, and then what their experience is. But based upon what we have seen to date in our models, we would expect the average to be higher than that 10%.

Ian Gutterman
Adage Capital

Is 20% to 30% going to be relatively small percentage, maybe less in a quarter?

Glenn M. Renwick
Non-Executive Chairman

I'm actually not hedging the question there. Ask it again next time. But we'll roll this out in June in two states. July, we've actually increased the number of rollouts, but we're really talking about June here, so two states. We just don't have that distribution. I think the way to talk about this would be a distribution of the percentage discount. We have a very clear understanding of what our expected mean, mode and distribution looks like, but when you throw something out in the marketplace, we'll see how consumers respond to that.

Ian Gutterman
Adage Capital

The reason I'm asking is I was trying to get sort of the price data points and more. I was wondering how you thought about this from a marketing standpoint. If you're going to be advertising, you can save up to 30%. My guess is the average person is going to think, "Hey, I should be getting pretty close to 30%." And if they get 12%, maybe they're going to say, "Hey, Progressive doesn't think I'm not good a driver." And then they get mad at you as opposed to -- you know what I mean? If it's a regular commercial that you can save 15% in 15 minutes, I only save 8%, I'm like, "I don't think it's a judgment on me." So if I only save 12%, and I hear I can save 30%, it means Progressive is telling me, every other guys are better driver than me, and I get frustrated.

Glenn M. Renwick
Non-Executive Chairman

Can I answer that with a -- you are sounding very similar to some internal discussions. And we have acted upon that because this is way too good to have people feel like, "Gee, I didn't get an A even if I got a passing grade in the test and makes me better than others." So yes, you're highlighting a very real marketing issue, and you may well see that reflect in our marketing messages. We don't want to set an expectation, have someone feel that they didn't get that expectation, but they were still far better than anything they could've gotten in the marketplace but somehow don't have the kind of feelings toward Progressive that we would all like. So we're conscious of exactly the same thing. Initial marketing, yes, we did say up to 30%. We will be very conscious about marketing message. And as we do with almost everything that we roll out, we'll make sure that we double back on all sort of the positives and the potential negatives to see exactly how it's being received, what are the pitfalls. And that is the beauty of having -- there are times that I could say, "It's not beautiful to have 50 regulatory environments." But given that we can roll it out, we actually get the benefit of the rollout and some measurement before we have to commit to the bulk of the states.

Operator

[Operator Instructions] Our next question is from Vinay Misquith of Crédit Suisse.

Vinay Gerard Misquith
Crédit Suisse AG, Research Division

On the higher retention, it seems that your retentions are increasing. I am wondering how much of that is pricing because you're keeping pricing flattish because the average premium of policy, I believe, on the agency is down about 0.5 percentage point, and on the direct, it's also done about three to four percentage points. So how much of that is pricing? And how much of that is maybe Name Your Price, where people are selecting also a lower price point for their insurance coverage?

Glenn M. Renwick
Non-Executive Chairman

Yes, what you're referencing is what less what we would call pricing and more of the average premium. Average premium's been changed for lots of different reasons, especially when you look it during the aggregate. That can be mixed geographies as we talked about several times. Cars are getting older, so we're seeing sort of a negative premium trend there, which hopefully will be one source of inflation in few years to come. No question when consumers have a rate that's not going up. That will contribute to retention. I wish I could tell you after a lot of years of thinking about it exactly how can pull out the individual pieces. It is a piece. I think our brand strength is a piece. We've talked to you a fair amount about the work that we've done and continue to do about eliminating reasons customers leave, giving them reasons to stay, like our loyalty program. So we've had a good number of these things. Unfortunately, while I love to be able to say, here is the contribution value of each of them, we know the activities we're taking. We measure each of those activities individually before we sort of commercialize them. If they look good, Name Your Price. We clearly were able to test that. We told you, I think, that the selective price by a consumer tends to differ by less than 1% over the recommended price, so we don't think that's a great driver of average premium reductions, but it may be a driver of customer satisfaction in their selection. Those are very hard to pull out. So all I can really tell you is all the actions that we do, we try to test them individually. When we put them together, we are then at the point of only being able to measure the aggregate outcomes. The aggregate outcomes are good. Individual pieces seem good, but I can't tell you the relative contribution value when we put them together.

Vinay Gerard Misquith
Crédit Suisse AG, Research Division

And in terms of loss cost trends, they seem to be reasonable right now. So are you moving pricing at all? Or have you been moving pricing over the last three months because the loss cost trends are more reasonable?

Glenn M. Renwick
Non-Executive Chairman

We're always moving pricing, and I mean that to be a less-than-full disclosure answer. We're always moving pricing. That's what we expect that our product managers managing every product, every state. So it continues to move. Over the first six months of this year, the average price changed slightly positive a couple of points. And while I'm make no predictions of the future, I would expect it more likely to be slightly positive but not a lot. You're right, trends are quite moderate at this point in time, both on a frequency level and a severity level. My suspicion is, again, we've talked about a couple of activities that could reverse trends and could accelerate them. We don't know. That's why we'll continue to watching the data and act very quickly. We talked about medical cost trend shifting. We talked about that in June. I referenced that cars are getting considerably older. That means that when a car has been in an accident, the likelihood of it being totaled is much higher now than it is of it being repaired, relative to what it was a few years ago. That trend will eventually change, and we'll start to see newer cars and shifting dynamics of the claims process. All of which could bring about new trends that we'll have to stay on top of. And those are the things that can happen reasonably quickly.

Clark Khayat

With that, there are no more questions, so we'll end the call. And we look forward to speaking with you in the third quarter.

Operator
Thank you. That concludes the Progressive Corporation's Investor Relations Conference Call. An instant replay of the call will be available through August 20 by calling 1(800) 839-3139 or can be accessed via the Investor Relations section of Progressive's website for the next year. Thank you for participating. You may disconnect at this time.