S&P Global
Market Intelligence

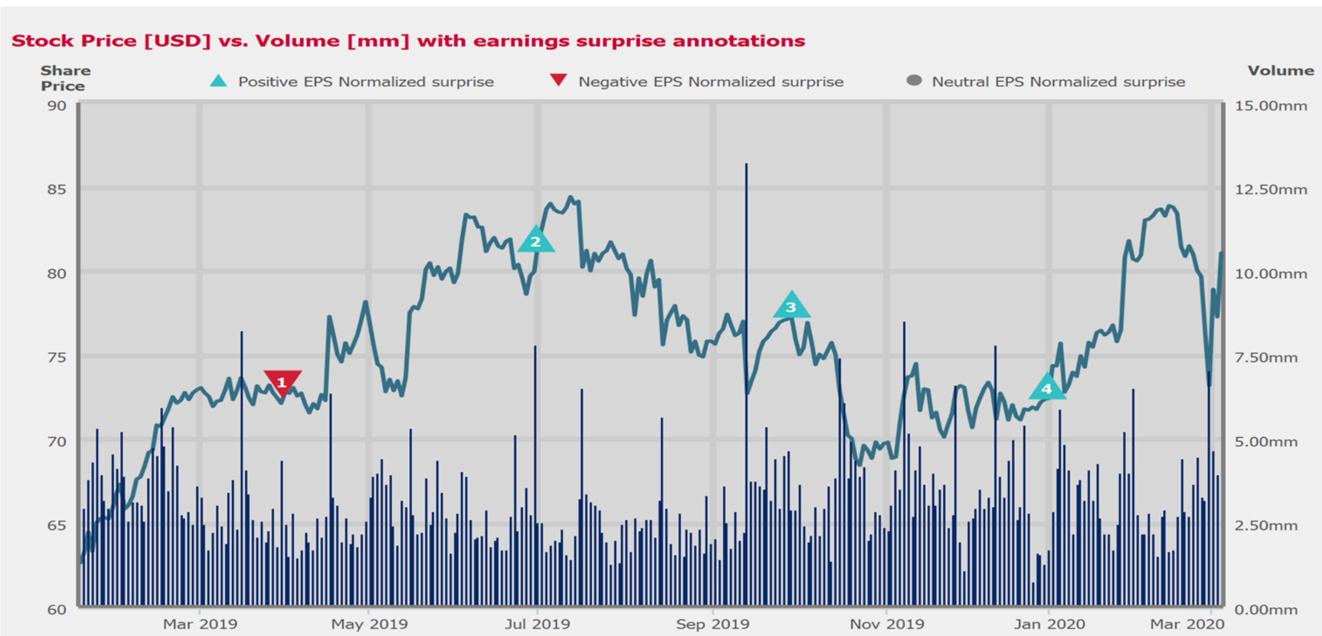
# The Progressive Corporation NYSE:PGR
# FQ4 2019 Earnings Call Transcripts

## Wednesday, March 04, 2020 2:30 PM GMT

## S&P Global Market Intelligence Estimates

| | -FQ4 2019- | | | -FQ1 2020- | -FY 2019- | |
|---|---|---|---|---|---|---|
| | CONSENSUS | ACTUAL | SURPRISE | CONSENSUS | CONSENSUS | ACTUAL |
| **EPS Normalized** | 1.13 | 1.29 | ▲14.16 | 1.39 | 5.22 | 5.41 |
| **Revenue (mm)** | 8891.56 | 9590.30 | ▲7.86 | 10344.84 | 36879.10 | 37577.90 |

Currency: USD
Consensus as of Mar-03-2020 10:09 PM GMT




| - EPS NORMALIZED - | CONSENSUS | ACTUAL | SURPRISE |
|---|---|---|---|
| **FQ1 2019** | 1.36 | 1.35 | ▼1 (0.74 %) |
| **FQ2 2019** | 1.41 | 1.43 | ▲2 1.42 % |
| **FQ3 2019** | 1.30 | 1.33 | ▲3 2.31 % |
| **FQ4 2019** | 1.13 | 1.29 | ▲4 14.16 % |

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# Call Participants

## EXECUTIVES

**David Pratt**
*Property General Manager*

**Gary S. Traicoff**
*Corporate Actuary*

**Heather Day;Head of Agency;Sales Distribution**

**John Peter Sauerland**
*Chief Financial Officer*

**Julia Hornack**
*Investor Relations Contact*

**Susan Patricia Griffith**
*President, CEO & Director*

## ANALYSTS

**Elyse Beth Greenspan**
*Wells Fargo Securities, LLC, Research Division*

**Gary Kent Ransom**
*Dowling & Partners Securities, LLC*

**Meyer Shields**
*Keefe, Bruyette, & Woods, Inc., Research Division*

**Michael David Zaremski**
*Crédit Suisse AG, Research Division*

**Michael Wayne Phillips**
*Morgan Stanley, Research Division*

**Yaron Joseph Kinar**
*Goldman Sachs Group Inc., Research Division*

# Presentation

**Operator**

Welcome to the Progressive Corporation's Fourth Quarter Investor Event. The company will not make any detailed comments related to quarterly results in addition to those provided in its annual report on Form 10-K and the letter to shareholders, which have been posted to the company's website, and we will use this event to respond to questions after a prepared presentation by the company. The event is available via a moderated conference call line and a live webcast with a brief delay. Webcast participants will be able to view the presentation slides live or download them from the webcast site.

Participants on the phone can access the slides from the Events pages at investors.progressive.com.

In the event we encounter any technical difficulty with the webcast transmission, webcast participants can connect through the conference call line. The dial-in information and passcode are available on the Events page at investors.progressive.com.

Acting as a moderator for the event will be Julia Hornack. At this time, I will turn the event over to Ms. Hornack.

**Julia Hornack**
*Investor Relations Contact*

Thank you, Jason, and good morning. Today, we will begin with a presentation about Progressive's Home business. Our presentation will be followed by Q&A with our CEO, Tricia Griffith; and our CFO, John Sauerland. Our Chief Investment Officer, Jonathan Bauer, will also join us for Q&A by phone. This event is scheduled to last 90 minutes.

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 the event. Additional information concerning those risks and uncertainties is available on our 2019 annual report on Form 10-K, 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 Investors page of our website, investors.progressive.com.

It is now my pleasure to introduce our CEO, Tricia Griffith.

**Susan Patricia Griffith**
*President, CEO & Director*

Good morning, and welcome to Progressive's Fourth Quarter Webcast. Well, we wrapped up 2019 with another banner quarter and banner year. We're very excited to start 2020. And obviously, you've seen January's results. So we continue to be really excited about our opportunities around growth and profitability.

As Julia said, today is about property. And so we're very excited to tell our story, both where we have come from and where we're going. Before I get into that, I've got 3 quick items. The first one, we heard you. Many of you asked for us to give the loss ratios associated with catastrophes, and as you'll see in the January earnings, we started to do that for each line coverage. So hopefully, that will be more transparent for all of you to understand the effect of our underlying loss ratios in any given month with any given catastrophe, especially in the more volatile line coverages like property. Second, as you likely read in the 10-K, Progressive and the minority stakeholders of ARX decided to conclude the acquisition a year early, so we're spending $242 million to acquire the remaining shares of ARX. And we will close that, if all things go well, which we expect that to happen in 2020 -- April of 2020 versus 2021.

It was funny, I was talking to Dave Pratt right before this, and he said, he had so many e-mails from people at Progressive Home saying, didn't this already happen? So this is really something where we've been dating forever, people assumed we're married, let's just get it done early. And we're really excited to move forward and really execute on our plan. And then the third item, which I'm sad about, but happy for her and happy for Progressive is Julia Hornack has decided to take her talents down to St. Pete with Progressive Home. All of you have got to know her very well over the year. She is really our Investor Relations guru and she's filled a lot of your questions over the years, and we're going to miss her, but we're excited for her in her next stage of her career. She's been a controller. She's been a product manager. And now she's moving on to work on specialty products, some vendor management and some process management.

Again, we're sorry to lose her from here, but so excited for Progressive. Congratulations, Julia.

**Julia Hornack**
*Investor Relations Contact*

Thanks, Tricia. Thanks a lot. And to all of our shareholders, portfolio managers and the analysts, it's really been a pleasure getting to know you and to do my best to represent Progressive and the facts that we provide in all of our public disclosures. It's been a pleasure serving our executive team that's truly extraordinary and a wonderful partner -- are wonderful partners. And I'm really excited to take my talent to St. Pete, hopefully. I'm sure I'll be back to Cleveland quite a bit to see my friends here, but I look forward to making friends with all my extraordinary colleagues down at -- in St. Petersburg. So thank you.

**Susan Patricia Griffith**
*President, CEO & Director*

I imagine you will be very diligent of when you come to Cleveland versus when you stay in St. Pete.

**Julia Hornack**
*Investor Relations Contact*

Yes, yes, yes.

**Susan Patricia Griffith**
*President, CEO & Director*

So I'll visit you in the winter.

**Julia Hornack**
*Investor Relations Contact*

Exactly, exactly. Yes.

**Susan Patricia Griffith**
*President, CEO & Director*

Great. Let's get started. So we changed the vision statement last year. And usually, when you change a statement 2 words, it doesn't really make a difference. This really did make a difference. And as we started to think about a new vision statement, we started to think about how many bundled customers we had. And so Home fit right in there. But as we stepped back and thought about being consumers' #1 choice, we really thought about why don't we have the word agent in there. And this actually came from Heather Day, because our collective consumers go into agencies, and we want the agents to think of us first in each of their agencies. In fact, 60% of our business, when you look at commercial lines and personal lines, come from the agency channel. I'm an agency customer myself. I wrote in one of the quarterly letters last year about how important this channel has been for us and especially going forward. So for us, this key door, this one change is really significant for our growth. In fact, recently, I had the opportunity to do a fireside chat at the Big "I" with the CEO, Bob Rusbuldt. The Big "I" is national alliance of about 0.25 million businesses that sell auto insurance products or insurance products, I should say. And I talked with his Board, which have representatives for each state. And really, I told them about how important they are to us and really wanted to solidify our relationship and know that we want to get inside the hearts and minds of all of our agents and invest in them and think about the future of our collective customers. So that word is very important.

The Home word made sense because we believe in a dual-channel strategy. One of our pillars is to have broad coverage. So we want to be where, when and how customers want to shop for home insurance as well as auto insurance and others. So whether it's in the agency channel through our Progressive Advantage Agency or HQX, we want to be there. So the vision statement change was 2 words, but pretty significant.

I shared this chart with you last quarter, really to talk about the return on equity. And we looked at a 5-, 10- and 20-year time frame, with Progressive compared to the S&P 500 and the S&P P&C index. And we outpaced, in all of those years, both of those indices. And we're really proud of that fact.

What I also said was that under-leveraged capital, we would return to shareholders, either in stock repurchases or dividends, and 2019 was no different. This was the first year of our new dividend policy, and our Board declared a variable dividend of $2.25 per common share, which equated to over $1.3 billion returning to shareholders.

In fact, if you add in the 4 quarterly $0.10 per common share fixed dividends, it equated to over $1.5 billion we were returning to shareholders. And although we don't have comparisons, I'm pretty proud, very proud to say that our return on equity for 2019 was over 31%. That is phenomenal. I'll obviously update you once we have more of the comparisons, but we're very proud of this. So the question I would ask if I were an analyst or an investor would be, given the recent struggle with profitability, are you still glad that you had the ARX transaction? A couple of words, very easily. Yes, absolutely, unequivocally, all those things. I'm going to give you a couple of data points. And then Heather and Dave will really talk about our plans, and we're really excited about that.

So first of all, over the inception-to-date period, we've grown 11% at a 96 combined ratio. So we've made money, and we've grown. Do we want to grow more and have wider margins? Absolutely. But a key part of this acquisition was for us to have access to those preferred customers in the agency channel.

In 2019, we believe that $750 million of our auto premium in the agency channel we would not have had, but for having the partner Home products to have that bundled-preferred customer. We equate that to nearly $5 billion in lifetime earned premium, well below our 96 combined ratio. So those are a few data points to say, absolutely, this was meant to be. On the more softer side, which I think sometimes is lost when you have an acquisition is the culture and the people and being able to really run as fast as we can collectively together to gain market share.

As you know, and I give credit to John Auer, the former CEO of ASI -- or ARX, I should say, and Glenn Renwick, the former CEO of Progressive, of really starting that relationship, we had fits and starts along the way of buy, build partner and nothing quite worked. And that relationship started -- we started with a 5% interest. And right away, we saw that these companies were alike. In fact, I always smile when I go down to St. Pete because in their first year of business, they have a plaque on their wall that says, we want to be the Progressive of homeowners insurance. And to me, that just meant something. It was almost a foreshadowing. In addition, we knew that we wanted, with this preferred customer base, to be able to lengthen our auto PLEs, and that has worked. We have comparison products that we both built, umbrella, as an example, where we would say ARX's products is superior to ours. So we'll merge those together and have even a better product. I think more importantly, and as of January, Dave Pratt started reporting into Pat Callahan. We're really starting to share resources. R&D, pricing, to get that depth of segmentation in property like we have in auto. I do want to thank John Sauerland for getting us to the final acquisition because he really was working on that for these last couple of years, and we're so excited to be able to wrap that up in April.

But again, the values, the people and the ability to really search for the great customers that we want and be able to achieve our ultimate vision is really exciting to us. I'm going to end by just talking about something. It's probably the softer side as well, but I think it's key to our culture. And that is a formula that I talked about in my annual letter to shareholders. The first part of the formula is question everything. I think when you have a high-tenured company like Progressive, especially at the senior levels, sometimes you can be just surgically focused in growing. And then my goodness, we've been doing that incredibly. But partly, you have to step back and say, why do we do this? Why do we invest in this? And question things that you said we may never do. A great example is create a homeowner company. After we, for lack of better words, failed to do that decades ago, we said we would never be in the homeowners business. Well, never say never because things around us change. And we knew we wanted to evolve as a preferred company, and we needed to do that. And so this was perfect.

So what I ask really everyone at Progressive to do, and my team does it all the time is, we always question and have really incredible debates to make sure that we're always thinking as this environment changes so rapidly.

The second part of the formula is be in an always-grow mindset. And I talk about this being sort of a double entendre. For me, it's everyone should care about their personal growth. I actually had an interview take place last week. And the women said to me, what do you do when you get bored. And I said, if I get bored, shame on me because there's so much out there to read, to listen to podcast, to do -- look at TED Talks, to be in outside events. And we really want all 40,000-plus Progressive people to continue to be curious and think differently because a lot of the best ideas come from the grassroots effort. We think if we always grow, in turn, the company will grow, and that's that double entendre. So question everything, always-grow mindset equals an enduring business. And for us, this is going to be our legacy for all of our senior leaders to the people come after us. And that is our job to make sure we have an enduring business for decades and decades and decades to come.

Speaking of an always-growth mindset, let's talk about property, both growth and profitability. So 2 guests today, both of whom I think you've met. Dave Pratt, who is our Property GM down in St. Pete, has been here for quite a while. His undergraduate degree from Duke is in electrical engineering and he has a Harvard MBA. He came to Progressive in 1991 as the product manager for New York. I can't go over his whole resume, but he's ran marketing, product development and many, many products along the way. And we asked him to take over as the Property GM right after Hurricane Irma in 2017, and he's been down there since, doing a fantastic job. He's a great story to tell.

Before that, I'd like to introduce to you Heather Day. Heather has her bachelor's degree in Economics from Miami. Her Master's in International Relations from USC. And if that wasn't enough for the always-growth mindset, she had her MBA from Wharton. She also has an extensive resume. Started as a product manager, has worked in recreational lines. She was our marketing leader for Snapshot. And most recently, our preferred marketing leader rolling out our Platinum for agents, which she'll talk about a lot today.

Most recently, a couple of years ago, she was part of that swap that we arranged, and she is the Head of Agency in Sales Distribution.

So Heather, why don't you tell us what you've been working on?

**Heather Day;Head of Agency;Sales Distribution**

Thanks, Tricia. So I will echo Tricia and reinforce that Progressive continues to invest in the independent agent channel. We recognize the value that agents provide to consumers that are looking for both product depth and local professional advice. So our commitment to working with independent agents has been long-standing. But it lines up well with recent market research and trends. The graph that you see on the left is from J.D. Power. And shows that over the last 5 years, independent agents have made steady gains in purchase satisfaction compared to captive agents or exclusive agents, as J.D. Power would call them. The satisfaction levels today are 20 points higher. And what they found when they were digging deeper, was that it was preference for flexible product offers that really drove the largest performance gap amongst these channels. And this is an -- if this area of flexible product offers is a place where independent agents thrive, based on their ability to place clients among several different brands compared to a captive agent that simply lacks that flexibility. This change in purchase satisfaction correlates to market trends. There was a parallel shift in market share beginning in 2015, 2016, a time when most major carriers were taking rate increases. Consumers start purchasing more in the independent agent and captive channels where price comparisons could be made most easily. Direct carriers made gain in personalized market share, independent agent carriers held steady, while captive carriers gave up share.

Now Progressive has steadily grown our own share in the independent agent channel. And that's accelerating in recent years as we have added the Home to the lineup. And if we look back at our recent growth, we were clearly well positioned heading into a hard market. And our overall agency results were boosted by our product segmentation and pricing. Progressive was steady. We were profitable and competitive during a period where many other carriers were taking larger rate increases. So this provided an excellent opportunity to make headway on those auto and home bundles. The compelling auto position made the overall bundle more competitive and the demonstrated commitment to property with the purchase of ARX in 2015 and then the subsequent launch of our Platinum program really gave our agents a reason to believe that they could partner with Progressive as a preferred bundled carrier. And indeed, as a share of our new business, bundles have grown fivefold over this period.

Looking at our independent agent share across these 2 products, in private passenger auto, we have gained 2 market points each year in 2016, 2017 and 2018, which put us at a 20 point share in 2018. And then on the Home side, Progressive has moved into the #6 spot with 3.5% of the market in 2018. Now despite this strong market position, we continue to see upside and the Home product is key to that.

Expansion of our addressable markets was really core to the Destination Era strategy. And I want to reinforce how critical that expansion is for our upside in agency. The table you see breaks down auto and home market premiums across channels by our market segments. So for a quick refresh on these market segments, you've got Sams, looking for auto insurance as needed, very price sensitive, they tend to be more nonstandard.

Your Dianes come to us with prior insurance, more financially responsible, but not homeowners. Wrights, these are homeowners that purchase home or auto insurance from us, but they do not bundle.

And then finally, we have the Robinsons. These are typically the most preferred customers, they bundle home and auto, and they tend to look to agents for ease and confidence. So not surprisingly, due to our legacy as a monoline auto carrier, we tend to over-index on the Sams, the Dianes and the Wrights. And despite our steady growth in bundles, we still have just about 2% of the independent agent Robinson market. So this is lots of room to grow in a $59 billion market. And disruption in the captive market is putting more of that $97 billion of captive bundles in play as well. And while there is still lots of upside and work ahead of us, we are pleased with our results to date. We have continued our momentum in writing bundles with agents, with 27% growth in 2019.

Now part of that growth comes from the expansion of our Platinum program, which at year-end 2019 was at 3,700 agents. However, Platinum will continue to be exclusive going forward. It is available only to those agents that have strong potential to write preferred bundles and strong commitment to writing those bundles with Progressive. So scarcity will remain part of the Platinum appeal. And we currently have less than 10% of Progressive agents that have platinum. So we're going to manage that number carefully as we go forward with continued emphasis on profitable growth as key to an appointment. Now we also see Platinum working as it drives consideration of the home and auto bundle and of our preferred auto more generally. So I'm going to reprise a graph that we shared during prior investor relations calls, updated here through 2019. This graph compares 2 cohorts of agents, 1 group and both of these agents -- both of these groups of agents had Progressive Home back in 2015. One group was selected for Platinum and the other remained in the more general Progressive Home program. And of course, if we go back to the start of 2015, the more productive agents were ultimately invited to join Platinum. So there is that initial delta that we see. However, after the launch of Platinum, that gap starts to widened. The momentum was initially slow as we integrated the sales teams and we looked for Platinum program infrastructure to get built out. But what we're now seeing is that multiplier effect of various initiatives that are starting to come together. So maintaining that original cohort of agents so that we can actually compare the same-store sales. What we see with the solid orange line for Platinum versus the solid blue line for those non-Platinum property agents is that Platinum agents are now 4.5x more likely to bundle their home and auto.

And then if I add preferred auto growth. These are the dash lines that are now on the graph. You'll notice that both sets of agents have increased their preferred auto volume over time. However, once again, those Platinum agents are again producing about 4x more volume per agency. So the gap between these Platinum and non-Platinum lines is really that Platinum difference. And what we see when we're looking back from 2019 is that this lift has held over time. And the Platinum program itself is really about a comprehensive approach. So I'll speak a little bit more about partnering with agents, both in terms of enhanced compensation as well as making it easy for them to write bundles and to leverage a strong brand. And then I'll hand off to Dave, who will share how we are positioning property for long-term success with a stable competitive offering. All of this comes together and builds our agents' confidence in our ability to serve their customers.

So on the compensation front, we recognized that we would have to think differently and increase compensation in order to offer a compelling alternative to preferred carriers in this space. We laid out what we call Paths to Partnership. It allows us to compensate agents for their increased commitment, while maintaining our overall low-cost position. So as an example of how this works, I'd like to share the story of G&G Independent Insurance. This is an agency with a smart leadership team that I had the opportunity to get to know last year. G&G joined Progressive in 2014. This was the same year that this agency opened their office in Fayetteville, Arkansas. And in the beginning, they wrote mostly nonstandard auto with Progressive. And when we rolled out our national commission schedule as part of Paths to Partnership, they started off in the growth tier, a tier that we provide agents with an opportunity that are getting started to really start growing their books with Progressive.

However, G&G's overall agency strategy was more bundled focused, and they had a lot of preferred customers. So they were able to earn higher commissions as they wrote more preferred auto with us. Our Progressive sales representative, Ben Burleson, developed a strong relationship with the team at G&G. Ben recognized that this agency had a larger bundle opportunity and was a good fit for the Platinum program. They moved to Platinum by May of 2018, making them one of the first 12 Platinum agents that we had in Arkansas. With this new level of partnership, G&G was at the investment tier, earning higher personal auto commissions, especially for that more preferred auto, unlocking the opportunity to earn some of our highest commissions available on the bundles they write, and they also gained access to annual policies and other marketing benefits. And because they had moved on to the Platinum path, they were also eligible to earn a performance bonus that rewards profitable growth in bundles as well as on their entire personal lines book. G&G quickly moved up a level with Platinum, earning higher renewal commission on their bundles and the cash award. And by 2019, G&G was -- had Progressive as their #2 carrier within their offices, gaining share quickly. So the agency qualified for that Platinum Blue level, which earned yet another cash award for reaching that goal in less than 3 years. In this May, we will celebrate G&G's Platinum Blue level achievement with a VIP trip, and they now have their site set on becoming one of our Platinum 25 agents.

So G&G moved from being a largely nonstandard book with Progressive to becoming a Platinum Blue level partner with a preferred book of bundled business and written premium that has grown tenfold. What this story highlights is an outstanding agency. But the themes here play out again and again across our agents. It really underscores the power of providing different levels of partnership with compensation that reflects their commitment as well as transparent and clear goals. So these programs that we have in place now allow us to maintain our cost advantage as a broad distribution carrier while still using targeted compensation to ensure that we encourage and that we recognize increased consideration with partner agents. So another part of the Platinum promise is ease of use, which is really part of our core value proposition for agents. We have carried that over to the preferred bundled space through our Portfolio quoting platform. Portfolio allows agents to select multiple products to quote, whether simultaneously or to add a product during the interview. There is prefill available for customer, vehicle and property information across the products that are being quoted. And the Portfolio summary page provides agents and their customers with an overview of their premium, their bundled savings and applied discounts. So agents can add or remove a product with the click, really speeding up that sales process. Portfolio was also a win for us internally as it was an early example of strong teamwork and deepening integration across our auto and property businesses. We launched Portfolio in September of 2018, and at the end of last year, we were live in 27 states, representing 73% of quote volume as well as almost 120,000 users. We are seeing the expected lift in our auto conversion. The lift in our property conversion actually is surpassing expectations, which seems to be a result of both better representation of discounts as well as easier access to the property products through this new interface.

And what I personally find most encouraging is that the upgrades to the underlying architecture of the platform really allowed us to better test and learn our way to continuous improvements as we respond to our agents' evolving needs and their feedback.

Now being a brand with a national presence that customers want or ask for is cited in our internal research as a top reason that agents look to Progressive to help grow their business. So we want to ensure that agents can leverage that brand for both their home and their bundle offerings. We know the power of the Progressive brand extends to homeowners.

Research confirms readiness to consider purchase of a Progressive homeowners product, especially a young -- amongst those younger homeowners. And we find that featuring Home as the message performs well. Our media spend has shifted to a greater emphasis on home as part of the overall message mix. That, in turn, drives increased consumer awareness of the Progressive Home product which makes the brand an even more powerful tool for our agents. So we're leveraging that Progressive brand in our Platinum agent marketing collateral, making it easier for them to showcase both breadth of product with their -- with our co-branded materials across print, digital as well as mass media. And when we look at the overall program, Platinum is emerging as a driver for future commitment. So in a blind survey that was administered by a third party, agents indicated that Progressive is one of the companies where they place their best customers 72% of the time. But when we cut that data to focus in on agents that have access to our Home product, that response jumped by 10 points. Now we have room to improve. We are still coming up short against 2 of the largest long-standing preferred carriers in the market. But when we look at this from another angle, and we ask agents where they are planning to increase business, Progressive outperforms even when compared to those long-standing preferred carriers. And once again, there is a stronger result with agents that have our Home product, coming in at almost 80% intent to increase placement.

So we feel good about these early years out. But we continue to learn and to look for opportunities to improve. Listening to our agents to understand their expectations and their customers' needs is critical. We do so through our Agency Council and in ongoing conversations with partner agents across the country. Guidance from our agents has also informed the deepening conversations across the home and the auto product teams as we evolve the bundle offering and our property product.

And now I'll hand off to Dave to share more on that front.

**David Pratt**
*Property General Manager*

Thank you, Heather. Good morning. I'll begin with a very brief overview of our financial results and then dive into some of the details. Our growth is meeting our expectations. You see last year, our direct written premium in property grew to just over $2 billion, and we're leveraging not only the Platinum agency program that Heather just described, but Progressive's brand and marketing strength in the direct channel. The combined ratio improved by about 4 points last year, but it's still not meeting our goals, and we'll talk in a lot more detail about that.

If I start with growth, I'm showing here, growth in our new business sales over the last 3 years. The blue bar at the bottom is sales from local independent agents. And all of the growth that you see there is coming from bundles, from auto and home bundles that we're rating largely through the Platinum program. The orange bar is our direct-to-consumer business. That's pretty new to ARX, and so we're seeing very high percentage growth in the direct channel. We've almost completed the conversion from the ASI brand to Progressive Home. So those of you who insure your home with Progressive, on your most recent deck page, you saw the Progressive Home logo. We've made investments in the quoting channels. So the portfolio program for agents that Heather described is now out in 29 states.

On the direct side, we're part of the HomeQuote Explorer quoting platform, and we've actually built the capability to go all the way from quote to buy the policy without having to talk to an agent in 14 states as of the end of the year, and we'll continue to roll out both of those platforms in 2020.

And then the light blue bar at the top, mostly in 2018, was a fairly large book roll. So one of Progressive's partners in the Progressive Advantage Agency decided to opt out of that program. We worked with them to roll that book over to Progressive Home. So when you combine all of those sources of growth, we had 61% growth in 2018.

Looking at 2019, without that book roll and the denominator, it looks like our new sales are pretty flat, but we continue to have strong underlying growth in both the agency and the direct-to-consumer channel.

Now as we grow outside of ASI's original states, the mix of our business is shifting. So ASI was founded as a Florida property insurer, expanded fairly quickly into the other Gulf states. So if you go back to 2006 here, Florida was about 80% of ASI's business and Texas and Louisiana made up the rest.

And the light blue part of this graph is all other states. So we've -- the expansion into the rest of the country has come to the point where Florida now only accounts for about 20% of our exposures and those expansion states now are more than half.

Now that expansion also means that we are now exposed in a bigger way to new perils, especially wind and hail. If you look at the components of our loss ratio over the last few years, the orange part of these bars is wind and hail, the gray part at the top is hurricane losses and then the blue part at the bottom is all other perils that the property policy covers.

So you see that, that all other perils section has been stable and predictable. We've been very close to our pricing expectations on the all other perils section. Wind and hail, though, has gone from 10% to 15% of premium to more than 30% last year. So really getting our hands around what our expectations should be for wind and hail costs, and pricing appropriately is an important part of meeting our profit goals.

Now I'll talk in more detail later about our reinsurance program. But I just thought I'd highlight here how that results in differences between our direct and net results. So the lower line here shows the direct combined ratio for ASI and now Progressive Home over the years. The blue line at the top is the net result. So in the early years, ASI was ceding a lot of premium to our reinsurance partners. We didn't have any hurricanes making landfall in those years. So we weren't ceding any losses. And so our net loss -- our net combined ratio was higher than the direct. In the last few years, the reinsurance program has been working as intended. And in years where we've had some big hurricane losses with Hurricanes Irma and Michael, the reinsurance has kept the combined ratio near 100.

Now it's worth noting that even in these recent years where we haven't been satisfied with our results, we've been consistent with the industry. So the chart here, the blue line shows our direct loss ratio each year. The gray line shows the industry, but with the industry premium -- state premium weighted based on the ASI and Progressive Home mix. So in the early years there, you see that it was mostly Florida premium and no hurricanes, very little loss ratios. As we've expanded into other states, we should expect to see the loss ratio be higher than a no storm here in Florida, but would still been at or a little bit below the industry result.

So let me talk for a minute about what we did last year to improve profitability, and then we'll transition to our plans for this year and beyond. On the map here, the blue states I've called the hail states. And so the chart on the right shows our rate increases last year. So in those hail states, we took rates up almost 9% compared to just 4% in the rest of the country. And then we also implemented some coverage changes. So the states that have the stars on them, we did 2 things. We started to require our new customers to buy higher wind and hail deductibles. And the issue there is that when fairly small hail falls on a new or well-maintained roof, it really shouldn't do any damage. But that doesn't prevent roofers from aggressively marketing to our customers, suggesting that the roofer could help them get a free roof from their insurance company.

Now it's clear that if a customer's roof is damaged, we want them to report that claim, and we want to pay it as quickly as possible, so we can help the customer get the repair made. But we have found that in cases where the customers' deductible is a little higher, they're less likely to submit a claim when there's no visible damage in response to the marketing pitch from the roofer. The other change we've made is that for roofs where the shingles are nearing the end of their useful life, we're requiring actual cash value coverage for the roof. That same fairly small hail, if it hits a shingle that's been out in the sun for 15 or 20 years is much more likely to crack that shingle and then that needs to be repaired or replaced. But it just doesn't make sense for us to offer full replacement cost coverage for a maintenance item on something that needs to be replaced soon. And so as the roof reaches sort of near the end of its life, we're asking people to have actual cash value coverage. And we see evidence that both of those changes will bring the loss ratio down and mitigate the need for further rate increases.

Now despite those actions, in the blue states last year, we ran at 115 combined ratio compared to an 89.5 combined ratio in the rest of the country. So I think a natural question would be, well, how can you feel confident that you have addressed this problem and you can make money consistently throughout the country?

So let me talk a little bit about the tools that we use to price for these perils. Because weather is very volatile, we can't use last years' experience as a good predictor for next year's claims. It wouldn't make any sense to say, "Hey, we haven't had a hurricane for 3 years, so we don't have to price anything for hurricane." We have pretty good models for -- to help us understand what our likely hurricane losses will be. Until recently, we only had 2 models available to predict severe convective storms. So those are the big thunder storms that cause wind and hail. And I'm showing here the modeled prediction for what our annual average loss should be from wind and hail from those models over a 5-year period.

Here's what our actual losses looked like. So the models were just not doing a good job of helping us predict what we should expect in terms of claims from wind and hail. Now fortunately, there's a new model that has become available in the last couple of years, and as we back test that against our book of business, we feel much more comfortable that, that model is going to do a good job of helping us to predict what our future loss costs will be. So Model C here in the orange shows the model's prediction of what our losses would have been compared to that light blue bar, which is the actual that we paid. So we're now using that new model in our pricing decisions for wind and hail. And we -- so we feel much more comfortable that we will be priced accurately going forward.

Now we also want to continue to grow this business while we work to improve the profitability. And so we are in the process of rolling out what we're calling the 4.0 version of our property product. As we've grown outside of the Gulf states, we're collecting a lot more data in the rest of the country. And we've been able to collaborate with Progressive's auto product R&D team in Cleveland to use their most sophisticated tools to help us get the price segmentation where it needs to be. Heather mentioned the feedback we've gotten from our Platinum agents. That's been very helpful as well. So we've been able to expand eligibility. In some cases, our underwriting appetite was much more restrictive than their other preferred markets. We've removed some exclusions from the contract that were unusual in the market. And we've broadened coverage through new endorsements. And so this gives me the excuse to put the picture of the German Shepherd puppy here because we used to have a fairly long list of dog breeds that were ineligible. And as we studied further, we were able to pair that back, so this little guy would now be eligible for insurance with Progressive Home.

Let me talk for a minute about our reinsurance program. We maintain a very conservative insurance program and intend to continue that. On the catastrophe side, it's designed to provide coverage for 3 major hurricanes in a single year. So on the far left, you see the coverage available for a first event in Florida. So the way the program is structured today, we retain the first $60 million of losses from a single event. The gray part in the middle there is the Florida Hurricane Catastrophe Fund, that's a state reinsurance fund that we're required to participate in and do. And then the blue section is voluntary market reinsurance that we buy. And then finally, at the top, we have a catastrophe bond, so an insurance-linked security. Altogether, we have coverage for an event of almost $1.8 billion in losses. Now most of the blue section is reinstated automatically. So if there's a big claim, we get a reinstatement, and so the middle bar there shows what our coverage would look like after $1 billion event. We would still have about $1.34 billion in coverage. And then we would even have if there's a second -- a $700 million event, as a second event, we would have remaining $640 million in coverage for a third event.

And just to put that in context, Hurricane Irma is the most expensive storm we've ever encountered, and our estimate of ultimate losses from Irma is less than $400 million. So we feel good about the structure of the catastrophe program. As the business continues to grow, we expect to increase our retention at the bottom slowly, and we expect to buy even more limit at the top of the program.

Now we also have an aggregate reinsurance program. That's to cover the volatility in wind and hail that I described earlier. So no individual hailstorm is likely to reach that $60 million retention. But if we have a year with a lot of hail storms, that could put pressure on our loss ratio. In previous years, we had a program that was based on a loss ratio attachment. So if our loss ratio reached the attachment point, we got a -- had a recovery from the reinsurance. We switched that this year to an aggregate catastrophe excessive loss program. So in this year's program, we retained the first $375 million of catastrophe losses, and then we have coverage for up to $200 million above that. So if we have a really bad wind and hail year with lots of activity, that aggregate program would kick in, and we have a recovery. Now it's important to note that, that change may result in a change to the monthly volatility that you see in our property results. So what we're showing here, the blue line shows the property combined ratio that Progressive reported each month in 2019. The orange line shows what we would have reported if we didn't have that loss ratio-based aggregate reinsurance. So you see, in January, that it was a very light weather month. The combined ratio was below 80, so there's no need for aggregate recovery.

And February was -- as a busier weather month, the combined ratio approached 120, but we hadn't yet hit that year-to-date attachment point for the reinsurance. That changed in March. So March was again a busy weather month. But now we had a recovery on the reinsurance. And so our reported combined ratio in March was about 100. And then each month through the rest of the year, the recovery would go up or down based on the weather. So you see in April, relatively quiet. We actually reversed some of that recovery. But then in May and June, busier months. So again, we -- the recovery we had in the reinsurance increased, but our reported combined ratio was pretty stable. With this year's program, we won't have a recovery on that aggregate unless we get to $375 million in total catastrophe losses. So in the early months of the year, if we have a month where there's a lot of weather, we'll report a higher combined ratio. But we expect the reinsurance to be available if needed, if the full year results are difficult.

So let me end with just a very brief description of our priorities for the property business for the year. Job number one is improving profitability. We've talked a lot about that. The second is a focus on our people and culture. Because of the fast growth in this business, over the last 3 years, we've gone from less than 600 people working in the property business to more than 1,200 people. So it's really important that we spend a lot of effort on coaching and career development, so that those people are effective in their jobs, enjoy their jobs and want to stay with Progressive for a long time.

We have opportunities to improve processes as we grow to become more efficient and reduce cost per policy. I don't know if you noticed, but on the first page, our expense ratio was down by more than 2 points in 2019, and we see some further opportunity for efficiency gains.

We want to continue to make it easy for agents and customers to quote and buy our policies and the investments in portfolio quoting and HomeQuote Explorer buy are key there.

And then finally, we want to work to improve the customer experience. And the focus here is on those bundled customers. So there are instances today where, for example, the billing experience is different on your auto policy compared to your home policy. And we want to align those experiences, so that the bundled customer has the same experience across all of our products. And we think that will result in even better customer retention, and we'll keep those bundled customers for a long time.
So with that, we'll pause just briefly, and we'll give Tricia and John an opportunity to come up for questions. Thank you.

# Question and Answer

**Julia Hornack**
*Investor Relations Contact*

Thanks, Dave. [Operator Instructions]. And before I kick it over to Jason to take our first question from the conference call line, there's been a lot of discussion in the property casualty industry about the effects of this concept of social inflation.

And so Tricia and John, I thought you might want to start off by talking about how that concept of social inflation can affect particularly bodily injury severity and PIP trends.

**Susan Patricia Griffith**
*President, CEO & Director*

Okay, great. I'll take a stab at that on both the personal auto side and the commercial line side. And then John, if you can weigh in on anything I forgot, or anything that to -- that's important to note. And then why don't I have Gary Traicoff, our Chief Actuary, come up and talk about the reserve part of it because I think that's a really important part.

So first and foremost, in the personal auto side, frequency is down about 3%. And if you compare it to the last data point we have for the competition, it's down lower because it's flattening out. It's about 0 for the competition in quarter 3. That is the 12th consecutive quarter that our frequency has been down.

Again, we talk about trying to attribute certain things to frequency. It's really difficult. We would say that our mix shift to more preferred customers seems to be a part of it. But again, it's really hard to attribute any one particular thing. We'll watch that very closely.

On the severity side, we're about 1 point different from the industry at this juncture. The typical reasons in collision and property damage, component parts, actually, labor rates have been increasing and total losses. We're having more frequent total losses. So those are continuing the trends we've talked about for several quarters. On the BI severity part, which we take more seriously because they have slightly longer tails. And I talk a lot internally about injuries are not like fine wine, they do not get better with age. So we really try to make sure we have the right file at the right rep at the right time. So here's what I would say at this point. We see the BI trends flattening out somewhat at this point in time. Again, this is changing. And then if you're talking to some of our competition, I think we're all watching this very closely. So it is flattening out but our BI trends are up. And if you compare our incurred trend to the paid of the industry, we're about 1.5 difference, which we would assess to actuarial increases or reserve increases. We're seeing the same aggressiveness.

When you think about the social inflation buzzword that Julie talked about, we're seeing aggressive attorneys. We're seeing aggressive attorneys early on in the files. And so that's really an important piece. We call it like day 0 before or right after we get the claim reported.

We see attorney rep rate up about 2% year-over-year on the personal auto side. And we're looking at different cohorts of coverage limits, and we're seeing about mid-single digits in every cohort, and they're slightly different depending on that. So think of 50-100, 25-50, et cetera. And this is an anecdotal piece, but some of our CRM reps have said that they are getting calls from someone other than the named insured to assess what the limits are. And I remember being in a claims ranch for 15 years and getting those calls. Often times they were plaintiff attorneys. Again, this is anecdotal, but am I going to take -- I might be more interested to take a file that's a 50-100 than a 25-50 file.

So again, those are just some things that are anecdotal. A new piece of information that we have from a vendor that we work with shows that attorney media spend is up 10% when you compare the fourth quarter of 2019 to the fourth quarter of 2018. Again, I could have anecdotally told you that from my travels and you turn on the TV in any state you go to, any city you go to and look at billboards. So we think that, that's getting more aggressive. So we have to watch that really carefully. I assume that many of you will ask because I had referenced a handful of states a couple of quarters ago that we're watching closely. So there's about 5 states that we've been watching from BI severity trend. 4 out of 5 of those have shown a decline in severity in the fourth quarter compared to full year of 2019. But again, 3 out of 5 of those states are still higher than countrywide. So we're watching it closely. Right now, it appears to be flattening, but again, that can change at any given time. We are very surgical in pricing, each line coverage, each state channel product, all of those things, so we'll keep on top of that. Clearly, our margins, we believe, are really strong, and we believe were conservative from the reserving side.

So on the commercial side, we are down 4% from a frequency perspective, up about 19% from a severity perspective and about a couple of those points are reserve increases actuarial strengthening.

Here's what -- I would step back and say one thing. Every BMT in our commercial lines organization was at or below our targets. So very successful 2019. And into January, we were sub-90 combined ratio. So we are very strong on the commercial side. We also are no stranger to being able to react to trends. So if you recall, in 2016, we bumped up against our 96, and we immediately -- we knew part of that was commercial. We immediately increased rates, knowing it takes a little bit longer because the majority of those policies are annual. Still continued to take rate in 2017 and 2018. 2019, we saw the competition was also taking rate during those time frames. But in the first half, that started to diminish a little bit. It's picked up at the latter half of 2019. I would say for Progressive, we took less than 1 point on 1.5% rate increase in 2019. We will likely be a little bit more aggressive in 2020 as we see specific states and loss trends increase. And part of our -- in terms of the 17% or 19% BI trend, part of that, too, we are having a mix shift to our 4 higher transportation, which are higher severity. So it's one other piece.

When I talked to John Barbagallo, he sees 3 states very specifically where we see loss trends accelerating. And so we either already have filed or in place rate increases. And in addition to that, we have 3 states, those same 3 states we have multiple variations of underwriting restrictions. So as an example, we have a 9.6% rate increase going in May in California. We'll watch those closely. And again, when we think of growth and profitability, if you have to make a choice, which we never want to, it's always going to be profit. So one, I feel really, really great about our solid results in commercial, especially compared to the industry. We will get on anything we don't see quickly and make sure that we meet our profit targets. Do you want to add anything?

**John Peter Sauerland**
*Chief Financial Officer*

If we're going to ask Gary to come on and talk about reserves. I'll fill in while he makes his way with 2 thoughts. So one, it's important to take a little step back when you're thinking about trends, frequency and severity and look at the longer-term trends. We think, in aggregate, our severity trends are normally very consistent with the industry and frequency trends, we actually have been enjoying bigger drops in frequency more recently over the past 3 years, actually, than the competition. Tricia mentioned some of that is due to writing more preferred mix of business. I would offer we also believe that it is due to more robust underwriting we've put in our upfront process in binding new business. We think that's had a lot of great outcomes in terms of avoiding risks whose intent is not to ensure but to defraud. So longer term, severity, sort of where the industry is, frequency, better than the industry is. And I would also offer, where Tricia was mentioning on the commercial side, matching price to risk, we are also very agile in the personal lines side, and we'll certainly continue to make sure we are matching prices that we perceive should rise, at least on the liability side, due to the trends with risk as fast as we can.

**Susan Patricia Griffith**
*President, CEO & Director*

Gary, what are your thoughts?

**Gary S. Traicoff**
*Corporate Actuary*

Great. Well, I think -- this is Gary Traicoff, Chief Actuary. Hello, everybody. Tricia and John gave a great overview and description. With respect to reserves, as you know, we developed unfavorably last year about $232 million, which was 0.6 point on the combined ratio. And that development was primarily related to the increasing injury severity trends that we were seeing and led to unfavorable case development. We recognized that early in 2019, and over the course of the last 3 quarters, we increased reserves from actuarial change is roughly about $60 million. So we ended up going up about $186 million during 2019. And in addition to that, our claims adjusters continue to strengthen reserves through natural movements as well. So when we look at it overall, with the changes that we took, we now on an accident year basis, are up about 12% for Commercial Auto, year-over-year, and 6% for Personal Auto. That would be loss and LAE for liability, which you probably noted in the annual report. Of course, LAE is a little bit flatter. So on an indemnity side, we're a little bit north of that. And when we think about how development is occurring recently, last year, over the last 2 quarters, we did develop slightly unfavorably, about $20 million. So of that $230 million that we saw come through, $210 million of that was in the first half of the year. And a much smaller amount during the second half of the year.

In January, we ended up developing unfavorably about $78 million, which was a little over 2 points on the combined ratio. In January, though, the development was really related to some other areas. We primarily developed unfavorably due to December claims that were reported in January. When we look at our injury case reserve development between Personal and Commercial Auto combined, we actually developed slightly favorably in January. Now that's just 1 month. So it's hard to say that how the future will go. And I definitely can't predict how we see development and for the year or the changes that we take during the year. But as you know, as the year plays out, primarily the development we see on the injury case reserves are a main driver of what we end up seeing.

**Susan Patricia Griffith**
*President, CEO & Director*

Great. Thanks, Gary.

**Gary S. Traicoff**
*Corporate Actuary*

Okay. Thank you.

**Julia Hornack**
*Investor Relations Contact*

Great. So Jason, now can you please take the first question from the conference call line?

**Operator**

Your first question comes from the line of Mike Zaremski from Crédit Suisse.

**Michael David Zaremski**
*Crédit Suisse AG, Research Division*

My first question is on any potential impact from the current situation with the coronavirus. The New York Times has come out and said that they're seeing just recently ad spend fall fairly materially across the brand with [ might see ] slippage to 25%. And I'm curious if you think Progressive should, in the near term -- or is part of that? And also, are you seeing any impact maybe from your call medics drivers on the work frequencies if people are maybe working from home?

**Susan Patricia Griffith**
*President, CEO & Director*

Mike, that's a great question. So I'll start with the ad spend. Right now, we're going to continue to spend. This is a prime time of the year when people are buying insurance, we're getting into that season. So we'll continue to spend. That we have some flexibility in. But again, whether you drive a little bit or a lot, you still are required to have auto insurance. And so our intentions will be to spend as long as we feel sufficient. So again, we'll have to be nimble because all of this, as you know, is ever-changing.

The great question on the UBI. So with the recent deaths in Washington, we asked the UBI team, just to take a look at UBI vehicle miles driven or traveled by week in January and February this year compared to the prior 2 years. And we are not quite seeing a difference. And again, that's very little data, but that tells us we haven't seen it yet. Again, now that we'll look at it weekly, we can start to see that. We'll look at it across the country where we can. So we'll be able to understand pretty quickly. If you go back to something like the financial crisis, I was running claims at the time and we saw frequency drop really quickly. And so we'll have some good insight. We get our frequency data on a daily basis. So we'll understand very quickly where we're at.

From a vendor perspective, we always think of the concerns around auto parts that are possibly made in China. So we had our property process team talk to all of our OE vendors, the percentage of OE that we use on our vehicles, the percentage they get from China, et cetera. For the most part, with the exception of one OE, we feel like there's low risk at this time. And even with that partner, they have an inventory. Again, it's always those like first and second order effects. So it could be that more cars are towed, because you can't get parts and then there's used car parts. So it's -- we're going to keep watching that.

From an internal perspective, we already have over 25% of our people working from home. We have had many team meetings, we're having a tabletop pandemic exercise tomorrow, I believe. And then our Chief HR leader, Lori Niederst, had a meeting yesterday with our Chief Medical Officer, talking about the same things that most companies are talking about in terms of nonessential travel and what to do if you're coming from a country that's been affected.

So right now, we aren't seeing any effect. But again, this is such a moving target that we have a lot of data points that we're going to be looking at literally on a daily basis to understand how it will affect possibly our frequency.

**Michael David Zaremski**
*Crédit Suisse AG, Research Division*

Okay, great. And lastly, just a follow-up to the actuarial comments at the end of the prepared remarks. I believe you said that January's reserve problem was worse than expected, it was fairly material. And are you saying that, that was mostly due to December claims that maybe people just didn't make due to the holidays? And then you said -- and January ex that was actually favorable. And so that just implies that just last year's loss ratio was worse. And that on a forward-looking basis, things looked a little bit better?

**Susan Patricia Griffith**
*President, CEO & Director*

Yes. Gary talked about that, but yes, partly, it was the December losses late reported. And...

**Gary S. Traicoff**
*Corporate Actuary*

Yes, sure, great question. So in January, we were about -- of the $78 million, pretty much all of that really related to December claims that were reported in January. And when -- we look at it throughout the year, right? So when we look at January claims that come in, in February or February claims that come in, in March, et cetera. Some months were high, some months were low. It's really noticeable in the first month, because it's prior year coming in.

If we excluded that -- those late reports that came through, our development pretty much was right at 0.

In addition to that, if we looked at just injury case reserves, which was the primary driver of the unfavorable development last year, we actually were slightly -- very close but slightly favorable in January. So those claims, as they paid out, came in a little bit below the initial reserves we had set. Again, not an indicator that, that's how the year ends up, but that's what we had in January.

**Susan Patricia Griffith**
*President, CEO & Director*

Well, Gary, over the years, you've shown us that one data point in January, how it evolves is very different. And every year, you show us a comparison of 3 or 4 years. And so what I would say, Mike, is one data point, strengthen it. We have sort of -- oftentimes, the December late reports, but I would say, we are all over this and feel good about where we're at. Of course, will react quickly should we need to strengthen.

**John Peter Sauerland**
*Chief Financial Officer*

I could put it in perhaps simpler in terms of combined ratio points. So simply because we're turning the page, what Gary was saying, we're going to see some losses we categorize as prior year every January. We had 2.2 points of prior year losses in January this year. Last year, we started out the year with 4.8 points. That was a lot higher than we've normally seen. But as Tricia was mentioning, generally speaking, in January, you're going to see some prior year development and the 2.2 doesn't concern us at all.

**Julia Hornack**
*Investor Relations Contact*

Jason, we'll take the next caller from the conference call line, please.

**Operator**

Your next question comes from the line of Elyse Greenspan from Wells Fargo.

**Elyse Beth Greenspan**
*Wells Fargo Securities, LLC, Research Division*

I was hoping, Tricia, you could provide a little bit more info on your outlook on the personal auto rating environment. It sounds like from some of your introductory comments that you continue probably to expect pretty modest rate movements, I guess, throughout the majority of your book for 2020. But has anything changed or maybe in some specific states where you're taking a little bit more rate?

**Susan Patricia Griffith**
*President, CEO & Director*

Great question, Elyse. We'll continue to look at that as it evolves. It's really hard to kind of have that crystal ball. So we -- last year -- and most of the industry -- most, some took some overarching rate decreases.

People were taking a little bit of decreases. People wanted it start to grow a little bit. We're seeing less of that. The industry is getting closer to 1% at this juncture. We are very surgical in each state, like we said each channel, each product, and we'll react to that as necessary. We feel really good where we're at in terms of our profit margin. But I talked to Pat Callahan, our Personal Lines leader all the time on specific states and what we need to do to strengthen it.

Again, we don't want to get behind. It's really important for us to have stable rates for our consumers. And so we're going to take that 1% or 2% to make sure we reach our target margins, but we feel really good, specifically on the direct side of the new business coming in. We have new business targets as well, and we feel really good about it at this juncture. Again, I feel like we're really nimble when we need to be should we need rate, but we feel good at this point, and again, point here, point there, depending on what we're seeing in specific states.

**Elyse Beth Greenspan**
*Wells Fargo Securities, LLC, Research Division*

Okay. And then my second question. Could you just provide an update on -- on the small commercial side of things, you guys were kind of rolling out some products in 1 state, right? And then the expectation was to maybe expand into more states. Can you just provide an update on where those initiatives stand today? And then how that's -- how you're thinking about additional steps and roll out throughout the rest of 2020?

**Susan Patricia Griffith**
*President, CEO & Director*

Absolutely. So we -- mid-2019, we rolled out Ohio, like literally small 5 agents trying to figure out what's our product, ease of use, et cetera. Got the thumbs up. Got some feedback on pricing. Rolled out to Ohio and 3 more states in 2019. Since then, we've rolled out 2 additional states in January, 2 more in February. We expect to roll out 2 more in March. And so total for 2020 should be in 15 states. We have about 2,000 agents selling that small business, and we are really excited about the momentum. And so this is something, as we thought about the 3 horizons, and you think about investing before you need to, to make sure you have that enduring business. We started thinking about this a couple of years ago, and we were really excited, actually about small business, both on the agency side and through our BusinessQuote Explorer, and we'll have the Progressive product, hopefully, on the Explorer -- on the BusinessQuote Explorer sometime in 2020. We have many different unaffiliated carriers, partners that we work with, and we continue to be able to give the small business owners what they need.

So I would say the one word about small business would be momentum. I feel really good about where we are. And actually really good about where we are with a lot of the topics that John Barbagallo and Karen Bailo went over a couple of quarters ago. We rolled out our small fleet program to 49 states. And the conversion has increased fourfold.

We -- obviously, our relationship with both Uber and Lyft in the TNC has increased, so we're excited about that. Just -- look, across the board, I feel great. Our Smart Haul program is showing great conversion, or great take rate, I should say. So that's our UBI in commercial. And in fact, on the agency side, where the customer is eligible, the take rate is 25%. So I would say commercial's firing on all cylinders, small business and everywhere. Do you agree?

**John Peter Sauerland**
*Chief Financial Officer*

Yes, absolutely. And I share that excitement. Just for clarification for all viewers, when we're talking about the rollout here, we're talking about business owners, policies and general liability. So as Tricia mentioned, we got into 4 states in 2019. We have elevated 2 year-to-date, and we expect to actually add about 15 states for this year. So ending the year, maybe around a little over 20 states. And again, this is intended to vastly broaden our addressable market for Commercial Lines. We've been #1 in Commercial Auto for a number of years now. And this opens up a marketplace that is probably 2, perhaps even 3x the size of Commercial Auto force. So very excited about that growth as well as the plethora of other great things we have going on in Commercial Lines.

**Susan Patricia Griffith**
*President, CEO & Director*

Yes. When you think about bundled customer with BOP and GL, and then you think across our channels as well, there are many small business owners that actually also have our auto and home. So as we think about that, we really think about the household economics going forward is that's really what's exciting as well. Thanks, Elyse.

**Operator**

Your next question comes from the line of Michael Phillips from Morgan Stanley.

**Michael Wayne Phillips**
*Morgan Stanley, Research Division*

I guess, a bit of a continuation from that last question in a different angle. A large part of your earlier comments on the slide presentation this morning was on the agency channel, and that's where the Robinsons live. So with the focus there because of that, can you talk about any maybe incremental help that, that does, more focused on the agency channel that helps you with your Commercial Lines offerings?

**Susan Patricia Griffith**
*President, CEO & Director*

Yes. So many commercial, whether its small business or Commercial Auto, actually go through the agency channel. It's a little bit more of a complicated product. So that's actually a much higher percentage than would go on the direct side, although we believe at some point, we want broad coverage -- or actually, now we want broad coverage for everything. So I believe, as I talk to agents, there are some agents that are only Personal Lines, some are more commercial. But there's many, especially large agencies we work with that are both. And for them to have access to all the products they need for that customer, whether their -- they have a small business and their auto and home is really a great umbrella for all of them to serve their customers. And that's what they want to be able to do. And so I think it's really important in the agency channel because it is still a little bit more complicated. So if you think of a person who is opening their first business, they want to make sure they're protected. They want to be educated. That is nicely done through the agents. So we're very bullish on that as well.

**Michael Wayne Phillips**
*Morgan Stanley, Research Division*

Okay, great. And then I guess back to frequency on the Personal Auto side. How does that vary by, I guess, age of car and model year? And maybe the reason to think about that is, is there a continuation of continued frequency to the extent that it's maybe more of the recent car years versus the prior ones?

**Susan Patricia Griffith**
*President, CEO & Director*

Well, we can't really assess that based -- we look at it mostly based on customers. So from a preferred to a nonstandard, who are more likely to have accidents or we look at it in terms of the demographics of are you a mature driver or you're just learning to drive. So that's how we look at frequency rather than types of car. And what I said is it's really hard to attribute very specifically to frequency, but we do believe a piece of it is more of our preferred customer who likely have less accidents.

**John Peter Sauerland**
*Chief Financial Officer*

Yes. And as Tricia was saying, diagnosing exactly where the frequency is driven, meaning by the driver of the vehicle, the environment, all that, it is very difficult.

That said, if you're focusing on model year vehicles, certainly, newer model years are driven more miles than older vehicles, and we've been growing a lot, and we've actually been increasing our share of those newer models as we write more and more preferred business. So the fact that our frequency is down, in the same time period, the trends that I just described there makes us pretty confident that we're writing the right preferred business.

**Operator**

Your next question comes from the line of Yaron Kinar from Goldman Sachs.

**Yaron Joseph Kinar**
*Goldman Sachs Group Inc., Research Division*

My first question goes to the partnership with the ridesharing companies. Is it fair to think of the incentives as not necessarily fully aligned, namely the ridesharing companies I would think who are very focused on growth, would probably be interested in settling claims as quickly as possible, maybe not necessarily pushing back as much when you guys may think it is necessary. And if it is -- if that line of thinking is correct, I guess, how do you manage that risk for that misalignment of incentives?

**Susan Patricia Griffith**
*President, CEO & Director*

Yes. So we -- actually, that hasn't been an issue. We fully handle the claims. They're completely done in-house. And the great part about Progressive that I've always felt especially having my upbringing in claims is, we really have never even differentiated between an insured and claimant. Every customer is a -- every consumer is a possible customer, et cetera. And so we settle fair and accurately. So we don't get pushback from them. I haven't heard anything about that. What they want is somebody out there getting their driver's car back on the road, so they can make a living. And if there's injuries, making sure we're fair and settle those. So we haven't had an issue. I think they look for partners that have a world-renowned claims organization like we do. We have feet on the street because we have local presence. And so it's really worked for both Uber and Lyft. And all the feedback has been that we do a really great job in that. So that's -- and that's how I see it in terms of -- they want to have the claims handled by somebody who has a history of doing the right thing from indemnity perspective and that are also cost conscious from an LAE perspective.

**John Peter Sauerland**
*Chief Financial Officer*

And from a financial perspective, I'll point out that in both of our ridesharing relationships, there's quota share agreement. So in both of those cases, those companies have captive reinsurers that are part of their organization, and we are ceding premiums losses. So they are sharing in the financial results that we are experiencing with all their drivers.

**Yaron Joseph Kinar**
*Goldman Sachs Group Inc., Research Division*

Okay. And then my second question just goes to bodily injury severity in broader terms. So can you maybe talk about what accident years you saw the increase in bodily severity coming from both in Personal Lines and in Commercial?

**Susan Patricia Griffith**
*President, CEO & Director*

You both have to help me on this. I would say, if I had to guess while he's looking it up or you can -- more like 2017, '18, where we're starting to see it develop. I can't say for certain without looking that up. But again, those trends do develop. You they take -- develop a little bit more over time. And I know off the top of my head that's what I would say.

**John Peter Sauerland**
*Chief Financial Officer*

Of the $232 million of prior year development, approximately $131 million was from 2018, $73 million from 2017, and the remainder from 2016 and prior. And we detail all of that in our annual report.

**Susan Patricia Griffith**
*President, CEO & Director*

Because like, I know I've read that, so I'm going to guess. And luckily, I was right. Great.

**Yaron Joseph Kinar**
*Goldman Sachs Group Inc., Research Division*

Okay. And those ratios are relatively -- there's a distribution between those accident years somewhere in Commercial Lines and Personal Lines?

**John Peter Sauerland**
*Chief Financial Officer*

I think it's safe to assume that. I actually don't have those numbers to quote for you. But generally speaking, older accident years have already developed previously. And by a large part, they have settled. So we also provide, in the annual report, loss triangles, where you can see where we picked, if you will, the loss reserves at the end of the respective year and how that develops over time. You can also see the percent of those claims that have been paid. And obviously, on physical damage claims, those get paid very quickly. On a bodily injury, you can see that development. But especially, on the Personal side, those bodily injury claims while certainly take longer to settle than fixing a car, they develop fairly rapidly. Commercial Lines is a little longer, but you can see all that in the annual report. And it's safe to assume that prior year development is predominantly from the most recent year.

**Operator**

Your next question comes from the line of Gary Ransom from Dowling & Partners.

**Gary Kent Ransom**
*Dowling & Partners Securities, LLC*

Yes. You mentioned briefly during the presentation about the direct side of the homeowners business. Can you talk a little bit more about why that's growing more rapidly? What kind of customers, whether it's bundled customers that are coming on that side as well? Or any other comments you might have on the direct growth?

**Susan Patricia Griffith**
*President, CEO & Director*

Yes. So we've grown, I think, I've talked previously, and we're going to have at one of the upcoming quarterly webcasts, a sort of a spotlight on our Progressive Advantage Agency. So in our Progressive Advantage Agency, we have Progressive Home along with many other unaffiliated carriers. In that way, we're able to really have broad coverage for the customers that come in. So maybe Progressive Home doesn't want that risk, but another company does. So we're able to really -- we have a very low DNQ rate in there. So we're able to bring that in-house. We've grown our Progressive Advantage Agency substantially in the last 3 or 4 years. And that is one way where customers want to come in. In addition, we have HomeQuote Explorer that we developed a couple of years ago, where you can go online, and we also have Progressive Home as well as several other unaffiliated carriers, and we have a buy button with that in 14 states. So when you're able to go on and actually purchase, I think it's really important, and we'll continue to roll out more and more states with that. So I think it really is customer preference, and that goes to our strategic pillar of broad coverage. If you feel comfortable. And the great part about HomeQuote Explorer is that we're able to gather a lot of information from publicly available data to make the quote really easy. And especially if it's a pretty simple basic home with things that we are able to get, they can get it done really quickly, and some people don't necessarily want to go through an agent. So we've got both areas growing rapidly, but it's really great in the direct cycle because a lot of people want to go either on the phone or online.

**Julia Hornack**
*Investor Relations Contact*

Great...

**Gary Kent Ransom**
*Dowling & Partners Securities, LLC*

Can you just expand on that question on the -- moving it into Commercial as well on the Commercial side, it also -- you're growing more rapidly on the direct side as it says in your K than in the agency side? Is there any characteristics of the customers there that are bringing that growth stronger?

**Susan Patricia Griffith**
*President, CEO & Director*

Well, yes, and it's also on the base. So BQX is fairly new as well. The customers are the similar type customers. It is more complicated. I wrote in my letter that I sat with a BQX rep, and it gets really complicated when they start adding different coverages that they want. So we feel like right now that we can accommodate about 70% of the small businesses. And that's why we're going to continue to have more and more partners and then ultimately have the progressive BOP GL in our BQX.

This -- I would say, BQX is less mature than HQX, HomeQuote Explorer. And -- but they're doing similar things that we did several years ago on the Personal Auto side, and that is build an in-house agency, utilize partners so we can cover many different types of small business owners with different products that we may or may not write on our paper. So I think that's a really important part. It's a similar thing. We want that bundle. So where we believe we'll have a longer tenure Commercial auto partners is if we have more of their Commercial needs, same thing on the Personal Lines side.

**John Peter Sauerland**

*Chief Financial Officer*

The one thing I'd offer to add to that, Gary, when you're looking at the premium mix numbers, direct versus agency for Commercial Lines, you should be aware that we categorize the rideshare partners' business as direct. So those, obviously, are pretty significant premium relationships. And as we add those and add states, you're going to see that growth.

**Susan Patricia Griffith**
*President, CEO & Director*

Yes, yes.

**Julia Hornack**
*Investor Relations Contact*

All right...

**Operator**

Your next question comes from the line of Meyer Shields from KBW.

**Meyer Shields**
*Keefe, Bruyette, & Woods, Inc., Research Division*

Great. I just want to start by thanking you for the enhanced capacity disclosure and maybe more importantly for the responsiveness is tremendously welcome.

**Susan Patricia Griffith**
*President, CEO & Director*

Our pleasure.

**Meyer Shields**
*Keefe, Bruyette, & Woods, Inc., Research Division*

This is a bit of a weedy question for Gary. When I look at the triangles in the 10-K, the age-to-age factors for auto liability, agency, direct and commercial, they're all speeding up, and I was wondering what that actually reflects?

**Susan Patricia Griffith**
*President, CEO & Director*

Yes, sure. Gary will be up in a second, Meyer.

**Gary S. Traicoff**
*Corporate Actuary*

Meyer, now when you were relating to that, are you looking at the paid or the incurred?

**Meyer Shields**
*Keefe, Bruyette, & Woods, Inc., Research Division*

Paid.

**Gary S. Traicoff**
*Corporate Actuary*

On the paid side. Yes. So on the paid side, there's a couple of things going on, right? There are definitely some states where we are seeing a speed up in closure rates, particularly 30-day, 60-day, 90 days coming in as well. And then on the incurred side, you may notice some changes. What we have seen is our adjusters, we feel are recognizing larger claims quicker. And so they are recognizing those claims, and we're seeing the numbers come up quicker, which would mean theoretically, then we would see lower development factors on the paid and incurred later in the triangle, right? And so that's some of the subjectivity that's coming through now, where we're seeing that speed up early. And then the question is, how much of that do we think will materialize later on or it backs off as it develops to ultimates.

**Meyer Shields**
*Keefe, Bruyette, & Woods, Inc., Research Division*

Okay. No, that's very helpful. And then second question. This is completely unrelated. Just I wanted understand the thought process of raising deductibles in the health space and changing the coverage instead of pricing for the specific option that the customer would want?

**Susan Patricia Griffith**
*President, CEO & Director*

Well, part of it is if you have a 20-year-old roof, and you couldn't have rates enough to cover that, if someone has a hailstorm, and we replace that fully. So we tried to create different coverages that put skin in the game. It's been really difficult with vendors out there. We'll go through the storm process and you can see it as they develop, they'll go through and you're knocking on the door and you're making sure don't you need a new roof? Your insurance company should pay for that. So we're trying to always pay fairly, always do the right thing for our insureds. But have some skin in the game that you don't just replace your roof every single time there's a hailstorm when there isn't damage. So -- or when there is slight damage that isn't actually changing the structure of the roof product. So we'll see how it goes. To price to a hail state would be no growth, I believe. So we're trying to be creative in our product development.

**Julia Hornack**
*Investor Relations Contact*

Great. I'm actually going to take a question from the webcast. So it's about policy life expectancy, an important topic we haven't really talked about yet. And I got a couple of questions about it. So particularly in direct, what is causing the decline in policy life expectancy, both on a 12-month and 3-month basis?

**Susan Patricia Griffith**
*President, CEO & Director*

Well, a couple of things. We had gone over the -- a process that we changed a while back. And occasionally, we have that happen. There's another one that we're doing that I don't want to talk about for competitive reasons that will actually negatively affect the PLE, but we think it's the right thing to do to have the right customers on the book that are actually we can make money on. So -- and also, it's been very competitive. So rates have been really stable, and there's a lot of advertising out there, and it's really easy to change. And there's a lot of consumers that are just price sensitive and they shop all the times. So if they're going to shop, a likelihood they can find a lower rate with us or some of our competition. I will say, and of course, it's one data point that -- and PLE is lagged, that the December development has actually increased in both the trailing -- the appeal in the 3-month and the 12-month. Again, I don't want to say that, that's the future. We look at that as a possibility. We're -- we look at PLE very specifically with nature, nurture and price. So nature is our mix of business. Obviously, we want more of the preferred business. Nurture is how can we take care of our customers. We are investing a lot in the CRM organization around sort of N=1 personalization. How can we be there for you? You particular -- communicate with you in the way you want. And then, of course, price is the competitive landscape. And the ease of going back and forth. So those 3 things we look at from PLE.

We continue to have a team that works on PLE. I mean, the executives sponsor for that, and we were -- we've changed leadership to make sure we look at all different angles. And in the spirit of question everything, we look at PLE, and we'll continue to look at that externally overall. But I think there are some cohorts that we believe that we can increase PLE more substantially than others. An example would be, there are some Sams that we call -- some, not all, that are just inconsistently insured. And we love them. That's how Progressive was born and as long as we can make our target margins, we're great. But they might go. And will we ever really make that go from X to Y. But we'll always treat them nicely. And occasionally, they become Robinsons. But there are the other cohorts that we say, what are other things -- why are you leaving? What are other things that you need from us on the nature, nurture or price? And so that's what we're working on. And internally, looking at PLE from very different cohorts. So PLE ex Sam, PLE when you have auto home umbrella, all those things, and we're starting to really gain some traction on how we think about a household PLE.

**Julia Hornack**
*Investor Relations Contact*

Great. And unfortunately, we've run out of time today. So I'm going to kick it back to Jason for the closing scripts. Thanks for joining us.

**Operator**
That concludes the Progressive Corporation's Fourth Quarter Investor Event. Information about a replay of the event will be available on the Investor Relations section of Progressive's website for the next year. You may now disconnect.