S&P Global
Market Intelligence

The Progressive Corporation NYSE:PGR

FQ4 2018 Earnings Call Transcripts

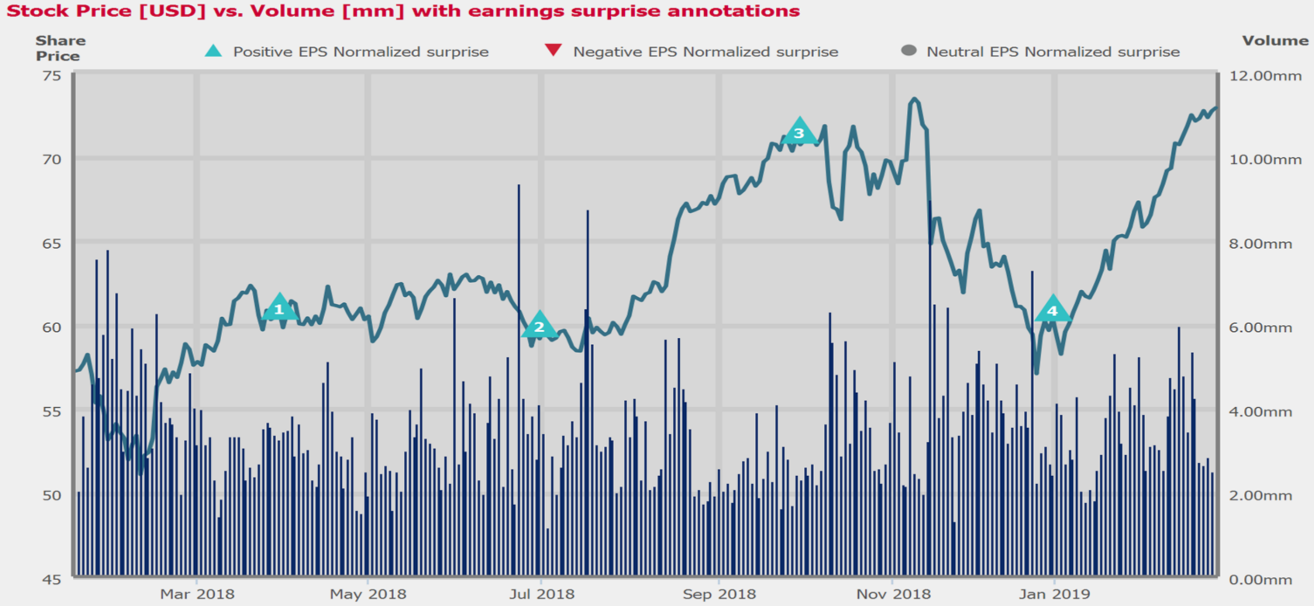
Thursday, February 28, 2019 6:30 PM GMT

S&P Global Market Intelligence Estimates

	-FQ4 2018-			-FQ1 2019-	-FY 2018-	
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	ACTUAL
EPS Normalized	1.01	1.25	▲23.76	1.37	4.78	5.03
Revenue (mm)	7857.33	7941.80	▲1.08	9091.26	32525.40	32609.90

Currency: USD
Consensus as of Feb-28-2019 10:34 AM GMT

Stock Price [USD] vs. Volume [mm] with earnings surprise annotations



	- EPS NORMALIZED -		
	CONSENSUS	ACTUAL	SURPRISE
FQ1 2018	1.18	1.29	▲1 9.32 %
FQ2 2018	1.11	1.16	▲2 4.50 %
FQ3 2018	1.10	1.33	▲3 20.91 %
FQ4 2018	1.01	1.25	▲4 23.76 %

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Call Participants

EXECUTIVES

John Peter Sauerland
VP & CFO

Julia Hornack
Investor Relations Contact

Lori Niederst
Chief Human Resource Officer

Susan Patricia Griffith
President, CEO & Director

ANALYSTS

Adam Klauber
William Blair & Company L.L.C., Research Division

Amit Kumar
The Buckingham Research Group Incorporated

Brian Robert Meredith
UBS Investment Bank, Research Division

Elyse Beth Greenspan
Wells Fargo Securities, LLC, Research Division

Gary Kent Ransom
Dowling & Partners Securities, LLC

Michael David Zaremski
Crédit Suisse AG, Research Division

Michael Wayne Phillips
Morgan Stanley, Research Division

Ryan James Tunis
Autonomous Research LLP

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 detailed comments related to the quarterly results, in addition to those provided in its annual report of Form 10-K and the letter of shareholders, which have been posted to the company's website, and we'll use this event to respond to questions after a prepared presentation by the company.

This 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 for their webcast site. Participants on their 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 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, Carmen, and good afternoon to all. Today we will begin with a brief presentation by our Chief Human Resources Officer, Lori Niederst, about our culture and people being a competitive advantage. This presentation will include 2 videos, so we recommend joining our live webcast through the Events page on investors.progressive.com.

Our presentation will be followed by Q&A session with our CEO, Tricia Griffith; and our CFO, John Sauerland. Our Chief Investment Officer, Bill Cody; and our General Manager of Progressive's Home business, Dave Pratt, will also join us by phone for Q&A. 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 2018 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, progressive.com.

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

Susan Patricia Griffith
President, CEO & Director

Good afternoon, and welcome to Progressive's fourth quarter webcast. We have a great session for you today. I'm going to quickly recap 2018. Hopefully you've had a chance to read the Annual Report and my letter to shareholders. But in a nutshell, an incredible year. 20% net written premium growth at a 90.6 combined ratio, so a lot of margin, way more than our actual goal of hitting at least $0.04.

We grew the topline over $5.4 billion in net written premium. And that was on top of 2017 when we grew $3.8 billion on top of 2016 when we grew $2.8 billion. So $2.8 billion, $3.8 million, $5.4 billion, incredible growth. That momentum has really sustained us as we head into 2019.

All of this compiled into a comprehensive return on equity with our investment returns of just around 24%. So great results. We also had a lot of celebrations and milestones that we were able to accomplish this year. I wrote about them in my annual letter to shareholders, but it's been a really wonderful year internally to Progressive to make sure that we celebrated both internal and external goals that we reached. I will let you know though, specifically for this audience, we don't rest on our laurels. We are hitting the ground running in 2019, and again, always trying to grow as fast as we can, make at least $0.04 of underwriting profit and take good care of our customers.

So from then, I wanted to just take a second and thank all the Progressive employees for all they've done this year and how we've succeeded in such an incredible year, and we've done it together, which is the theme of this year's Annual Report.

This slide should be very familiar with you, it's our 4 cornerstones. Who we are, why we're here, where we're headed and how we're going to get there. Who we are. We have 5 core values. We talk about them all the time. I'm not going to go into detail in them today, but Lori Niederst will when she gives her presentation.

Why we're here. We have a purpose statement. True to our name, Progressive. And that's really about doing better today than yesterday. Progress on how we are as a people and culture, progress for our shareholders and the customers that we are privileged to serve. We want to continue to challenge ourselves to have that always grow mindset and continually ask ourselves questions how we can continue to get better.

Where we are headed, our vision. We want to be consumers' #1 choice and destination for auto and other insurance. We get closer to that goal every single day as we add more and more customers. And how we are going to get there? That is our strategy. And that's really been the crux of what we've talked about in the last several webcast sessions. If you notice, there's a little bit different graphic on this one, and that I'll tell you about it in a little while, but it really is part of our employees of our Colorado Springs call center been a participant in the artwork for the employee annual report.

The tactics in the deep dives we have done in terms of our strategy pillars in the blue sections have really been around segmentation, brands, cost effectiveness and those are really important, but it doesn't work without our people and our culture.

So these are some people in Colorado Springs several months ago as part of our Annual Report. I was there that day. It was actually the same day we did Keys to Progress, where we give vehicles away to veterans in need. A very cold day, but really a wonderful day to be able to have all the celebrations. So let me back up a little bit and talk about how we think about the Annual Report.

As most of you know, art is a really important part of our culture and work environment at Progressive. Peter Lewis started that many, many years ago. And in 1988, he decided to make art a part of the Annual Report. So he would think of a theme and choose an artist, and we would have a piece made, whether it's a sculpture or a painting or a picture that reflected that theme. So as an example, in my first year as CEO, my theme was transition. That made sense. I took over in July of 2016 and Glenn really prepared me to take over, and so that seamless transition was really important to us as a company.

Last year when we had that growth on top of 2016's growth, I felt -- really felt like we were accelerating. So that was a theme, acceleration. We put our foot on the gas and were able to really accelerate.

This year's theme is together. And it really came to me as we were going through the year, about August, I thought, man, this has been such a great year and doing it together in unity. And that doesn't make it easy all the time. It doesn't make it great all the time in terms of not challenging each other. That's actually the best part of Progressive. Challenging each other, having great discussions and debate that ultimately lead us to the outcome that we had in an incredible 2018.

So to illustrate this theme, we chose Nathaniel Parsons, and he created what we call Camp Waterfall -- Wanderfall. And what it does it really takes -- it took a bunch of Progressive employees across the country that he worked with to create an installation that will ultimately be back here at our campus locations for us to enjoy. I was going to go through kind of step-by-step how Nathaniel created this and how our thought process was around the theme of together, but instead we thought we put together a 4-minute video to show you the making of the 2018 Annual Report.

[Presentation]

Susan Patricia Griffith
President, CEO & Director

So I hope you enjoyed that and all of the artwork is also on our Investor Relations webpage, so please feel free to view that.

It's funny how much we've grown because in that video that was only a couple of months ago I said 36,000 people and now we have over 38,000 people, which has been pretty incredible.

But because our people and our culture are such an important management, I've asked Lori Niederst, our Chief Human Resource Officer, to come up and talk about that today. Following her will be John Sauerland, and he's going to talk about our dividend policy change. And of course, we did some QA in our November's earnings release and I wrote about it in my annual letter to shareholders, so hopefully there's a lot of clarity around why we made the change, but he'll come up and talk about that as well.

So let me give you a little background on Lori. So Lori started her career in public accounting as a CPA. She came to Progressive about 21 years ago as an analyst in the finance group. She quickly moved to our call centers, which now we refer to as CRM, customer relationship management centers and did a variety jobs with increasing responsibility. I first met Lori when I was in her role and was hiring a Comp and Benefits Director. And when she first interviewed, we had a couple of different interviews, I loved the fact that she cared deeply about our people and our culture, really has always been a steward of our culture, then she had this balance of great business acumen. And I love the fact that she could bring both to that job as Comp and Benefits Manager. That's where she really learned the business of HR. And she and I along the years talked about other opportunities that she might do and how to best suit her up for that. So we thought it would be good for her to do a field HR job. So when the claims field HR job came open, she applied for that and landed that role. And that was a perfect HR field role because: one, it's the most employees we have for the company, and we spent a lot of money in claims. So every dollar that comes in, the most we spend out is in the claims organization. So she learned very deeply that part of our organization. And a little bit over 2 years ago, Lori became Chief Human Resource Officer, and she continues to apply that great balance of incredible business acumen and just caring so much about our culture. And the one thing that I love about having her on our team, and I think the rest of my team will agree, is that pretty much on any given day, Lori challenges us. And she challenges us to be better, and I think that's really important with an HR partner. So I'm going to let Lori take it from here.

Lori Niederst
Chief Human Resource Officer

Thank you, Tricia. So as I was preparing for today, I assumed that I'd have to make the case for why culture is a relevant topic for this audience. But then about a month ago, in a letter to board members, State Street CEO made that case for me. He described corporate culture as one of the many growing intangibles that affects a company's ability to execute its long-term strategy. He also cited a recent EY study that concluded intangible assets, such as culture, drive more than half of an organization's market value.

We not only think culture is a relevant topic. We believe our people and our Progressive culture are our greatest source of competitive advantage. So my objective today is to describe why we believe that to be true.

Our culture is the foundation upon which we've designed people strategies and together, they generate our business outcomes. If there are any cracks in this foundation, our results will suffer. If our people strategies aren't aligned with our business objectives, our results will suffer.

However, it's the strength of our culture and our successful people strategies that have allowed us to achieve exceptional results and sustain truly competitive advantage.

Our culture, as Tricia said, is deeply rooted in our core values that Peter Lewis introduced over 30 years ago. These 5 values aren't just words on paper. We take them to heart. We introduce our core values in new hire training and we reinforce them on a daily basis.

Our core values guide our business decisions and define how we treat each other, our customers and our investors. Although they've been in place for decades, our core values continue to be closely aligned with our company strategy. As an insurance company, our product is a promise. It's a promise to be there when our customers need us most. We must have a culture of integrity if we want to make good on that promise and earn our customers' trust.

Our customers have choices when it comes to insurers. We must have people to believe in and abide by the golden rule if we want to provide service that motivates our customers to stay.

We have formidable competitors in an industry that's evolving. We must have a culture of excellence, one that's always striving to improve if we want to anticipate and respond to the changes in our industry's landscape.

We seek to consistently provide consumer and shareholder value. We must have our team of 38,000 Progressive people with clear objectives, motivated and focused and growing as fast as possible at or below 96 combined ratio.

As Peter said when he introduced our core values, we are pragmatic and we recognize that we must earn a profit in order to be a successful business. But it's the first 4 values that ensure we earn this profit in the right way.

We are confident that our core values and, therefore, our culture continues to be aligned with our company's strategy and the interest of our people, our consumers and our shareholders. Beyond the words and our core values, our culture can be really hard to describe. So to give you a sense or a feeling of our Progressive culture, I'd like you to hear it from our people.

[Presentation]

Lori Niederst
Chief Human Resource Officer

Tricia said it so well. Whatever part of the company I worked in, whatever job title I was in, to me, it always just felt like Progressive.

But how do we know that our culture is strong? How do we know that it's creating competitive advantage? First, our people tell us. Just last week, I received an e-mail from Tim, an analyst in our IT control group, and Tim described our core values as the anchor of our culture. And he compared his time at Progressive to his service in the Coast Guard. And Tim shared that even when he is working with someone new, he always just feels immediately like they are on the same team.

In addition to the anecdotes, we've got data to support our conclusion. For decades, we've been conducting an annual employee survey, and we recently started using Gallup's Engagement Index. As we expected, engagement at Progressive is significantly higher than the U.S. workforce. 68% of Progressive people are engaged compared to 33% of U.S. workers. And only 4% of Progressive people are actively disengaged compared to 16% of U.S. workers.

Our 2018 results place us in the 96th percentile of all companies who use Gallup survey and only 2% of Progressive people disagree with this statement, "Our core values guide our business decisions and define how we treat each other."

For years, we have also conducted an annual compliance and ethics survey and here too, we learn the strength of Progressive's culture. Our results last year were the best of all 32 companies using Ethisphere survey and 99% of Progressive people said they are familiar with our core values.

And we don't have any easy jobs at Progressive. We work really hard and we have very high expectations, but we are unapologetic about this. And as a result, Progressive isn't the place for everyone. Yet our 8% voluntary turnover rate in this job market is further proof that a strong culture produces business benefits.

Upon this strong foundation, we've designed people strategies that leverage our talent, ideas and energy. These strategies aren't fleeting. They've been tested and proven successful in every phase of the insurance cycle. While we foresee these strategies continuing to serve us well, like every other part of our business, we're constantly analyzing outcomes, monitoring the results and we make changes whenever it's necessary.

I'll highlight 3 of our key people strategies that we think are uniquely Progressive. The first is transparency and openness. In our 2002 Annual Report, we said that our desire for transparency demonstrates our belief that good decisions flow from clear information. There are many examples of how we've managed our relationship with investors and consumers with transparency. The most notable are reporting our financial results monthly to our investors and providing comparison rates to our customers. We are committed to the same transparency and openness with our people.

If you missed everything I just said because you were distracted by the art in this particular Annual Report, then I'll probably have to tell Glenn that 16 years later, it's still having the intended effect.

So let's get back to transparency and openness. For us, it all starts with our approach to communication. Similar to our practice of reporting our results monthly to investors, we make a commitment to tell our people what we know when we know it. This means we are often sharing information before we have all the answers. And at times, this can be uncomfortable, but we believe it builds trust in our leaders and strengthens our culture.

Another example of our transparency and openness in communication is our diversity and inclusion report that we first published last year. In this report, we summarize our progress, highlight our opportunities and tell the story of some of our incredible people. In this report, we also disclose our employee demographics to our people and to the public. And we declare our commitment to pay equity and proudly state that we have gender and racial pay equity at Progressive.

Another example of our transparency and openness and communication is what we call our open door policy. Any Progressive person can reach out to any manager or any HR representative in the company when they have a question or a concern or they want to share an idea. It's not uncommon for Tricia or anyone else on our executive team to get a phone call or to get stopped in the hallway by someone who wants to share their perspective. But we don't just hope our people speak up, we expect them to. And when they do, we protect them. That's our open door policy.

Our commitment to transparency and openness transcends communication and it applies in other areas like compensation. Much like we provide comparison rates to customers, we provide comparison rates for our jobs. We publish the salary range and bonus target for every job in the company. And we also provide market median data to help our people understand how much they might earn at a similar job at another company.

We believe this transparency with compensation generates good conversations and produces fair outcomes. It requires us to be really diligent in managing compensation and it forces our Progressive managers to make fair and equitable decisions when they set pay.

Transparency and openness are key people strategies that are a model for the behaviors that we expect of ourselves as we interact with our customers, our shareholders and each other.

The second people strategy that I'll share with you is what we call cohesive diversity. At Progressive, we leverage each of our unique differences to make it collective we stronger. We're disciplined and focused, and we like to win, but we don't compete against each other. We compete together to become consumers' #1 choice for insurance.

We reinforce this cohesiveness or togetherness, as Tricia described it, in many ways. We have aligned job objectives that cascade throughout our organization and provide each of us line of sight into how the work we -- each of us do contributes to our company goals. Our performance evaluation process is rooted in coaching and development, and every Progressive person participates in our gain share bonus program.

Gain share rewards us altogether based on company growth and profitability. This was true last year when our gain share factor was 1.91, meaning each of us earned almost twice our annual bonus target. It was also true in 2000 when the factor was 0 and none of us received a bonus.

On gain share day this past December, Tricia received a really touching message from Eric, one of our call center consultants who's been with us since 2002. Eric told the story of his mother who sadly passed away not long after he joined Progressive. Eric promised his mom that he would send his son, Noah, to college. And he's been saving his gain share bonus every year, so that he could afford to make his mother's dying wish come true. Eric reached out to Tricia to thank her for last year's bonus because it was the final savings he needed to fund Noah's tuition. For Eric, this was a very personal celebration in addition to the Progressive gain share celebration that included all 38,000 of us. This cohesion may seem like a small detail, but it has a profound impact on our culture. Our people are motivated to teach and help one another. In fact, it's not uncommon for peers who are competing for the same promotion to encourage each other and even share interview strategies. I experienced this several times in my Progressive career. And most recently, it was about 2.5 years ago when I applied for the CHRO position. I knew many of my peers who had also applied for the role and a few of them even called me before the interview started to see what they could learn from my HR experience.

When it was announced that I was offered the position, one of the first people I saw was one of those peers and she came right up to me, congratulated me, gave me this giant hug and then reminded me that she is not a hugger.

Our togetherness or cohesion is only part of the strategy. That cohesion is stronger because we embrace our diversity. Diversity and inclusion are strategies that we thread through every facet of talent management. From our hiring practices that ensure we have diverse candidate pools to our development programs that teach cultural competency and make us more aware of our unconscious bias. To our job objectives that hold each of us as leaders accountable for cohesive diversity.

Like many companies, we leverage our ERGs, or employee resource groups, to support our efforts and at Progressive, the results speak for themselves. More than 13,000 Progressive people belong to an ERG. And these members are more engaged, more likely to apply for a promotion and more likely to stay with Progressive.

But unlike other companies, our ERGs aren't just affinity groups. They bring us together to tackle the difficult topics that are dominating the headlines. A great example is our courageous conversations series, which brings small groups together to talk about real examples of bias in the workplace. Courageous conversations makes us feel uncomfortable and vulnerable but in a safe environment where we are learning from each other.

For more than 40 years, we've also been leveraging our art collection to spark conversation and learn to respect our differences. One of the first artworks that Peter Lewis installed in the '70s was a series of Andy Warhol's Maos. It being the end of the Vietnam war era, these images upset many Progressive people and they wrote to Peter expressing their opposition. In fact, 300 of the then 400 employees shared their opinions. Peter was invigorated by this response and it inspired the art collection's mission of provocation. We continue to leverage our art today to foster conversations about our values and our cohesive diversity.

As an example, our 3-day workshop for new leaders includes a course that we call, Uniquely Me, Together Progressive, where we use artworks to help recognize a variety of perspectives and learn to leverage them as we lead our teams. Our ERGs and our art collection are just 2 examples of our cohesive diversity come to life, leveraging our differences and making us stronger.

The third people strategy that I'll share with you is our talent pipeline strategy. For decades, we've been developing claims reps, calls center reps, analysts and product managers into talented business athletes that rise to our executive ranks. This grow our own strategy is a real differentiator for us, so let me explain how it works.

Over 90% of our people in our entry-level jobs were hired from the outside, where we're able to attract a talented and diverse candidate pool.

In our Manager ranks, over 90% of our people were promoted from within. Now I am sure we are not the only company who's focused on promoting from within, but when we compare our internal promotion rates to those of our peers on Fortune's best companies to work for less, we find that our internal promotion rate is far above average.

Feeding our pipeline starts with external hiring, and the growth in our business has required us to feed this pipeline with over 20,000 external hires in the past 3 years. Our growth has come during one of the lowest unemployment periods in 50 years. And adding to our challenge, we're competing in over 250 labor markets, each with their own local competitors.

Add to that, we are selling a career in insurance. But despite the constricting labor market, and in contrast with other companies who are really struggling to find talent, we are consistently filling our open positions and we are making great hires. Our Progressive brand helps us attract a significant number of candidates for each job that we post. In fact, we hire less than 2% of the people who apply for a job at Progressive.

To help us manage this significant applicant volume, we're leveraging sophisticated analyses that help us understand the number of candidates we need by job and by market to have confidence that we've got a qualified hire in the group.

We're also adopting many of the approaches that we've learned from our marketing and media teams to advertise our jobs. We know our cost per hire, candidate demographic and success on the job by channel and by source, and we're leveraging this data to optimize our spend.

While our marketing budget in recruiting has several fewer zeros than Flos, we like to think we're learning from the best and we're applying the same discipline. We seek to hire the right talent with the right raw materials, but the real advantage comes from our ability to develop, retain and promote our people. All of our HR practices are designed to support this talent pipeline strategy, including our compensation plans. If you want to earn more at Progressive, you look to get promoted. And because of our transparency, you know exactly what promotions are available and how much more you can earn.

Again, promoting from within isn't unique to Progressive, but promotions at Progressive are different. They aren't appointments or designations. Instead openings are posted and anyone who's interested and qualified can apply. It's an open and transparent process. This process requires more responsibility on our employees to chart their own career path, but it also results in some pretty progressive career paths.

Tricia shared my journey from analyst to CHRO, and I'll share John Barbagallo's. John was hired as a claims rep. He was promoted to a supervisor, moved to a field sales manager, was promoted again to a product manager and then a National Accounts Manager before pursuing a job at another company. John soon learned the errors in his ways and he came back to Progressive to hold positions in product design and agency management before becoming our Commercial Lines President.

But this isn't unique to me and John. Our pipeline strategy has produced our current class of executives. The average company tenure of our executive team is 22 years. According to our review of proxy and other publicly available information, this is a lot higher than the average at our industry competitors, and this tenure translates to a leadership team that deeply understands our business and our culture and can pass it on to the next-generation of Progressive leaders.

In fact, Jeff Charney is the only current executive who was hired into his position from the outside. And that's not to say we'll never hire another executive or another senior leader externally. But when we do, it's because our business changed and required skills or experiences that we don't currently have. This was true for the talent we recently added in our strategy organization and it was true when we hired Jeff 9 years ago, which makes it pretty funny that we all still think of Jeff as a new guy even though it's been 9 years already.

This strategy has served us well for decades. But when our organic open posting process isn't creating enough opportunity for development, we manufacture those opportunities with job swaps. I'll share a recent example.

Last year, we identified 7 high-performing senior leaders who we thought would benefit from leading in a different part of our business. Sanjay Vyas who presented at our last webcast was part of this job swap. Sanjay had 15 years of experience in our product organization. He was promoted through the ranks and became General Manager of our resell. Sanjay's deep product background is a huge asset to us, but we wanted to give him the opportunity to learn a different side of our business at a very granular level. So we asked Sanjay to become our claims controller, where he will learn claims, which he knew, but not nearly as well as he will after serving as controller.

We are so committed to developing talent that we conduct these job swaps when we think the time is right for our people, not necessarily when it's ideal for our business. This was the case with the swap I just mentioned. We were experiencing significant growth, which creates a whole host of business challenges, but we were willing to disrupt what was working well and introduce some risks because we deeply believe in the long-term benefits of our talent pipeline strategy.

We also deploy functional groups of leaders to solve complex business problems. We assemble a diverse group and assign them what amounts to a part-time job on top of their day job. This experience provides individual development and it provides business benefits. The most significant recent example is a team that we put together to identify our horizon 2 and horizon 3 opportunities and this team ultimately formed the strategy organization, which is led by Andrew Quigg.

For our newer leaders, we invest in a whole host of development programs aimed at preparing them for more senior roles. Our flagship program is one that's sponsored by our ERGs. This 18-month development program teaches business acumen, analytical skills and cultural competency. Because our talent pipeline is a key people strategy, we analyze promotions and career moves like other companies analyze turnover. We know that participants of the development program that I just described are 50% more likely to get promoted. We know our people who work in an office apply for promotions at a higher rate than our people who work from home. And we leverage data like this to design career paths that best leverage our talent.

Now it's one thing for me to tell you that this is a competitive advantage, but it's quite another when it's validated by an external source. We recently assessed our organizational effectiveness using McKinsey's Organizational Health Index. We ranked in the top decile of companies using this tool. And we were aligned with their leadership factory classification, meaning we have strengths in developing emerging leaders and an open and trusting culture.

The third component of our talent pipeline strategy is managing staffing very efficiently. Overstaffing and understaffing both presents significant risks to our business, and we consider the implications of both as we make staffing decisions. Our primary measure of staffing efficiency is PIPs per FTE. And that measure improved in the last several years and was flat in 2018.

We also measure employee expenses as a percentage of premium, which shows how our people costs are impacting our combined ratio. This measure improved just over a point last year.

Much of the operational efficiencies that we have gained have been generated by an increase in mobile utilization, automation and outsourcing. In claims, photo estimating and outsourcing glass claims are just 2 examples. In CRM, we are automating less complex customer service tasks and eliminating some work that had historically been manual policy servicing.

Our current estimate of the remaining benefits of these changes is a meaningful cost savings, but what we believe to be a very manageable staffing impact as we are currently hiring 1,000 people per month, and we've got a successful track record of redeploying talent as our business changes.

A very recent example of this is a change we made to our service center model. This evolution of our business required significant modifications to our systems, our workflows and to our staffing, yet we were able to redeploy 95% of the 650 people impacted by this change.

As a result of our talent pipeline strategy and the strength of our culture, we knew our people had the experience to be successful in other jobs and they had the desire to stay with Progressive. Now I realize that I am speaking to an audience of financial analysts, and so it's probably hard for you guys to get excited about some of the softer stuff, but it's our culture and our people strategies that are generating the results you care a whole lot about. Here's the proof.

Despite the very low median tenure of 1.6 years, the quality and efficiency of the work done by our claims reps has improved. Despite the even lower median tenure for our reps in CRM, our sales conversion is up 2 points and our service measures are holding steady. In our product organization, we've increased speed to market by 50% and reduced quality defects at almost the same rate. These impressive individual results have collectively produced our 2018 growth of $5.4 billion at a 90.6 combined ratio with a 2.7% improvement in PLE. Our performance over the years allows us to claim the #3 position in the auto insurance industry and the top spot in the commercial auto, specialty RV and motorcycle markets.

Our Progressive culture and people strategies that I shared with you today are the result of the contributions of thousands of individuals over many years. I am honored to share this story on behalf of all 38,000 of us at Progressive and all those who came before us who are contributing to this truly sustainable competitive advantage.

And now I'd like to turn it over to the former Progressive intern who is now our CFO, John Sauerland.

John Peter Sauerland
VP & CFO

Thank you, Lori. Good afternoon, everyone. So I am sure you all know culture is not your typical topic for an Investor Relations meeting. And frankly, I think Lori nailed it. Our culture and our people are absolutely at the core of our success. I believe we have the best people in the industry. I believe we have some of the best people in all of industry. I am continually in awe of the caliber of people we are able to attract and retain, while at the same time maintaining a collaborative and a driven environment. I am very confident we will continue to foster this culture moving forward and I look forward to that journey. Now we're on to a far more typical topic for this environment, our new dividend program.

In December of last year, we announced -- or our board declared the 2018 variable dividend. We also reiterated at that time that, that dividend would not be paid unless comprehensive income was in excess of after-tax underwriting income. In our upcoming Q&A, we expect and welcome questions from you all around our dividend program, so we thought a little more of our rationale around that program would be good lead-in to the Q&A. As a reminder, and Tricia mentioned this as well, there are prepared Q&A in the November news release as well as the associated 8-K that was filed on December 12.

On February 11, we paid the 2018 variable dividend in the amount of $2.51 a share or around $1.5 billion in aggregate. Comprehensive income for the year was $2.52 billion. After-tax underwriting income for the year was $2,303,000,000. So based on our stated hurdle around comprehensive income and after-tax underwriting income, we were $217 million from not paying any variable dividend for 2018. Subject, of course, to board discretion.

The intent of this hurdle is clear and certainly well intended. That said, we think being in that situation, meaning potentially paying no dividend or potentially paying a $1.5 billion dividend, is not in the interest of owners or management. So that is part of our rationale around the change.

Funding growth is another part of our rationale around the change. Our insurance company subsidiaries are generally required by regulators to carry statutory surplus equal to at least 1/3 of net premiums written. In 2018, we added, as Tricia and Lori both mentioned, a $5.4 billion of incremental premium. So all else equal, we were required to have $1.8 billion of incremental surplus in the insurance companies.

In addition, we carry what we call an extreme contingency capital layer. That layer is derived from a number of factors, but in short, it generally scales with our balance sheet.

So net for that $5.4 billion of growth in 2018, we carried an incremental $2 billion in capital. Now, of course, we can generate capital by maintaining comprehensive income or by raising incremental capital. We are very clear around our leverage policy, which is to maintain debt at 30% or below total capital. And depending upon the composition of comprehensive earnings and projected growth, the formulaic dividend could have us in a position where we would be challenged to continue to grow as fast as we can at that 96 combined ratio.

So that, in short, is additional rationale around the change. Obviously, growth has been robust lately. We have great momentum, so we want to ensure we have the capital we need moving forward.

While we've been making investments in many near-term growth opportunities, we also want to ensure we are investing for the long-term growth of Progressive. We've been very focused on our core offerings. This has served us really well. We want to be continue to be hyper focused on our core, meaning what we call our horizon 1 offerings. And at the same time, we want to be investing for the long-term growth of Progressive for decades to come.

So a further rationale for the change is to ensure that we have the flexibility to invest for that long term. A great example of our investments today in horizon 2 are investments to bring to market in our commercial lines business, general liability business, and business owner policies program. We think our strategy plays really well with those markets. We also think that grows the addressable market for our commercial lines group probably in excess of threefold, so we are looking to bring that to market in the near term, actually in the first half of this year.

Naturally we are working on further opportunities to continue to grow those horizon 2 and 3 opportunities, and we'll keep you informed as we come to market with those opportunities.

Our final rationale for the change is that while we believe the variable approach to dividends is very aligned with our goal of growing as fast as we can at that 96 combined ratio, we understand that the variability in cash flows from our shareholders' perspective can be perhaps a bit out of sync with expectations. What you are seeing here on the slide is our trailing 12-month dividend yield without specials and including specials, relative to a peer set as well as a broader market group in the S&P 500.

Interestingly when you look at our dividend yield over a longer period, so this is a trailing 5-year view of the previous slide, our dividend yield is fairly robust. So we are certainly a growth stock, but we also probably don't get the attention from a broader potential ownership set due to our sole reliance on variable and special dividends. Consequently, we are adding a quarterly dividend that will start at $0.10 a share for this quarter in addition to an expected annual variable dividend.

So that, at a high level, is our rationale for the dividend change. We believe we've been great stewards of capital here at Progressive, and we certainly expect to continue to be. As a reminder, we produced returns on common shareholder equity in the high teens over many periods, including the past 20 years. We've also returned 70% of net income in the form of dividends or share repurchases over that same time period, while growing the top line of the company $27 billion or 9.5% per annum.

So while the mechanics of our common share dividend are changing, our financial policies have not. And we aspire to continue to produce as good or even better results for our shareholders than we have to date. We'll now take a moment to set up for Q&A, and we certainly welcome your questions.

Question and Answer

Julia Hornack
Investor Relations Contact

[Operator Instructions] And with that, Carmen, can you please introduce our first participant from the conference call line, please?

Operator

And the question comes from the line of Elyse Greenspan at Wells Fargo.

Elyse Beth Greenspan
Wells Fargo Securities, LLC, Research Division

My first question, going back to some of, I guess, your closing comments, John. You spoke about your efforts to expand into general liability and business owners policies. I know you guys mentioned that briefly on your last quarter's call. I guess I am just trying to get a little bit of an update in some numbers how big do you think that, that opportunity can be, and you said in some of your comments today that you guys would think more about potentially it seemed like some other lines as well. Do you envision Progressive's continued expansion in Commercial Lines, assuming it all goes well? Could this all be done organically or do you see inorganic potential M&A helping to expand your initiative there at some point?

Susan Patricia Griffith
President, CEO & Director

Let me start, Elyse, let me start with that. So we believe the addressable market is really big, and we are doing it not unlike we did our Progressive Advantage Agency over on the Personal Lines side. So we are starting with partners that we work with third-party unaffiliated partners and then, of course, we'll write on our own paper this year with BOP. So it will go a little bit slower this year. We've, obviously, been investing in this for a while, but we believe that there is such a good synergy with having the #1 commercial auto position and then really at some point having the whole household. And I really think about the business owner that has business in their home or nearby their house and they have their vehicles with us, maybe a toy, their home and kind of taking care of the entire customer. So I would say a lot of opportunity. We will use both written on our own paper as well as partners to make sure we can cover as many small business people as possible.

John Peter Sauerland
VP & CFO

Just to elaborate a little bit. We are the #1 commercial auto writer in the country by a wide margin. We are having great results in that space right now. You saw the 2018, I think 28% growth, a tremendous combined ratio. We've got to continue to have a runway there and GL and BOP probably is a marketplace 3x the size of commercial auto. As Tricia said, we have started to -- our foray into other products, predominantly through third parties, Personal Lines side as well as commercial side, on predominantly the Direct side of the business. And that affords us a lot of experience and opportunity into what works with our customer set. And GL and BOP are products that we do offer through third parties today in our Direct business for Commercial Lines. Similarly, to how we started with auto in -- I'm sorry, with home in the Personal Lines group, we expect to offer our own product up alongside third-party products, it's worked really well in the homeowners space. We think it will work really well in the Commercial Lines space as well to ensure we've got the product that will keep that core household, as Tricia was saying, and ensure that if the product that is right for them is the Progressive product, we have that for them as well.

Susan Patricia Griffith
President, CEO & Director

And we refer to that as BusinessQuote Explorer so we have HomeQuote Explorer, BusinessQuote Explorer. You'll be hearing a lot more about that and likely we'll have John Barbagallo or -- and someone on his team at a webcast later this year.

Elyse Beth Greenspan
Wells Fargo Securities, LLC, Research Division

Okay, that's helpful. And then in terms of -- you guys brought up your commercial auto results. You've been pretty exceptional compared to what we've seen across the industry as some others really deal with both adverse frequency and severity issues. Can you just talk about what you are seeing within your book, the price that you have been taking as well as the loss cost trends and how you kind of see the margin profile of that business running in 2019?

Susan Patricia Griffith
President, CEO & Director

So if you go back to 2016, we were really challenged from a profitability perspective and John Barbagallo who runs that organization took a step back and these are 12-month policies so we know when we need rate it's going to take some time to earn in. So we really got ahead of that in 2016 and said, "Okay here is what we think we need." In addition, just like we do on our Personal Lines side, we use segmentation for all of our BMTs. And for us, this is really important to understand and match rate to risk. And so we got out ahead of that. We feel great about our rate. We took about 5.5% in commercial last year. And we feel great about our ability to pull back, if we need to, segment. And, as you know, in a couple of states, we had some restrictions for quite some time until we felt like we were in a really good position, and we've lifted most of those but, obviously, you saw the numbers. We are doing incredibly well from a margin perspective as well as a growth perspective. And we think that will really help to spearhead like you talked about, at least, our small business insurer.

John Peter Sauerland
VP & CFO

I'd take one more moment to tout our successful positioning right now in commercial. The other area we're really excited about is in electronic logging devices. So, we think we've been at the forefront of employing usage-based insurance rating in the commercial side similar to what we have done for well over a decade on the personal side with Snapshot. Here, we are providing pretty significant discounts to interstate truckers who are now required to have electronic logging devices on their vehicles, provides a great insight into the driving behavior and allows us to apply that to the insurance premium. So we think, Tricia was talking about matching rate to risk, that is a huge step forward in the commercial business in doing so.

Julia Hornack
Investor Relations Contact

Carmen, can we take our next...

Operator

Yes, and our next question comes from Yaron Kinar with Goldman Sachs.

Yaron Joseph Kinar
Goldman Sachs Group Inc., Research Division

I wanted to start with the expense ratio, if I could. And it's a 2-part question. So first, I noticed that the January expense ratio was up quite a bit relative to 2018 and was hoping that maybe you could talk about the drivers for that. And also within the expense ratio, I think you had talked in the past about achieving a target of a non-acquisition expense ratio of about 9% by year end '19. I think you're already essentially there now in Personal Lines. So is there another leg there? And similarly for LAE, I think you had targeted a 9% there as well for '19, by the end of '19 and looks like you're at about 10% at the end of '18. So do you think that you are -- are you still on track to get that 9%?

Susan Patricia Griffith
President, CEO & Director

Again, that was -- you know, it's an internal target that we look to and a lot of it depends in a good way on where gain share flows in from that perspective, from an expense perspective. We look at that at a 1.0 gain share, kind of our target gain share, if it's higher, obviously, it's tougher to control expenses. I would say from an overall expense ratio, we've been doing a lot of advertising, which flows into our expense ratio and that's why we bifurcate the non-acquisition expense ratio with all others. So that's -- so advertising has been a big part of our expenses, and we only advertise when we feel like it's an efficient use of our funds and that we can get in customers at a cost lower than our target acquisition cost or cost per sale, so we feel good about that. And again, it's 1 month into it and things flow there but part of it right now in January is internal gain share and advertising.

Yaron Joseph Kinar
Goldman Sachs Group Inc., Research Division

Okay. And then my second question is around PIP in Florida. Where are we there? How many reopened claims do you expect to still flow through into '19 and beyond? Have you kind of capped this at this point? And also, do you think that there's any risk that PIP will become an issue in other states?

Susan Patricia Griffith
President, CEO & Director

Yes, the actual number, there is a lot of variables that go into it, the type of claims some would be pre-suit demands, some are out there, some are already in lawsuit. Here is how we treated this. So we watch that litigation really closely, and it was the industry watching it, because we all felt like the deductible, we were doing it in the correct way. The Fourth District Court of Appeals affirmed that. Went to the Fifth District Court of Appeals and they overruled that. And then, of course, you know the results from the Florida Supreme Court. We treated this -- so we knew the files that were at risk, and we had the inventory. We, obviously, reopened a bunch immediately and treated this almost like a cat, where we got people down there and resolved those claims, and we have a big portion of them resolved and all of them reserved to the best of our knowledge, obviously. So we feel really good about our position here. From an overall, does this go to other states, PIP is really different in each state. So PIP isn't in every state, it's only in about 15 states and it's very different. And different states have a very different litigious atmosphere. Florida happens to be 1 that is always ripe for litigation. So I don't feel -- I'm not nervous about it going to other areas of the country because it's just different. This was very specific about how a deductible was treated and so I'm not concerned about that particular litigation going to other states.

Julia Hornack
Investor Relations Contact

Carmen, can we take the next question from the conference call line, please?

Operator

Our next question comes from Amit Kumar with Buckingham Research.

Amit Kumar
The Buckingham Research Group Incorporated

1 comment and 2 questions. First of all, I do want to applaud you on these presentations. These are actually very helpful and I do hope that other companies follow your lead and give us these additional insights. So I know you made a comment regarding the investment community, but we all look forward to these presentations.

Susan Patricia Griffith
President, CEO & Director

Thank you.

Amit Kumar

The Buckingham Research Group Incorporated

That's that. The questions I have, the first question I have is going back to the comment you made in the 10-K regarding PLE. And there's a comment that it's declined due to targeted underwriting changes introduced in our new model. Can you just talk about that a bit more?

Susan Patricia Griffith
President, CEO & Director

It was really just a process change in terms of when we determined you would renew with a lapse in coverage. And we used to do it at a certain time frame, and we reduced that timeframe because we found those customers, we weren't reaching our target margin. And so when we looked at that, we modeled out what we thought -- what the effect we thought would be on PLE and that's just flowing through to what you're seeing now.

Amit Kumar
The Buckingham Research Group Incorporated

Got it. The second question I have is I guess is a bit more broader question. In the 10-K, you talk about pricing of 1.2%. You talk about premium per policy growth of 5% in Agency, 4% in direct. And I think a lot of it is due to the shift in business mix. How are we thinking about, I guess, the trends as we head further into 2019? Should we expect the Robinsons, this whole thing to continue? Or anything which could lead to a different outcome?

Susan Patricia Griffith
President, CEO & Director

We are enthusiastic about 2019, specifically as you talk about with the Robinsons. So as you know, we have more platinum agents than ever. We are continuing to add in that. We are continuing to expand across the country. So for us, both on the agency and the direct side, we have a lot of runway. In fact, we're less than 2% of the Robinson market. I used to stand up here probably several years ago, and John, I think you did, too, and forever, we were about 1%. We were 0.7 forever. We've built the infrastructure now so that Progressive Advantage Agency that at one point had 25 people now has hundreds of people for those direct callers to come in, and we have a broad array of home products for them, whether it's Progressive Home or others. Then we've built an online version of the HomeQuote Explorer. We are building buy buttons. So we feel like we have a lot of runway in that bundle as point of sale and as we graduate. So even when you think about our increase in our renter's policy, that's a prelude to the people that are going to buy our home. So we think that's really important. On the Agency side, I was just with a platinum blue agent this morning who had become the #1 in his shop and it's a big shop. And we're talking about how we're going to continue to work with him to grow our business and take care of our mutual customers. So from my perspective, and John you can weigh in, I feel very bullish on our ability to continue to grow in that preferred market.

John Peter Sauerland
VP & CFO

Yes, we have tremendous opportunity on the preferred and, as Tricia said, our share there is very low. Our share, however, on the other segments is actually -- affords us plenty of growth opportunity as well, and we have grown very nicely across all segments, certainly more with what we call the Robinsons and others, but we've been growing across all segments and all channels.

In terms of loss cost trend premium trend, if that was part of your question, we can't perfectly predict loss trends going into 2019. Obviously our product managers and pricing team attempts to do that when we set the prices. We can't know for sure. Clearly, claims frequency has been coming down, that's been a fairly consistent trend. Claim severity, going the other way in a fairly robust way. We think that will probably continue for a lot of reasons as well. We continue to take rates up in our commercial business, in our Property business. In our core auto business, our rate increases have slowed. You've probably seen that. It's becoming a bit more competitive in the marketplace. But, obviously, our margins remain very robust.

Julia Hornack
Investor Relations Contact

I'm actually going to take a question now from the webcast.

So you talk about preserving culture but as you get bigger, and you just noted that you hired over 2,000 people or you've added 2,000 headcount to the employee base in the last few months. How do you really preserve this when senior management is unlikely to personally ever get to meet many of these people? The company's change in size alone would strongly suggest that the culture today isn't the same as it was 10 years ago. So how do you deal with this?

Susan Patricia Griffith
President, CEO & Director

That's a great question and couldn't disagree more because we make it such a passion to talk about our culture. So we will hire 10,000 people this year. I go to and speak at every new hire class as does my senior leadership team. So believe me, that has been almost on a weekly basis. I go to the claims new hire, I go to the corporate new hire, which includes commercial, I go to CRM new hire and I spend an hour oftentimes right in this area that we are sitting in and I talk about our culture, our values, what I need from them. So I do get to one-on-one, either in-person or via webcast, meet nearly every new hire. There might be an occasion when I'm gone. Think that is hugely important. And my whole team does that. In addition, I think it's important for me as a leader to travel out extensively as does my team. We are out and about all the time. And oftentimes, it's sitting in rooms of 20 people saying, tell me what you don't like. Tell me what you may talk about that we wouldn't know about. Lori in particular, who you just met, our head of HR, constantly goes out and just does town halls to see what's on our minds and tell us what we can change. Many of our changes we've made over the years were from the employee base saying have you thought about this, can you make this change? Would you consider this? And that's our passion. And for us, cultures evolve and it will continue to evolve because we have different demographics and different needs, but we are very in tune to that and this is something that is so critical to our success that we spend a big majority of our time, a large part of our time making sure that we hear our people, that we're here for our people and that we are open. I can tell you that it's not uncommon like Lori said for someone to stop me or for someone just to pop into my office and say hi, I knew you were up here, can we talk? And I purposely make an effort usually I try to do it on Friday, and some other days I'm actually going to venture out of the building I am in. I walk downstairs, grab lunch and randomly sit with 5 or 6 people that I haven't met. And it's usually super awkward for like 5 minutes after I ask them if I can join them and then 10 minutes later, we're laughing and I've gotten to know 5 or 6 employees, and it was funny because this week I said to my assistant, let's plan on me going to different offices around Cleveland because I sit in one of the campus locations, but we have a lot of locations. It won't be perfect but this is something we talk about every day. We talk about culture, diversity, engagement at every single 1 of my meetings and that flows all the way down. So to me, it could be something with companies grow too fast, we will not let that happen.

Julia Hornack
Investor Relations Contact

Carmen, can we take the next question from the conference call line, please?

Operator

And our next question comes from Michael Phillips with Morgan Stanley.

Michael Wayne Phillips
Morgan Stanley, Research Division

I want to follow back on one of the earlier questions on the small commercial. You're getting into that at the same time that we've seen some recent announcements from some pretty formidable competitors on the same thing. And so I'm -- I guess I'm, given those were pretty recent announcements I'm wondering how that factors into your thoughts about how competitive that landscape is in the small commercial, especially direct. And then I think John said, GL, BOP is 3x the size of the commercial. John, did you mean both the overall market? Or do you mean specifically in the space that you play in the small commercial for that 3x size?

John Peter Sauerland
VP & CFO

I meant that GL, BOP, I'm going to round, a little over $100 billion in the U.S.; commercial Auto, around a little over 30 billion. So 3x the commercial auto marketplace. We don't compete specifically in every niche of that market of course, but it gives you perspective on the breadth of market we are opening up by being able to offer those products. The other thing, similar to the personal lines side that offer, it's not only about writing incremental GL, BOP, it's about keeping the commercial auto longer. So to the extent a business evolves and grows and buys a location, et cetera, they have broader needs. Today, we can't meet that broader need, especially within our Agency channel those incremental products will afford us the ability to retain our current customer set longer. Again, same path we took with personal auto and home in order to increase PLE.

Susan Patricia Griffith
President, CEO & Director

And Michael, I would say that competition is great. It makes us all better, it makes us all think about the customer differently. I like where we are positioned because we've invested in this in the last 18 months or so knowing it would take some time to get it right and own it. But we also have the advantage like we try to do with broadened coverage where, when and how customers want to shop. So we have our Agency customers who want to sit knee to knee and kind of understand the coverages for their small business and then we'll have Direct both, just like we did in Personal Lines, on the phone or online. So having a variety of ways with which to buy as a small business consumer depending on your tenure and kind of your knowledge of what products need to protect you. So I think to me, competition makes all of us better. I'm excited about what the future will bring.

Julia Hornack
Investor Relations Contact

Carmen, can we take the next question from the conference call line, please?

Operator

The next question comes from Ryan Tunis from Autonomous Research.

Ryan James Tunis
Autonomous Research LLP

Just a few questions. The first one is the advertising expense disclosed in the 10-K I think it was up about $0.5 billion year-over-year. What are the type or range of outcomes we can expect in terms of thinking about that? I mean, is it -- could that be $700 million less next year? Could it be $700 million more? I mean, just trying to get a feel for how that might flex in any given year for these levels?

Susan Patricia Griffith
President, CEO & Director

Yes, we look at advertising and look at it from an efficiency perspective. And we look at that from everywhere we advertise, so whether it's radio, mass media, digital, and what we really look at is a target acquisition cost. And that can be different for customers, and we've also started to look at sort of a lifetime customer value and we look at the home. So there's a lot of different things that go into that. But when we have a targeted acquisition cost and our cost per sale is less than that or less than or equal to that, we believe that's efficient use of our dollars. So we will use those dollars and flex them, depending on what's going on in the other part of the company as needed. So this last couple of years, it's been great because we've been able to really put on the gas in terms of advertising, and we've had a lot of different advertising campaigns that have brought in new prospects and ultimately conversion. As you know in 2016, we reduced advertising cost a little bit when we got close to our 96 target combined ratio. So those things happen. And 96 takes priority over everything, but we believe if we play it right, and we have efficient marketing and great segmentation and a great brand and a low-cost structure, we can have it all. Some years, we have to flex.

John Peter Sauerland
VP & CFO

To that, I would add, we are hugely data-driven. We've gotten really good at measuring our advertising, not only in the digital space, but now in the mass media space. We buy virtually all of our advertising in-house. So we use that information, we know day part, television show, how our cost per sale performs on that buy, and then we know where we can buy it for the next show. So we have tremendous negotiating ability because of the knowledge we've gained, that we've used historically in the digital space, but we've now expanded it to mass media, which has had us making a lot different decisions and way more productive decisions in the mass media space. So that is how we manage it, and I think we are in a way better position now to manage it broadly across our spend than we were even just a year ago. It's pretty impressive stuff.

Susan Patricia Griffith
President, CEO & Director

And a shout-out to our marketing department who continues to evolve this campaign so you know we had kind of Flo in the superstore and then we had Jamie and now we have a whole squad of Flo. We have our campaign of Parentamorphosis that says when you buy your first home, you become your parents. We've got a couple of really great ads coming out pretty soon. And you are going to see some different, a couple of different campaigns, I won't give a spoiler alert, coming out in the next few months, one for our Special Lines, our motorcycle. And we're delving into some things like podcasts that I think you're going to be really interested in, but we continue to evolve our cast of characters, and that to me is a big thing. We're not using the same old commercials over and over. We continue to expand.

Ryan James Tunis
Autonomous Research LLP

Got it. And then I had a question on the frequency statistic, down 3% for 2018 and it sounded like in the annual report somehow it was attributable to mix. If you had been able to hold mix constant, what do you think the frequency would've been?

Susan Patricia Griffith
President, CEO & Director

That is a hard question to answer because you'd have to go back and see. There's a lot of things that are going on in terms of frequency. So some of it is mix. We have more of a preferred mix, but it also has to do with macroeconomic factors, people driving -- driving behavior, climate in terms of how the roads are, there's a lot of things that go into it. I would be hard-pressed to give you an answer that I felt comfortable with. I don't know if you can do any better?

John Peter Sauerland
VP & CFO

I agree completely.

Ryan James Tunis
Autonomous Research LLP

Got it. And then just quickly. The one other one I have was just on the January adverse development that wasn't related to Florida. It seems like for whatever reason over the past few years, there's been that going from December to January. Just curious what the explanation might be for it? Seems like consistently there might not be enough IBNR at year end.

Susan Patricia Griffith
President, CEO & Director

You know a lot of it, it depends on the year, but almost always, you have late reports from December from the holidays that go into January. Sometimes you can have a late report and it's also weather-related. So it could be double. Like this year, some of the adverse development was Florida PIP and some was late reporting. But if you look over the last 3 years, I would not use January as looking at the whole year out. So if you look at the last 3 years, January was at least 1 point upwards in 1 year of like 3.2 points I think in 2018. Throughout the year, the most that we have come to in the last 3 years at the end of the year had been 0.4 points, so less than half a point. So January is just kind of bumpy because of timing and we kind of stop it there and start a new year, but a lot of it is late reporting, weather or some circumstance. But don't put a lot of thought into January because if you see over the last 3 years, it really does smooth out and we try to be exact as we can for our reserving and we have been pretty close to that.

Julia Hornack
Investor Relations Contact

Thanks for the question, Ryan. Carmen, can we go to the next caller, please.

Operator

The next question comes from Mike Zaremski from Crédit Suisse.

Michael David Zaremski
Crédit Suisse AG, Research Division

So my question's on the severity trends. I was going to ask specifically on bodily injury, which looks like if I do the math, it ended the year at 4%. So that means 4Q had to be around 8%. But then John, you also made a number of comments earlier I'm hoping you could shed some more light on, about the severity continuing for a number of reasons. So maybe you can kind of talk about those trends you are seeing and why you think that will continue?

Susan Patricia Griffith
President, CEO & Director

I'll start, and you, John, you can add. So on trailing -- on a trailing 12, it's more benign. But the fourth quarter overall, severity was up about 6.8%, and we attribute that to medical expenses for injuries and cars are more expensive to fix because of the technology in those vehicles. And I believe that's why you were saying -- I mean, as you look at the cars and what components are in there, they've become expensive and, obviously, healthcare costs continue to be expensive. So those are a couple of the things that go into both the collision as well as BI.

John Peter Sauerland
VP & CFO

Yes, I think Tricia nailed it. BI is pretty consistently plus 4 lately. Collision, as you saw, was plus 8 for the year. Tricia mentioned that as well. Technology in vehicles is making crashes more expensive and it is making the frequency with which we total a vehicle when it's in a crash go up as well. So we think those trends are going to continue. And if you look back, they've been pretty consistent for quite some time. So the frequency side of the equation is much harder to predict, the severity side we're pretty confident is going to continue at a pace it's been at for a while now.

Michael David Zaremski
Crédit Suisse AG, Research Division

Okay. My follow-up is on the personal auto underlying loss ratio in January. It improved very measurably, kind of more volatile than it has been in the previous year. Is there any color on what made it improve so much? Was there any anomaly in there? Curious if any color there.

Susan Patricia Griffith
President, CEO & Director

John, you can add anything you want. For us, it's really about the mix of the business. And as we have more and more of our preferred market come in, you are going to have loss ratios change again. We feel like we have a lot more runway to add more of those customers. There's a lot that goes into that, but that would be my main take.

John Peter Sauerland
VP & CFO

Yes, that obviously is the positive side of why was the development from the prior year 4.8 points. The accident year loss ratio for January was exceptional. We don't report severity and frequency on a monthly basis. That would get us into some very interesting territory. So I won't really explain further there, but my previous comments around severity and frequency, I think you could bring forward to January. Weather makes a lot of difference as well. In winter months, how much precipitation that's freezing, et cetera and in the Northern part of the country, it matters a lot. So we are happy with the loss ratio for January, and we are not going to get into specific frequency and severity for months.

Michael David Zaremski
Crédit Suisse AG, Research Division

Can I sneak one last in, just you mentioned mass media versus digital spend, what's the really high-level breakdown of percent mass versus digital?

Susan Patricia Griffith
President, CEO & Director

I don't know that we actually share that, but I think it's really dependent on a time of year, buying -- to buying time, so there's times where there is more shopping for home or shopping for auto. And increasingly, though, I will say our digital is becoming much more a part of our spend.

Julia Hornack
Investor Relations Contact

Carmen, can we take the next question from the conference call line, please?

Operator

The next question comes from Brian Meredith from UBS.

Brian Robert Meredith
UBS Investment Bank, Research Division

A couple of quick ones here. The first, I'm just curious, your renewal retention rates look like they improved nicely given the renewal apps that are up in your personal auto business. Wondering if you can give us some sense of how much of a benefit that was to growth this year? And also perhaps maybe loss ratio because obviously renewal book has a better loss ratio?

Susan Patricia Griffith
President, CEO & Director

From an overall PIP growth, it was substantial. I mean, I think anytime you can keep the customers you have, you already had the acquisition cost of them coming in, I think it's substantial. I don't have the actual percentage with me right now, but it's substantial. That's why we put such a focus on retention and making sure that we -- the customers we bring in we satisfy, give them a reason to stay. They add more policies as their needs evolve, so it has been significant.

Brian Robert Meredith
UBS Investment Bank, Research Division

Got you. The reason I'm asking is a couple of years ago everybody was worried about the total 10-year impact rate with the growth and we just didn't see it this last year, and I figured that was probably due to the good renewal retention improvement?

Susan Patricia Griffith
President, CEO & Director

Yes, I mean, I think you -- I think if you're talking about, I think a couple of years ago, we were talking about sort of the new business tax and that coming in, I think...

Brian Robert Meredith
UBS Investment Bank, Research Division

Yes, exactly. Yes.

Susan Patricia Griffith
President, CEO & Director

Yes, as you see that flow through, I think it's really important. I think a part of that as well is the type of new business that we bring in. So we really do a lot more underwriting now to make sure that we bring in customers where we believe we can make at or below our target margins. So the inflow is changing. We're keeping people longer, so those 2 things together, I think, has been a good story.

Brian Robert Meredith
UBS Investment Bank, Research Division

Great. And then my second, just curious. As you continue to shift a little bit here more towards some commercial, you've got the homeowners, and granted it's going to continue to shift, should we expect your premium to surplus ratios to decline here going forward just because those are generally more capital-intensive businesses? And also as a result, is your target combined ratio going to have to be different in those businesses?

Susan Patricia Griffith
President, CEO & Director

So I'll take the last part first. Our combined ratio, that 96 is an aggregate number. So they are -- we have different targets in every different part of our business, sometimes in different states, definitely new and renewal, and in different products. So that 96 is really an aggregate. So we already have different targets, depending on the volatility of the business. From a premium to surplus perspective, so I think John used the 1 to 3, which is auto. It's about half of that for home, so those do change as we have different types of products.

Brian Robert Meredith
UBS Investment Bank, Research Division

And commercial I'm assuming is 1, 1.5 also, you think?

John Peter Sauerland
VP & CFO

Commercial will be lower than auto, for sure. But recognize, if you think about total return on the business, we try to target underwriting margin in concert with investment return to reach similar ROEs across our business lines. So commercial is a great example where a much longer tail in terms of the claims, much greater investment return as a result. We blend that with our underwriting expectations. So yes, the surplus requirements for those other lines outside of auto are more robust than our auto lines, but at the same time we're targeting returns similar across those lines.

Susan Patricia Griffith
President, CEO & Director

And like homeowners, we have for our higher limits, we have reinsurance on the commercial side.

Julia Hornack
Investor Relations Contact

Carmen, can you take the next question from the conference call line, please?

Operator

And the question comes from Adam Klauber from William Blair.

Adam Klauber
William Blair & Company L.L.C., Research Division

You're showing some very good early signs as far as your digital effort on homeowners and bundling. How are you going to accelerate that in 2019? And then the second part of the same question is as you think about rolling out more and more commercial, is there -- is part of that strategy also more of a digital effort?

Susan Patricia Griffith
President, CEO & Director

Absolutely, yes. So we are going to continue to have the ability on our HomeQuote Explorer, which is what we call our digital capacity, to not only quote, but bind online, to have that buy button so we will continue to invest in doing and rolling out that to more and more states because normally when people go online, they want to be able to seal the deal, so we'll do that. And that's the great thing about having your own home plus partners is you have the ability to service almost every customer. The same thing on the commercial side. We will have the BusinessQuote Explorer. We did a soft launch last year. We'll continue to invest in that. And almost follow suit with what we did on the Personal Lines side, which we found very successful. So we are putting a lot of investment in technology on in both of those platforms.

Adam Klauber
William Blair & Company L.L.C., Research Division

And then the HomeQuote Explorer, if I remember you had just a couple of states up and running this year, should that expand pretty aggressively -- I mean, last year, should that expand pretty aggressively this year?

Susan Patricia Griffith
President, CEO & Director

Yes, we'll do everything we can to get more and more states and the buy button as we can.

John Peter Sauerland
VP & CFO

So the buy button right now for Progressive Home is in a limited number of states. HomeQuote Explorer is broadly rolled out. I don't know about 50 states, but the predominance of the country for sure. The piece that Tricia was talking about that helps conversion a lot is if you present the potential customer with the ability to just click a button to buy. We don't have that for Progressive Home across the country, that's what we are rolling out.

Julia Hornack
Investor Relations Contact

Carmen, we'll take another caller from the conference call line, please.

Operator

And the question comes from Gary Ransom with Dowling & Partners.

Gary Kent Ransom
Dowling & Partners Securities, LLC

I saw that you mentioned in your letter, Tricia, that you have a new algorithm for distracted driving in your telematics product? Could you talk a little bit more about that? About how effective that is qualitatively? Or what that -- will that spread out to more states?

Susan Patricia Griffith

President, CEO & Director

Yes, it is from our handhelds, so our mobile as a device. So as you know, we have 2 different ways you can have our usage-based insurance, with a dongle and with a handheld. With a handheld, we're able to tell when you are using the phone hands-free or holding it, which we have found is very correlated to losses. I can't give you all the data because it's private to -- confidential to Progressive, but we find that people that use their phones either an app or a phone call, X amount of time, it's more correlated to losses. So it's sort of the next wave of how we think about our usage-based insurance. And I think for years, people said we knew if someone is in the left lane and they are using their phone or on their phone, they have to be worse drivers. That was our premise as well but we like data, and so we took a long time to understand this and then we developed an algorithm and are using it now with the people that choose our mobile device for UBI.

Gary Kent Ransom
Dowling & Partners Securities, LLC

Is it fair to say something like it is as just as powerful as either the braking factor you use or the time of day factor?

Susan Patricia Griffith
President, CEO & Director

I don't know if I have that data. I think we believe it's powerful and we'd probably be able to tell you that when we have more development, more time.

John Peter Sauerland
VP & CFO

We are confident it is quite additive, and we haven't rolled it out everywhere yet, but we are working to do so expeditiously.

Gary Kent Ransom
Dowling & Partners Securities, LLC

All right. Just one other thing. You also mentioned in your letter about savings in loss adjustment expenses. That's a piece of the expenses we usually don't get to look at carefully, but it sounds like you have a number of initiatives to bring those costs down. Are there some that might be the main components of helping that LAE piece move downward in the future?

Susan Patricia Griffith
President, CEO & Director

Yes, there's a couple of things. The main one that -- we are working on a lot of technology, but the main one that we have been working on, we continue to roll out in the last couple of years, we call photo method of inspection. So customers being able to take photos or video and we are able to be very, very efficient in writing those estimates because you don't have to be side of car by the sheet metal. And we have been doing really well, but rolling it out slowly because if you -- you can do that and reduce LAE, but if you increase indemnity, that doesn't make any sense, so we are trying to be really exact with that. And we believe that, that will ultimately, and we are testing it right now, lead to the machine being able to write a portion of the estimates that are pretty minor. And so we'll be testing that this year. Those 2 things are going to be really big in claims. And we continue to always chip away at different processes in the claims organization to figure out how to get more efficient. What are we doing that doesn't add value? So we chip away at that and have a whole spectrum of process type of things we are working on as well as obviously being accurate, making sure we pay the right amount every time for our customer. But I would say those are the big things really with our estimatics.

Julia Hornack
Investor Relations Contact

Well, unfortunately, we have exhausted our scheduled time. And so that concludes our event today. Carmen, I'm going to turn it back to you for the closing scripts.

Operator
And 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 website for the next year. You may now disconnect.