S&P Global
Market Intelligence

# The Progressive Corporation NYSE:PGR

*Earnings Call*

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# Call Participants

## EXECUTIVES

**Douglas S. Constantine**
*Director of Investor Relations*

**Jonathan S. Bauer**
*Chief Investment Officer*

**Patrick K. Callahan**
*President of Personal Lines*

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

**Unknown Executive**

## ANALYSTS

**Brian Robert Meredith**
*UBS Investment Bank, Research Division*

**Charles Gregory Peters**
*Raymond James & Associates, Inc., Research Division*

**David Kenneth Motemaden**
*Evercore ISI Institutional Equities, Research Division*

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

**Jamminder Singh Bhullar**
*JPMorgan Chase & Co, Research Division*

**Jian Huang**
*Morgan Stanley, Research Division*

**Joshua David Shanker**
*BofA Securities, Research Division*

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**Michael David Zaremski**
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**Michael Wayne Phillips**
*Oppenheimer & Co. Inc., Research Division*

# Presentation

**Douglas S. Constantine**
*Director of Investor Relations*

Good morning, and thank you for joining us today for Progressive's first quarter investor event. I am Dough Constantine, Director of Investor Relations, and I will be a moderator for today's event.

The company will not make detailed comments related to its results in addition to those provided in its annual report on Form 10-K, quarterly reports on Form 10-Q and the letter to shareholders, which have been posted to the company's website. Although our quarterly Investor Relations events often include a presentation on a specific portion of our business, we will instead use the 60 minutes scheduled for today's event for introductory comments by our CEO and a question-and-answer session with members of our leadership team. The introductory comments by our CEO were previously recorded. Upon completion of the previously recorded remarks, we will use the balance of the 60 minutes scheduled for this event for live questions and answers with members of our leadership team.

As always, discussions in this event may include forward-looking statements. These statements are based on management's current expectations and are subject to many risks and uncertainties that could cause actual events and results to differ materially from those discussed during today's event. Additional information concerning those risks and uncertainties is available in our annual report on Form 10-K for the year ended December 31, 2023, as supplemented by our Form 10-Q for the first, second and third quarters of 2024, where you will find discussions of the risk factors affecting our business, safe harbor statements related to forward-looking statements and other discussions of the challenges we face. These documents can be found via the Investor Relations section of our website at investors.progressive.com.

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

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

Good morning, and thank you for joining us today. I'd like to begin today by extending my sympathies to those affected by Hurricane Helene and Milton. The scenes of destruction were truly heart-wrenching and the human toll of these storms was devastating. As the cleanup efforts continue, I'm heartened to know that Progressive's excellent claims staff is standing by to assist our customers in their greatest time of need. In fact, I've heard countless versions of stories like the one I'm about to share with you. This is when our customers need us most, and we shine the brightest.

My name is Anne Marie and my fiancé is Timothy. We just lost our RV with this last Hurricane Helene. I've been in Tampa for 2 months sitting by Timothy's bedside while he fought cancer. I'm happy to say that he is in remission. I came back to Fort Myers Beach to meet with the adjuster, Ray. I would like to tell you about my encounter with this lovely gentlemen. Ray was prompt, professional and showed compassion for my loss of our home. He is the perfect person to be assessing the damages of one's property. I cannot say enough positive things about Ray. He is one of a kind, and it was a pleasure to meet under these horrible circumstances. That's what it's all about. To my claims colleagues, you amaze me every day. Thank you from the bottom of my heart for all that you do each and every day.

Turning towards results. The third quarter was one of our strongest in our history. Across our businesses, we added almost 1.6 million policies in force, the most we've ever added in a quarter. This brings the total policies added this year to nearly 4.2 million, truly a remarkable feat. The magnitude of this growth during the year requires increases in sales, servicing and claims staffing, and our teams have met the challenge, enabling us to maximize growth while providing the quality experience our customers expect of us.

Throughout the third quarter, we experienced very strong demand for our Personal Lines products across both channels. While direct channel new application growth responded almost immediately to our increase in media spend and the release of non-rate actions earlier in the year, as evidenced by the channel's stronger new business growth in Q2. The agency channel's growth potential wasn't fully realized into the last few weeks of the second quarter. The result is a third quarter where our growth machine was firing on all cylinders with clear results in both channels experiencing record levels of new applications.

To date, the level of ambient shopping in Personal Auto remains very high, and we have capitalized on that. In Q3 2024, we spent more on media than in any quarter in our history. The result was a higher number of direct channel prospects than any quarter in our history, surpassing Q2 2024, the previous record holder. Additionally, conversion is strong, suggesting that we are well priced compared to the competition.

Though the fourth quarter, especially November and December are historically lower in sales volume, we believe that we can continue to position ourselves to capture more than our fair share of prospects from the marketplace. The record growth is even more impressive when you consider our profit margins. Our year-to-date combined ratio through Q3 was very strong. Though the cost of Hurricane Milton are not reflected in our Q3 numbers, 2024 is still shaping up to be one of the best non-pandemic years in our history.

Growing at our pace with record profits is a testament to the investment we've made in segmentation over the years. And we're not standing still. Our newest product model, which continues to add further segmentation in our Personal Auto products is available in states that represent about 1/3 of our net written premium. You'll recall that in 2022 and 2023, the Commercial Auto market was impacted by many of the same inflationary pressures as Personal Lines. And in response to the rising loss cost, we took double-digit rate increases in 2023.

In Q3 2024, we reported our third straight quarter of quarter-over-quarter improvement in our loss and LAE ratio for Commercial Lines. Our results in part from the rate we took in 2023 earning in, which is a slower process in commercial lines since the majority of our policies are 12 months. Growth has been more difficult in that line as the softness in the truck market has offset solid growth in our other non-trucking business market targets.

As our competitors catch up in rate, however, we are optimistic that we're well positioned for more growth in the future. The third quarter results in property were excellent at a 78.5% combined ratio after almost 30 points of favorable development on storms from the first half of the year and despite the 21 points of losses incurred by Hurricane Helene. However, 2 hurricanes striking Florida only a week apart, underscores our need to risk adjust our property business. Our efforts here are evident with Q3 PIF growth in what we consider to be less volatile weather-related states of 19% compared to a decrease of 9% in the volatile weather states.

Risk adjustment has been and will be a year's long effort, but we are making progress. As always, our goal is to have all of our reporting segments meet their profitability targets, and we continue to make headway in our property business with improved segmentation in our 5.0 product model and adjustments to our underwriting appetite.

Ultimately, when I look across our results today, I see a huge amount of opportunity. While we can't know exactly what the future holds or what the market will bring, I believe that we are in a good position to be flexible and to react to whatever comes our way. The actions we take today are what position us for what we achieve next year, and I firmly believe that we are in a good position headed into 2025. While there will undoubtedly be challenges, I'm already looking forward to what I anticipate will be a great fourth quarter and a strong 2025.

Thank you again, and I will now take your questions.

**Douglas S. Constantine**
*Director of Investor Relations*
This concludes the previously recorded portion of today's event. We now have members of our management team available live to answer questions. [Operator Instructions] We will now take our first question.

# Question and Answer

**Operator**

Our first question comes from the line of Josh Shanker with Bank of America.

**Joshua David Shanker**
*BofA Securities, Research Division*

We think about -- if we think about the idea of growing at a $0.96 combined ratio or better as fast as Progressive can, is that a revenue premium number? Or is that a policy count number? I asked this because there are some who are considering Progressive's very, very good margins, bodes for price cuts in the near-term future. But would Progressive cut price, if it did not come with commensurate improvements to the policy count growth?

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

Josh, it's a good question. We look at both when we talk about growth as fast as we can. Some of our internal measures, success rates are based on our average PIF growth. And we always talk about our preferred growth is our unit growth, because trends can ebb and flow as you've seen in the last several years. So that is our preferred method.

Obviously, we want to stay ahead of trend. And we know that retention is very helpful if we have a stable rate. So we want to get as many new apps in the door as possible through our -- obviously, our increased media spend. But then we want to keep those. And so I think it's a balance of everything. So premium, we always want to stay ahead of trend and make at least that $0.04. And unit growth, we want to grow as fast as we can as long as we can service our customers in the way they deserve. Does that answer your question?

**Joshua David Shanker**
*BofA Securities, Research Division*

Are the margin -- yes. So I guess more -- are the margins today so tasty that Progressive has a view that they should be considering price cuts in the near-term future?

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

Well, you know what the price cuts, we will watch trend carefully. So like we said in the Q, there's -- we did about 9 states of some price cuts, but we also had states that went up it. So I think what I've talked about in the past is really -- we want to use -- in the current margins we have, we want to use that to propel growth. So that will be the continued sort of march towards using our media spend to continue to have that organic growth. But we will see states and channels and products where we have to increase rates a little bit as well. We go back to that small bite to the apple where we just want to stay ahead of it and have those rates stable. But we believe we're really well positioned to continue to grow.

**Operator**

Our next question comes from the line of Bob Huang with Morgan Stanley.

**Jian Huang**
*Morgan Stanley, Research Division*

Maybe just a follow-up on that, but more on the competitive environment perspective. As we think about your ad spending and as we think about your advantages in pricing or competitiveness in pricing, but if competition were intensified in 2025 and going forward, how effective do you feel the ad spending and then the pricing side will be? Like should we expect the incremental ad spend, but the effectiveness of the ad spend maybe will come down a little bit, like curious your view on this?

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

Yes. I mean I think competitors have taken this time to get their rates on the street, and we see people coming back a little bit, not as quickly as we did, obviously, on the media side. We always look at media from an efficiency perspective. And we'll want -- if our cost per sale is still favorable to our targeted acquisition cost, we'll continue to spend to make sure that we get more customers and convert more customers.

I think really how we feel right now with our current margins and where we're at, we're going to continue to push on media and push on growth. And we just feel like we're really well positioned because if -- and we believe we're still in a hard market, people, consumers continue to shop, we're going to have those stable rates. And in addition, we've been spending, and it's a little bit further afield, but we've been spending money on not just getting business in the door, but some delayed response ads.

So I don't know if you notice -- I'm sure you do, either in my comments or my letters, I talk a lot about our culture and our people and who we are. And I don't know that enough people, consumers and customers and our communities know sort of our purpose that we exist to help people move forward and live fully. We've recently put out some ads we call my purpose Anthem to talk about progress. And progress isn't overnight. You should look up purpose on a page of Progressive and Google, and you kind of see all the things we're doing. And so we're -- you're going to be seeing some adds with that, that are a little bit more of a delayed response, but a response, we believe, will be nicely balanced with sort of who we are as a company that you want to be involved with. So we're excited about our growth. We love competition. Yes, I think competition will continue to have the right rates and show up in media, but we're prepared.

**Unknown Executive**

[indiscernible] just in response to both of those questions. The way we operationalize in the marketplace, our objectives there is through our product managers. And they are managing at the state and product level, and they are assessing the competitive landscape where we sit by segment. They understand elasticity by channel and by locale. And they're making the calls that level to decide what we should be doing with price.

Obviously, the $0.96 is the objective. But to the extent we can manage and grow a lot beneath that, the product managers are going to make those calls. So I think when you look at our performance over time, you see the aggregate of all those decisions at the local level. So I think that -- I understand the questions, but I think understanding how we operationalize that in the marketplace is really important to understand our model.

**Jian Huang**
*Morgan Stanley, Research Division*

Okay. Very much appreciate that. My second question is on retention. So if we look at your 10-Q commentaries, your -- for auto business, Personal Auto business, the policy life expectancy has been relatively elongated over probably more than a year now, right? And then that's been stabilizing. If I remember correctly, your pricing is relative to the expected life cycle of a policy.

So if that life cycle were to stabilize going forward, should we expect that favorable contribution to combined ratio to be less pronounced going forward? In other words, is it right to assume that you'll probably need some marginal pricing as that life cycle kind of stabilize rather than continue to improve?

**Operator**

[Technical Difficulty] Once again, everyone, please remain holding as we reconnect speakers.

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

Okay. Thanks, Victoria. I apologize for that. I thought that was on your end, but it was on our end. And so if we have questions at the end of the hour, we'll certainly elongate the time. So Bob, you're asking your second question, and I think it was about retention. I think I must have jinxed us, because this weekend when I was preparing, I'm like, this is one of the best quarters in the history of Progressive. This is going to be great. And then, of course, our computer crash. So apologies again.

**Jian Huang**
*Morgan Stanley, Research Division*

Yes, I'm sure you have even better quarters down the road. Yes, question -- your policy life expectancy is kind of -- was growing over the last few quarters, and now it's normalizing. Would that have a headwind to your combined ratio as given that you're essentially trying towards and expect life expectancy for every policy or you don't think that's an issue?

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

Well, yes, I mean I think retention is kind of our holy grail. So it's always an issue to grow our units. So the T12 has been pretty flat, and that's really a lot to do with some of the actions that we've taken across the board. T3 was down. And that's a lot on the comparison of last year when it was up 35%. But yes, we watch that closely. We don't want to spend all of the media money to have customers come in and then just leave. So our focus really is those stable rates and great service to continue to improve retention. Do you want to add anything, Pat or John?

**Patrick K. Callahan**
*President of Personal Lines*

No, I think that's good.

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

Thanks, Bob. Sorry about that again.

**Operator**

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

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

My first question, Tricia, I think you did hit on a little bit in your prepared remarks, but -- it was just about just the Q4, right? I think typically, sometimes there's slower growth because of the holidays and vacation. I'm just trying to want to understand how you think about the dynamic playing out this year, just given continued elevated shopping as well as your marketing spend and how we could think about PIF gains in the last quarter of the year?

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

Yes. Thanks, Elyse. Yes, we're going to continue our push throughout the end of 2024. And it's really -- we want to get more than our fair share of the shoppers, even if shoppers are a little bit less in November-December based on the holidays. And really, we don't want to -- you could easily say, well, wouldn't you just pull back a little bit for expenses on media. But really, you want to have that consistent media spend and have -- and be prepared for that response and that shopping that we believe and normally typically happens in that first quarter. So it's really about relative to our peers, are we in a good position, a better position, and we believe that we are.

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

And then my second question, right, obviously, record growth year for Progressive this year. As you think about the environment, right, you guys are obviously taking less rate industry, right, perhaps a bit behind you guys. How do you think about '25? I know there's a lot of different variables, but just from a growth perspective, sitting here today, how do you think next year could play out?

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

We feel really good and bullish about 2025. You're going to look at some stats that we talked about in our Q, I mean, 117% new app growth on the direct side, 98% on the agency side. Those are massive amounts. And obviously, the comps will be more difficult. But that doesn't mean on a relative basis in a unit basis, we're not going to grow, literally as fast as we can. And we just -- we feel so much better about our rates, especially on the private passenger auto part.

Commercial and product, we're still having rate earning that we feel bullish about our positioning as well in our derisking on the property side. So we feel like we look at our growth from our strategic pillars. So we've got a great culture and great people. We are very adequately staffed, especially in our call center organizations for sales and service, and our claims organization to take care of our customers.

We reduced our expenses on the non-acquisition expense ratio, because we compare -- we care deeply about those competitive rates. We continue our segmentation, so you've got people and culture. You've got competitive rates. You've got our brand, which continues to evolve and you've got our broad coverage, right? We're going to be aware in and how customers want to shop. With those 4 strategic pillars and where we're at from a pricing perspective and a margin perspective, I think we have a huge opportunity in 2025.

**Operator**

Our next question comes from the line of Michael Phillips with Oppenheimer.

**Michael Wayne Phillips**
*Oppenheimer & Co. Inc., Research Division*

I wanted to -- I wanted to drill down on the frequency severity trends that you put in the Q. Specifically, the BI liability. It looks like -- anything to make of -- it looks like the severity kind of moved up a bit and frequency kind of didn't improve as much as 2Q? And anything to make of that?

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

Yes. From a BI perspective, it's a little bit higher some of the other line coverage, mostly that is in higher large losses and more soft tissue injuries where there are attorney repped. So that ends up usually being more expensive. And I'm sure you're reading a lot on social inflation and we have seen across the industry some pretty elevated jury verdicts that we believe are pretty egregious.

So we're always keeping our eye on that. And bodily injury trends are less of a step function than were what happened with like used car prices where there was just sort of a confluence of events in terms of shortage of the chips and all the things that came into play when car prices were risen. When you look at the history of BI trend, it sort of continues to move up based on attorney representation based on medical bills, et cetera. So we're not too concerned about one quarter, and we feel like we have our arms around the BI trends.

**Michael Wayne Phillips**
*Oppenheimer & Co. Inc., Research Division*

Okay. Good. And then second question just on homeowners. Can you remind us where you are with, I guess, the PIF reductions in cat-exposed states?

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

Yes. So we talked a little bit about our PIF growth. So we're up 19% in our growth states and down 9% in our volatile states. We continue to have a really robust derisking program. So you've seen the rate come in. We had 16 points -- year-to-date, 20 on the trailing 12; 5 more points to earn in this year, and then we have other rates that are elevating. So that's the first one, get the right rates on the street.

We talked a lot about segmentation. And what we've been working off about our 5.0 product. Segmentation is the thing that we believe we are industry leaders in, and we need to be at least in auto for sure in commercial auto, and we're -- we will be there in property as we continue to work on segmentation. We talked about exiting 115,000 homes in Florida last year. That takes some time by the time you communicate it to insureds, and you're able to do that. And of course, there can be moratoriums after states and we've been exiting DP3 in many states. That's obviously -- we have to have prior approvals though our DOIs, but we have approval in about 22 states and are working with many more exit that line of coverage.

And then really, it's about cost sharing. We don't want homeowners to be a maintenance program. So we have a mandatory wind and hail deductibles and those are coming through the system. And then lastly, just conversations with our agents on putting high-quality business and high-quality bundled business, which is usually preferred and owner-occupied homes on the progressive balance sheet.

So we've got -- it's a multitiered plan. We knew it would take a while. We signaled this a while ago, but I feel very good about where we're at. But clearly, having 2 huge hurricanes, less than a week apart, really elevates what our plan has been for a while and what would be in the future.

**Operator**

Our next question comes from the line of Gregory Peters.

**Charles Gregory Peters**
*Raymond James & Associates, Inc., Research Division*

I know you've mentioned trying to leverage your agent compensation program to reward profitable business. Maybe you can spend a minute and just give a snapshot if you've changed how you're rewarding your agents and how they're helping you underwrite business -- new business as it comes in the door?

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

Yes. I'll let Pat give more color than I will. But we're constantly evolving our agents, and we have agents that are more specialized. It's preferred bundling. We have our plant in Asians. We have agents that have typically been more on Sam's maybe some mom and pops, but we constantly evolve our compensation to make sure that we put high quality business on the books, but also reward those agents for that business. Pat, do you want to give any more color on that?

**Patrick K. Callahan**
*President of Personal Lines*

Sure. We have an aligned national commission structure that we have in place for either our property agents, so those with the full suite of products or those without access to our property products. And those matrices are designed to reward higher-quality business and greater volume of business. And over time, what we see is agents respond well to understanding what the targets are, understanding how the framework works and understanding how their behaviors and the actions, allocating different business to Progressive can result in better compensation for their agencies.

Now Tricia mentioned on the quality side of things, as we pivot and start to invest more to turn the property business around, there are tactics within the agency channel that will ensure that agents know they have to be bundling business with us. They have to write with our underwriting guidelines in mind, and we measure that through underwriting cancel rates. And they have to produce a certain amount of volume to retain their property appointment with us. And we think those 3 in combination with a very clear, transparent national compensation plan. Agents understand what we're offering, how we fit in their agencies and ultimately, how we can mutually benefit by producing high-quality profitable business.

**Charles Gregory Peters**
*Raymond James & Associates, Inc., Research Division*

Makes sense. For my follow-up question, in your letter, Tricia, you said you have nearly 4.2 million more policies in force than you did at the end of last year. In response to some of the questions in your prepared remarks, you talked about how you're fully staffed.

Maybe you can give us a sense of how you're keeping fully staffed with such tremendous growth in a full -- in a macro environment, it seems full employment. And maybe segue, one of the things we never get much information from you or many of your peers is how you're deploying technology and artificial intelligence and maybe that's helping you with the growth in policy in force. So any commentary on that would be great.

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

Yes. It's a really great question. So what we've been doing, we had -- the only time that I can recall we had difficulty in hiring and retaining with sort of when the wage wars started right after the pandemic. So after that, we've done a couple of things. We've hired well in advance of need. So when you think about being a fully licensed sales rep in our call center or a fully trained claims rep out in the field, it takes some time.

And so that's -- while it's maybe a more expensive venture at first blush, we think that pays for itself because we have high-quality people handling your calls, handling your claims. And in fact, we were able to deploy between our own employees and independent appraisers to help us with the storm's 2,300 people sort of feet on the street getting early contacts and early closures in our catastrophes, which is what our customers need us most. So we feel really good about that.

From a technology and efficiency perspective, we are always talking about how do we become more efficient. One, to keep prices competitive. But two, can we take easier claims, easier calls out of the system and have humans actually handle the more complex calls. So we have, overall, what you can -- you can call it, AI, ChatGPT, large language models. We've been working on those for a long time to become more efficient. We've had a chat -- a chatbot in our call centers for over a decade, because we found that we were getting repetitive calls. It really didn't require human intervention. And that took out about 15% of our calls.

On the claims side, we have a lot of automation with our estimates. We have tagged millions and millions of pictures to be able to do that. And of course, we want to make sure that we do have human intervention to make sure we always pay the right amount and net in that part of it. But we are very technology-driven. Besides being efficient, we want to be innovative and we want to continue to learn and make sure that we use the highly trained individuals that we have for the most complex parts of our business. So we use a lot of AI and maybe that's something we can talk about at a later deep dive when we have some time in one of the quarters that we do that. But we feel like that's a key part overall in our efficiency, which is key to our growth.

**Operator**

Our next question comes from the line of Jimmy Bhullar with JPMorgan.

**Jamminder Singh Bhullar**
*JPMorgan Chase & Co, Research Division*

Most of my questions were answered. But just -- it seems like many of your competitors are shifting their focus to growth as their margins have recovered. So just wondering what you're seeing in terms of competitor behavior on marketing spending and on pricing? And is it reasonable to assume that your growth over the next few quarters should slow down just as the market becomes more competitive?

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

Yes. I think like I said before, our competitors -- what I would say is we got out ahead of the game. We saw what we needed. We knew that, that would be frustrating because we had to raise rates so significantly to keep up with trend. We did that quickly. And our plan was that would allow us to be in a position to grow and it certainly has paid off.

We are seeing -- and if you see the quarterly results, margins are still much better with our competition. And so I would imagine that they will continue to growth. We've seen some of our competitors, for sure, start to spend more on media. You know what, we -- for us, competition is good, and it really is about, like I said, having all those strategic firing at the same time. So I can't predict what our growth will be. We have models, obviously, internally that we work on.

I believe we're in a really great position to wrap up 2024 and move into 2025. And I feel very confident that we will continue to gain traction. Of course, given all the unknowns that could happen with weather and what we've seen over the last several years.

**Patrick K. Callahan**
*President of Personal Lines*

Yes. The only thing that I would add is.

**Jamminder Singh Bhullar**
*JPMorgan Chase & Co, Research Division*

And then spending more...

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

Hold on for a second, Jimmy, I think, Pat wanted to add on some color on that for you.

**Patrick K. Callahan**
*President of Personal Lines*

The only thing I would add is that segmentation matter. So spending more isn't necessarily going to drive the outcome folks desire. It's spending it smartly and understanding the lifetime value of the customer and the media that we use to reach those customers.

So we think, given our scale and given the analytics we have in place, we are creating segmentation in the media world like we have in the product segmentation space. And that segmentation enables us to understand where to spend more efficiently based on who we're able to acquire, and it's not just about spending more overall. It's spending in the right places.

Additionally, I think when you see what we do on the product segmentation side, we do think that creating adverse selection for our competitors through matching rate to risk more precisely does inflate their trend different than ours over time. And that synthetic trend, we think, requires them over time to potentially have to adjust rates differently than we have.

So we're pretty confident that at this point, we are efficient in our spend. And as Tricia mentioned, we monitor it extremely closely and we'll adjust as needed over time. But we play our game, and we managed our economics, and they look good at this point.

**Jamminder Singh Bhullar**
*JPMorgan Chase & Co, Research Division*

And it seems like, obviously, there's been a lot of talk about in Commercial Line. Can you just talk about what you're seeing in terms of long-term trends in personal auto as it relates to litigation, attorney rep rates and stuff?

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

Yes. Attorney rep rates have risen over the years. Again, not the option they've risen. You can probably tell just by advertising from that perspective. Medical trends, as you know, from just medical insurance have continued to go up. So it has been -- it's continued to trend upward. We priced for that. And some of the social inflation, like I said, with some egregious verdicts in the industry are always troublesome because it ends up, consumers have to pay for that.

And so we always want to get our arms around. It's really about doing what we have done well for many, many years, and that is making sure that our customers know we're there for them that they can trust us to do the right thing by them and that try to get out in front of the claim with contacts and resolution as quickly as possible. Or when it's a longer-term claim, to make sure that we communicate and respect their needs along the way. So that's what we've been doing since we rolled out IR years and years ago, our immediate response, I should say -- years ago, just to get in front of the customers, make sure they know we're there and we want them to trust us and that we'll be fair.

**Operator**

Our next question comes from the line of David Motemaden with Evercore.

**David Kenneth Motemaden**
*Evercore ISI Institutional Equities, Research Division*

I had a question on just the auto PIF growth. And I'm wondering if Hurricane Helene had a notable impact in Florida or the Carolinas on auto shopping and PIF gains at the end of September? And if Milton -- Hurricane Milton is causing any disruption on retention or shopping just given the impacts of that storm?

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

Yes. I wouldn't say anything that PIF growth wouldn't come from that necessarily. Obviously, there will be some total loss vehicles that when they replace, we hope they'll be with Progressive. I think that -- I'd asked John Murphy, our President claims a while ago, if we were seeing issues with inventory for new cars, in fact, that could be something that could be a headwind for consumers. And they didn't see inventory issues. There's enough inventory we believe, on the street to be able to take care of those customers. But the storm, although they were big, I don't think would move the needle on either of those.

**David Kenneth Motemaden**
*Evercore ISI Institutional Equities, Research Division*

Got it. And then on the cost per sale that you spoke about. I think last quarter, it was like 30% below your targeted acquisition ratio. I'm wondering where that stood here in third quarter as some of the competition returns. And maybe just also if you could just talk about if ambient shopping level, it sounds like they remain high, but did they -- have they fallen any at all here during the last 3 months?

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

Yes. I'm going to try to answer that. You were breaking up a little bit. I'm going to assume that is on our side. I would say we continue to see elevated shopping, continue to see a hard market. And so we're going to leverage that. And again, I talked a little bit in an earlier answer on we've got our sort of direct response, which we see right away with our highest NP6, which are new prospects, which, of course, we equate to our -- the apps that are such high growth in both the direct and agency side, but then also some delayed response. And so we believe ambient shopping is still up because even with the increased amount that we've spent and we'll spend in quarter 4 on the delayed response ad, we're still seeing that shopping. So we feel good about that. And I want to make sure I answered your question because you were breaking up a little bit. Does that answer your question?

**David Kenneth Motemaden**
*Evercore ISI Institutional Equities, Research Division*

Yes, that does help on the ambient shopping. I had just asked on just how much below the targeted acquisition spend, the cost per sale is in third quarter, I think it was 30% below in the first half of the year. Is that still pretty far below your target?

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

I'll say is that it's still below TAC. So our CPS for quarter 3 is still below our target acquisition cost. And again, like Pat said, we continue -- and it just had an incredible 2-day media business review. We continue to understand exactly how to reach the consumers we want to reach and get more efficient with doing that all across the board. I think normally, we'll talk about mass media spend, and that's a portion of our spend, but there's so many other ways that we are able to be on the short list for consumers who are shopping. So we feel good about where we're at right now with CPS below TAC.

**Operator**

Our next question comes from the line of Brian Meredith with UBS.

**Brian Robert Meredith**
*UBS Investment Bank, Research Division*

Tricia, I was hoping you could comment a little bit about this really favorable frequency we've been seeing for the last call it, 12 months. Is this something you think is sustainable? Is it a function of the hard market in auto insurance, what is your perspective on it?

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

Thanks, Brian. For us, what we've seen is really the biggest proportion of that is equated to our mix. Our preferred mix has increased. And so that's obviously a lower frequency. We're a little bit less negative than we were before, but still, again, obviously negative [ 5% ]. So -- we will continue to watch that as we grow and put more customers on the book. Obviously, we always want to make our target profit margins, both on a calendar year and lifetime value.

**Brian Robert Meredith**
*UBS Investment Bank, Research Division*

Got you. So mix. Got you. And then second question, just quickly, where new money yields relative to book yields right now in the investment portfolio? Is there still some uplift in book yields going forward, do you think?

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

Yes. I'll let John Bauer get on -- he's always on these calls and never gets to talk. But yes, we've been happy that we've been able to invest new money into higher-yielding performance. And John, I'll let you go into some of the detail.

**Jonathan S. Bauer**
*Chief Investment Officer*

Yes. Thanks very much. As you've been seeing over the last -- throughout the course of the last few years, but certainly, over the last few months, there's been quite a lot of volatility in interest rates especially as we headed towards the election and the Fed started cutting rates. For us, as you know, we have a relatively short duration portfolio, just a little bit over 3 years.

And so the 2 things that are going to really adjust the new money yields versus the book yields would be the underlying level of interest rates, which has risen quite significantly since the end of the third quarter and then as well as we allocate money into and out of cash and treasuries into other risk products. Right now, we have a relatively conservative allocation. And so if we were to shift that, that would increase book yields over time.

But obviously, the underlying movement in interest rates has -- will likely increase prospective book yields if they were to maintain around this level. But I would just want to point out that for Progressive, the driving force in our investment strategy is a total rate of return strategy. So the book yield is an output of the decisions we make. But for us, we're really looking to drive the strongest total return over the longer term. Does that answer your question?

**Brian Robert Meredith**
*UBS Investment Bank, Research Division*

Yes, it does. That's terrific.

**Operator**

Our next question comes from the line of Meyer Shields with KBW.

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

So it happened and we've talked about like the ordered pairs where sometimes, I guess, Progressive will maintain excess profit if the growth trade-off isn't necessarily worth it. And I was hoping you could give us some insight into how much of the Personal Lines margin outperformance this year is sort of ordered pairs dependent? And how much of it is just the fact that you've surprised by loss trends?

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

Well, I think I'll let Pat weigh in a little bit more. But I think the margin comes from so many different things. So if -- are we efficient in our spend to get more customers. So I wouldn't say -- I wouldn't call it excess profits. I would say we look at every dollar of premium and what outputs, we think would happen based on our frequency and severity trends, what we think we could spend to get more customers, the new and renewal business, we go to each state, each product, et cetera, roll it up, roll it down and come to that.

And then we -- if we're inefficient in our spend, we'll either try to get more efficient or pull back if we -- our margin shrink will pull back. We have a lot of different levers. But really, it all goes under the umbrella of grow as fast as we can at or below our $0.96.

Pat, do you want to add anything?

**Patrick K. Callahan**
*President of Personal Lines*

Yes. And I would say that the growth that we're seeing wasn't expected earlier in the year. So we knew we had shields up when we were slowing the business down to deliver 2023 calendar year profitability. And as we've reduced some of those verification tactics and gotten frankly, more competitive with billing options, et cetera, we have seen, as you see in the reports, outsized growth. .

So I don't think we entered the year saying we think we can produce this level of profit and growth on a significantly extended period. So right now, you see we've taken rates down a small amount in a number of states. And as John mentioned, our product managers constantly evolve that competitive environment to see how much ambient shopping there is? How efficient our media spend is?

And as we come into kind of the slower shopping period of the year, we'll be monitoring our spend and our rate level to make sure we can grow as fast as our staffing levels and service levels enable us to. So we've got some really high comps coming into next year, and feel great about how we're closing out this year.

But I don't -- I think the growth is the piece of the ordered pair that was outperforming this year. And it wasn't certainly in our plan at the outset to be able to capture as much growth as we have. But with competitors raising rates and restricting access to new business, your media becomes really efficient when there's not a lot of people competing for the clicks or in market with competitive rates for the shoppers.

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

Yes. What I would add on that as well is -- we talked about this a little bit when we had our media deep dive a quarter or so ago. We are so flexible with our media spend. And the last couple of years, unfortunately, we've had to pull back because of margins.

This year, Pat and his team have come to me to increase media on several occasions and being able to be that nimble to do that and not say, okay, we have a budget at the beginning of the year, which we do. We set a budget for a year where we think will happen. But having that flexibility and turning things on and off pretty quickly to sort of open up or close this spigot has been key this year to open up the spigot.

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

Okay. That's very helpful, very detail. Can you give us some insight into -- I know there's obviously this ongoing reasonable mix shift in property. What are the other steps that are appropriate to get that line targeted combined ratio?

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

Well, I think it's definitely the rate increases we've been taking. I think it's the geographic mix. It is absolutely the segmentation that will continue to deepen its cost sharing with customers, like I said, with wind and hail deductibles. And it's our agency actions, making sure we have solid owner-occupied homes on the book that are bundled. So it's not one thing. It's all the things that I talked about before. And it's just one of the things that takes time, and we watch it very closely. And we have a whole team of people that are constantly monitoring where it should be, where we should slow down. But those are -- it's just a plethora of things to get it right. And I have confidence that we will.

**Operator**

Our next question comes from the line of Mike Zaremski with BMO.

**Michael David Zaremski**
*BMO Capital Markets Equity Research*

As a follow-up to, I think it was Brian's question about frequency, the curve -- your frequency even better than its mister relationships in the industry. You talked about the mix towards preferred helping. I'm just curious, is there a partial offset longer term should just the preferred customer have a different or higher severity inflation trend line than the average of the book?

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

I don't think there's anything huge in that. I think the preferred customers could have more products. Obviously, it's a rate to risk that we're looking at. It could be stickier with other products that come with us. And really, frequency has been trending down for the last 50 or 60 years. I'm not sure where -- what stable frequency means, because it's been so oddly volatile over the last 4 years. But -- and also, we do want to write any business that we can, Sam, Diane, Wrights, Robinsons as long as we reach our target profit margin. So we are open -- fully open for business for any consumer as long as we can make that target profit margins.

**Michael David Zaremski**
*BMO Capital Markets Equity Research*

Okay. Got it. And as -- my follow-up is switching gears to the competitive environment. So if we think about your average peer, they sell a lot more home insurance than Progressive does, and they bundle a lot of that with Auto. And I know you guys are obviously increasing your share on home and bundles.

But still, I think it's much lower than your average competitor or some of your larger competitors. So I'm curious, given home insurance is still a hard market and will be for the foreseeable future, is that dynamic causing your -- any of your peers the need to increase the bundled pricing more so than you all are, which is kind of helping the competitive environment for you all to gain customers? That is my question, if you follow it.

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

Yes. I'll let Pat add in. I mean, I think it's hard because different competitors do it differently. Some are growing and have property, but not on their own paper. Some of our competitors have sort of derisk before us and are in a position then to grow, but not necessarily in the places that have the volatile weather. And some are bundled, a lot when you look at captive agencies, are really sticky because they're bundled for a long time.

That -- eventually, that's where we want to be able to be whether the home is on our paper or on the sort of stable group of carriers we work with. We want to make sure that broad coverage, just be where, when and how customers want to shop. And that's why we developed -- we obviously want to bundle more but that bundle has to be profitable.

And -- but we want to make sure that we can -- when people call in, give them what they need, whether it's with our HomeQuote Explorer, our AutoQuote Explorer or BusinessQuote Explorer. And sometimes, hopefully, it's with us. But if not, we'll take care of them with customers or our businesses that we partner with.

So the competitive environment we look to, but we really are playing our own game here, especially with property as we evolve and mature. And you're right, we don't have the same, probably percentage market share. Clearly, we don't. But we want to take that slowly so that we make prudent decisions for the long term of the firm.

**Douglas S. Constantine**
*Director of Investor Relations*

That appears to have been our final question. So that concludes our event. Again, we apologize for the technical difficulties. Victoria, I will call back over to you for the closing scripts.

**Operator**
That concludes the Progressive Corporation's Third 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 your lines.