The Progressive Corporation NYSE:PGR

Shareholder/Analyst Call

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Call Participants

EXECUTIVES

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Former Vice President

Glenn M. Renwick
Non-Executive Chairman

Matt Downing

William M. Cody
Chief Investment Officer

ANALYSTS

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BofA Merrill Lynch, Research Division

Brian Robert Meredith
UBS Investment Bank, Research Division

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Citadel Investment Group

Douglas Robert Mewhirter
RBC Capital Markets, LLC, Research Division

Jon Paul Newsome
Sandler O'Neill + Partners, L.P., Research Division

Josh Stirling
Sanford C. Bernstein & Co., LLC., Research Division

Joshua David Shanker
Deutsche Bank AG, Research Division

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

Michael Steven Nannizzi
Goldman Sachs Group Inc., Research Division

Michael Zaremski
Crédit Suisse AG, Research Division

Vinay Gerard Misquith
Evercore ISI, Research Division

Presentation

Operator

Welcome to the Progressive Corporation's Investor Relations Conference Call. This conference call is also available via an audio webcast. Webcast participants will be able to listen only throughout the duration of the call. In addition, this conference is being recorded at the request of Progressive. If you have any objections, you may disconnect at this time. The company will not make detailed comments in addition to those provided in its quarterly report on Form 10-Q, and letter to shareholders, which have been posted to the company's website, and will use this conference call to respond to questions. Acting as moderator for the call will be Matt Downing . At this time, I will turn the call over to Mr. Downing.

Matt Downing

Thank you, Wendy. Good morning. Welcome to Progressive's conference call. Participating on today's call are Glenn Renwick, our CEO; Brian Domeck, our CFO; and Bill Cody, our Chief Investment Officer. The call is scheduled to last about an hour.
As always, our discussions on this call may include forward-looking statements. These forward-looking 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 this call. Additional information concerning those risks and uncertainties is available in our 2010 annual report on Form 10-K and our quarterly reports on form 10-Q issued during 2011, where you will find discussions of the risk factors affecting our businesses, Safe Harbor statements relating to forward-looking statements and other discussions of the risks, uncertainties and other challenges we face. Each of these documents can be found via the Investors page on our website, progressive.com. We are now ready to take your first question.

Question and Answer

Operator

[Operator Instructions] Our first question today is from Mike Zaremski with Crédit Suisse.

Michael Zaremski
Crédit Suisse AG, Research Division

I was hoping you could talk about the pricing and competitive environments versus lost cost trends. I saw that this is the first quarter since early 2010 that, that severity increased.

Glenn M. Renwick
Non-Executive Chairman

Sure. I think that's pretty important issues, so let me see if I can give you some color as we see it, and you can combine that then with other sources you have. But take a look at industry-wide drivers of cost, let's just focus on lost cost, its frequency and severity. We've talked for a long period of time about frequency declining and that still, in a generic statement, would be true. More so in the physical damage coverages than in bodily injury. In fact, bodily injury we see -- maybe it's temporary but certainly signs that the frequency decline in bodily injury has turned and we see small increases in frequency. But overall, frequency still get one generic statement, decline flattening, my concern would be bodily injury, we'll watch that one very closely. You couple that with severity, and by the way, those are the same kinds of things I think the industry is seeing and that we are seeing. So no great variance from the industry there. On severity, take a look at some of the severity increases we are seeing and industry data's lagged a little bit from our own. And we start to see in PD and Collision, numbers that are in the range of, I'll call it, 2.5% to 5%. They're never perfect but those severity increases are starting to get meaningful. I take a look at CPI for used car parts and used cars and I'm seeing that in 5 and change range. So they seem reasonable. Sometimes I can't always make sense of severity changes and other logic, but this one seems reasonable. So our assumption is that the severity changes on those coverages is definitely positive and probably in the 2.5% to 5% range. Keep watching, it could get stronger. Bodily injury, we see the industry reporting slightly stronger severity changes than we're seeing. That certainly we can interpret as a good thing for us, perhaps good controls. But bodily injury is one of those coverages that I think I've said several times before, under whatever normal might be circumstances, you should think about 4% to 5% trend. We haven't seen that for a good number of years. We're starting to see now trends of bodily injury experienced by others that's certainly would be in the 3% range as reported. We're seeing things a little less than that. So put all that together and reduced frequency, increased severity starting to look positive. We take a look across the industry at some more recent rate changes. I don't know that necessarily this is factored into everybody's market rates at this time. We're starting to see what had been a fairly prolonged period of rate decrease, and lower average premiums for some, start to turn probably in the last few months into a little bit more of a positive price environment. I would single out before I go any further, PIP. Because PIP, and PIP probably is one that we should take as just an individual basis because everybody has a different mix of business. Our decline in frequency in PIP has actually been very much appreciated. And one of the reasons that we think we have some of the big states we've talked about, far as New York, New Jersey under control. And also severity is decreased from what we were experiencing in at least 3 of the major states. Michigan is less clear at this time and they still have a little bit of an upward trend on severity. All of this factors together to suggest that A, most players or many -- I don't want to overly generalize here, are closer to what they might consider an acceptable underwriting margin. So there's not much buffer to absorb increasing pure premium. I'll only worry about Progressive. We'll continue to manage the business like we always have, at state-by-state-by-state level and there's some states that presumably we could probably take rates down, but there are probably many that are getting to the point where we'll take rates up. So we don't make a blanket statement about rate movement, we do it state by state. But if I had to take the sum of all of this, I'd say we're probably entering into of a rate positive environment and an increase in average premium. I would be surprised if these trends don't continue, but the best we can do is continue to monitor them month by month. If you add to that some of the things of the second quarter and perhaps even longer with the investment environment, some homeowners losses, I suspect there are generally some vectors of pressure to take some rate in the marketplace for Personal Lines.

Michael Zaremski
Crédit Suisse AG, Research Division

That's very helpful color. And a quick follow up, I noticed that you guys were chipping away at some of your very long term debt during the quarter. Would you continue to chip away at that debt if it traded around par?

Glenn M. Renwick
Non-Executive Chairman

Bill is with us today, so why don't we let him comment on that.

William M. Cody
Chief Investment Officer

Sure we've been opportunistic in buying a little bit back when we see it at levels that we think are attractive and we have flexibility to do that. We see it at attractive levels going forward as well.

Operator

Our next question is from Josh Stirling with Sanford Bernstein.

Josh Stirling
Sanford C. Bernstein & Co., LLC., Research Division

I wanted to ask a couple of questions about Snapshot. So you're 6 months into the national launch and I would love to get your perspective on what you're seeing the impact is. And I think it will be helpful if you could help us think in terms of both, is it driving incremental demand, are you seeing any impact in conversion rates, are 401 retentions improving or otherwise changing after you give people discounts or not?

Glenn M. Renwick
Non-Executive Chairman

I love the use of the 401 retention. You paid a lot of attention. Great. Josh, I'll probably be less definitive than you might like, but I'll try to be as colorful as I can be. 6 months in and thereabouts, Snapshot is actually doing well for us. The key question is are they incremental customers? And that becomes very difficult to run a controlled experiment when we've done a statewide rollout. We've done a statewide rollout or lastly statewide or countrywide, excuse me, to 39 states and the reason for that is to support the more efficient national media. So on a direct basis, we're getting -- I'm just going to use sort of numbers, I'm not going to continually give these out but since this is a big focus, I want to -- about 30% of our PIFs that are coming to us new are now what we call Snapshot PIFs that as they've either tried or ultimately gotten a discount from Snapshot and the acceptance rate in direct is actually very strong. And when we get a chance to tell people more about that, and I'll use the example of a phone quote versus an Internet quote, it's even stronger. So we know, and I'll allude to a comment I made in my cover letter, that we know we've got something very appealing. We also have to be very careful about how we communicate it. I think we're improving on that a great deal. Conversion rate for Snapshot is actually -- the take rate is actually very good and there's good reasons for that. Because people have already said, "Hey this is my base rate and all I can do is improve from here." One would expect the conversion rate to reflect that, and it does. And overall retention, I won't specifically go in 401 but overall retention is actually up. We tell you it's up meaningfully and that exceeded our priority. We obviously make some estimates ahead of time. Those estimates in this case were not based on anything other than a best guess at what would be a very acceptable outcome. So we've exceeded those on a retention basis. So I do the same thing on agency, not much changes. The take rate from agency is actually considerably lower. We have a growing number of certified agents and on the certified agents, we actually do have a mid-teen take rate or the customers that are taking Snapshot as part of their new application processes in the midteens. We think that as we've seen in our direct channel, this again is another opportunity for us to continually communicate to agents. So I think this is something that actually we'll enjoy. We're seeing that trend through the certified agents, and the more we educate the agents, the more they're using it. We're running a competition. As it turns out right now, where agents are getting involved by giving us sort of their best pitch -- how have they sort of ultimately been able to deliver this to their customers. I don't want to call it a pitch in a negative sense, but ultimately their own training. So we're actually running that as a competition so that agents can benefit from one another as to how they've sold it. Short of all that is Snapshot is absolutely something we're delighted with, not just from the economics and some of the rating we've shown you. But it does seem to become more appealing to customers over time. I also alluded to the fact that we've got some new creative. We tried that creative in the marketplace -- it's had a couple of weeks now and we're actually seeing very good results from that creative. So we're starting to feel that not only do we have a product, but we're starting to be able to communicate it to customers in a meaningful way. And I can only conclude that some of those customers are incremental. But we're not growing at such rapid rates that I consider, say, yes, absolutely and here's the percentage, but there's nothing I would do differently. And I hope that as we see, to the last question, a little bit of a rate positive environment -- if in fact, that is what happens, then Snapshot will become more important for people as a way to control their own rate level, if in fact they're subject to some of those rate increases.

Josh Stirling
Sanford C. Bernstein & Co., LLC., Research Division

I guess, the only follow up I'd ask is you already sort of explained the difference between agency and direct. I would love a little bit of color on how you ultimately think it looks in the agency channel and whether the penetration rates converge to direct levels as over time as agents sort of grow comfortable and more broadly, whether you think most of your agents look at this as sort of a positive new device or is just something that sort of complicates their agency work flow?

Glenn M. Renwick
Non-Executive Chairman

Josh, keep asking that question. I'll give you sort of a sense, but I think it's an opinion. Just keep asking and I'm happy to fill you in on that. This is very important. We see this as a great opportunity for our agents. Agents obviously have many years of their own way of selling and communicating with customers, so we don't want to A, interfere with that. My suspicion is that it will lag the direct channel just because of the nature of the shopper. Those shoppers that's perhaps willing to do more for themselves and be a little bit more experimental and try new things. But I hope that, that will be -- and we will share this with our agents whatever happens in the direct channel, so it gives them the confidence to know that this is really something good for them. To be perfectly honest with you, if I'm looking at it from the agent's perspective, over time, they've seen companies introduce new things and that sounds good and if it doesn't pay out or play out over a long period of time, sometimes it can cause agents heartaches if they have to go back and re-rate the book or do something like that. So I suspect, I suspect, there's a little bit of just let this take its time into the marketplace. But in fact, if it proves out the way I'm fairly sure it's going to prove out, agents will be more than willing to get on board and I'm happy to share with you, sort of, that lag function or the percentage of penetration that agents are participating in over time. I hope by the time we talk this time next year, those numbers will be closer and bigger.

Brian C. Domeck
Former Vice President

Josh, this is Brian. The only thing I'd add to that, I think as more and more consumers in the marketplace get this product or this type of product and it gets more consumer acceptance, I think it actually makes it consumers wanting it. And it makes it easier for agents to be able to sell it to the proposition to consumers. So I think over time, as it becomes more and more part of insurance pricing, underwriting, et cetera, I think it likely we'll be able to accelerate in the agency channel.

Operator

Our next question is from Vinay Misquith with Evercore.

Vinay Gerard Misquith

Evercore ISI, Research Division

First question is on New York. In the 10-Q, you sounded more positive about growth in New York. The last quarter, I believe, you said that GEICO was a very formidable competitor. What are you seeing that's giving you more confidence that you can grow in the future? Do you plan to be reducing price in New York?

Glenn M. Renwick
Non-Executive Chairman

Vinay, no. First, we had to get to profitability in both our channels. And that's really what we've achieved for the most part. I think I said in my letter that we sort of look forward to now getting growth. We're not going to try to grow when we don't feel that we've got the price to produce the margin that frankly is expected of all of us in every state. But now that we have that, lastly in the right ballpark,that's where we'll start to grow. Brian, you take a look pretty closely at the different channels. Do you want to comment on the Agency growth versus Direct?

Brian C. Domeck
Former Vice President

Yes. And in New York, we're actually seeing a little bit more of the growth come in the Agency channel particularly on the new business production. In Direct channel, it's still a little bit hard to come by, but we have made changes in our product offering in the state of New York. And since that -- those changes we have seen an acceleration in terms of new business growth, particularly in the Agency channel. So right now, that's where we are seeing it. Although we're optimistic that also in the Direct channel over time, we'll be able to continue to grow New York. But certainly, in terms of rate level and rate adequacy, we have felt more comfortable in Agency. So that's why we're comfortable growing there now and Direct, we're getting there.

Vinay Gerard Misquith
Evercore ISI, Research Division

That's great. The second question was on frequency and I believe on the call it was mentioned that frequency is now starting to flatten. I think year-over-year this year frequency was down 2% or 3%. Can you give me a sense for what's happening with the frequency, please?

Glenn M. Renwick
Non-Executive Chairman

Yes, I think I did cover a little bit of that. It's frankly, the way frequency works is you're going get a little bounce around the numbers. So if you try to sort of take any one number literally or any one period over another period, it may or may not be telling you the full story. As I said, in PIP we can look at some pretty big declines in frequency. But my overall is that frequency is still declining, and that's not a surprise when you think about the safety of vehicles and a lot of the safety features that have both already been done, and we're seeing now everything from blind-spot detection in new cars, and so on and so forth. It will not surprise me to continually be saying frequency in general is not a driver of cost. In fact, it will be a driver of cost reduction. But severity is making up for it. The place that I called out is that on Bodily Injury we're starting to see frequency, at least, suggest that it could be positive.

Vinay Gerard Misquith
Evercore ISI, Research Division

So with severity up in the 3% to 5% range and frequency roughly flattening out, where do you see the industry sort of taking pricing up in the next few months?

Glenn M. Renwick
Non-Executive Chairman

I think that all depends on where you start from, Vinay -- if you've either gotten behind and you're going to have to take it up a considerable amount more, just the way at least most people will do their indications, also depends on your target. Very often, I'm asked on this call, if we've changed our target, certainly, we understand combinations of combined ratio and growth. We are very clear about what we do, and we don't change dramatically. We don't change at all, really, under the different economic conditions. I understand the argument that says "Gee, if you're not getting investment income, could you change your operations?" The answer is our operations will endure for any long period of time and investments will sort of be what they are at different points in time. While I might like for different outcomes, the one thing I feel very strongly about is preserving the operating company of Progressive the way that we know we can and do. So for us, we're not behind on our pricing. If we see this trend, then we'll probably price pretty much to the trend that we see. What others will do really depends on where they are and what their current price levels are and how much they have to take up. It has been -- now I want to be careful with my words here, because this is probably where I get quoted, it has been a while now -- but there are definitely been times where Progressive has consistently kept its prices at a nice clearing price in the market but also clearing for our margin goals and others sometimes have taken rates up a little more dramatically. That can often be a time where we benefit from growth. So if we can be behind others in terms of rate increase and change because of a current [ph] adequacy, that's a good position for us to be in. I can't make that claim, I can just tell you that, that has happened before and if it happens again, that's the benefit of running state-by-state at a very close level, trying to keep our reserving as frequently updated as we tell you about. These are actually tougher times because margin is thinner. But actually good times, we think, for those who really have a skill at underwriting.

Brian C. Domeck
Former Vice President

Vinay, this is Brian. Things I could add on and Glenn mentioned it, it's important and particularly internally here, we look at it on a state-by-state basis. So it's not just macro, total company, trends, severity, frequency. We look at it at individual state level and then channel levels, et cetera, and that's what's very important in terms of pricing changes. How are those loss cost in relationships to the premiums we're charging. So the fact that we have product managers looking at individual states, we think we're on top of it. The other thing to keep very cognizant of is, particularly as it relates to frequency, how that might change relative to your mix of business. So as we have written more preferred customers and they become and stay with us longer, we might expect our frequency to go down in certain segments or certain states just due to mix. Certainly, if you write more the non-standards there, your frequency may go up. So it's really the frequency change relative to your mix that's very important. So we keep very close tabs on our business mix. And on the severity side, the only thing that I would add to Glenn's comment on severity, the one coverage that seems to have at least changed for us on the severity side is collision severity has now turned -- we turned positive in the third quarter, whereas it had been small negatives in the previous couple of quarters. So the collision change did occur in the third quarter. So we keep our eyes on that. And we react accordingly.

Operator

Our next question is from Josh Shanker with Deutsche Bank.

Joshua David Shanker
Deutsche Bank AG, Research Division

I want to follow up on the debt discussion that's began a little bit in the first question. Obviously, after August, you're raising the debt and debt-to-cap has gone up. Can we talk about long terms projections about what the right operating or let's just say financing leverage for the firm is?

Glenn M. Renwick
Non-Executive Chairman

Brian, why don't you take that. I think you can bring clarity for that.

Brian C. Domeck
Former Vice President

Yes, we continue to have, as part of our financial policies, a debt-to-total capital, cap ratio of about 30%. So right now, we're pretty close to that 29.6%, something like that at the end of September. But we do have $350 million maturing in January 2012 and $150 million maturing in October of 2013. We clearly -- we're aware of those and that was part of the consideration set when we decided to issue debt in August. And our thought there was we have those maturing and given the interest rate environment, we thought it is opportunistic to issue debt at that point in time. So the 30% debt-to-total capital ratio, we still consider that as part of our operating philosophy that we don't want to go above that for a long period of time. We recognize even issuing in August, and some of the other things we're doing, that we might go above it for a short period of time. But we knew $350 million that's going to mature in January. But I continue to use that 30% sort of cap as a -- we don't want to be above that for a long period of time until we change our thinking on that, that's what you should go on...

Joshua David Shanker
Deutsche Bank AG, Research Division

I appreciate that and I know you guys don't want to tip your hat and I guess, maybe that's what I'm asking a little bit, but how does that affect your thoughts on share repurchase and the potential for special dividends?

Brian C. Domeck
Former Vice President

As it relates to share repurchases, you can see we actually increased our rate of share repurchases in the third quarter. Repurchasing 22 million shares during the course of the quarter, a little, about $411 million in terms of share repurchases. And we felt that combination of what we felt our total capital need was. Our capital position, we felt good about that. So you can confirm from our actions there that we felt comfortable with our capital position. And on a going forward basis, we continue to believe share repurchases will be part of it. On the dividend side, I would say certainly the plan is that our variable dividend, which would be payable in January, assuming we -- after-tax underwriting profit, our comprehensive income is higher than our after-tax underwriting profit. We'll pay the variable dividend in January and so that would be our dividend policy. At this time, we're not thinking about an extraordinary dividend at this year.

Joshua David Shanker
Deutsche Bank AG, Research Division

So going over the debt-to-cap of 30% for a very brief period of time is completely within your means and comfort level?

Glenn M. Renwick
Non-Executive Chairman

Josh, it actually happened in 2008 but for the...

Brian C. Domeck
Former Vice President

Wrong reasons.

Glenn M. Renwick
Non-Executive Chairman

Wrong reasons. Just because of asset valuation and so on and so forth. I think what you can expect from us is when that happens, we'll comment on it and we do. And in that case, I think lastly, stretching my memory a little, but we said exactly where we were and that over time, we expect to get back under our 30%, so a self-imposed cap. So if that would've happened, yes, we would comment on it but as Brian said, we're at 29.6% now, that's very close, but we have $350 million that will come down in the next 4 months or so. One of the things -- and maybe this is redundant but I do want to point this out -- it's a very important discipline as how we run the company. We recognize that we can make decisions day in and day out. But we have some very strong disciplines. And one is to try to write as close to a

3:1 premium to surplus possible. That's our operating leverage. We do that as sort of number 1. We, therefore, constrain ourselves in some appropriate way on debt leverage, which we've given you as a relative cap and investment leverage. So those 3 things really sort of play hand-in-hand, and that's how we choose to run the company with really a great deal of focus on making sure that we can get the highest premium to surplus leverage that we can, which for us, means that we will find a matched, threesome if you like, or 3 couples, where we feel very comfortable that one doesn't put the other at risk. And that's really the way you see Progressive operate, as a high premium to surplus ratio, relatively moderate 30%, call it what you want, debt-to-total cap and a relatively conservative investment portfolio. That combination works for us, sort of, for any long period of time, we believe, very well.

Operator

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

Jon Paul Newsome
Sandler O'Neill + Partners, L.P., Research Division

A couple of questions. One is I didn't quite understand the commentary in the letter in Q about the DAC change in accounting in the first quarter. And most companies are talking about some level of write-down to book, and are you -- I didn't think that was mentioned but you did mention lower amortization. Maybe if you could just describe it a little bit, that would be great.

Brian C. Domeck
Former Vice President

This is Brian again, I'll take that. In terms of the deferred acquisition cost, it's actually in the Q in terms of our commentary on that. And our estimate of the effect for us is in the range of $20 million to $25 million, which we will expense through the first, primarily through the first 6 months of next year. You have the option of basically for this change in accounting standard to go back on a restatement effort or a prospective, we're taking a prospective approach since the amount for us is a relatively minor or immaterial amount. The reason I think our number may be quite a bit different than some of the other reported numbers -- I'd give you a couple of things. In terms of our deferred acquisition costs, the bulk of it is commission in premium taxes, commissions in our Agency business and premium taxes across all of our businesses, and all those are still deferrable. We have not -- and I think we've explained this before, we have never deferred our advertising cost. We expense them as we incur them. So those are not part of our deferred acquisition cost. So for us, the primary change that the standard has is that there are some costs that the primary changes, you can only defer costs that result in successful sales. And so for us, some of the call center costs that we have deferred in the past, we will no longer defer. But for us, our estimate of that effect is $20 million to $25 million of our current deferred balance will be amortized or expensed in the first 6 months of next year. So ours might be a little bit different than some that you might hear from other companies.

Jon Paul Newsome
Sandler O'Neill + Partners, L.P., Research Division

So we shouldn't expect a book value write-down that runs outside of the income statement like others, but we should expect basically to sort of, all things being equal, $20 million to $25 million of additional expenses, lower profits in the first half as a result of the debt -- accounting change?

Brian C. Domeck
Former Vice President

Yes.

Jon Paul Newsome
Sandler O'Neill + Partners, L.P., Research Division

Completely different question. I noticed, and I was hoping you could talk a little bit more about the policy life expectancy that is negative for the Direct business, as well as the other businesses and just kind of what's going on there? Is it mix change, is it something else?

Brian C. Domeck
Former Vice President

Again, this is Brian. As it relates to the direct policy life expectancy declining a couple of percent from 1 year ago, I would say 2 primary drivers: One would be some of the rate changes that we have taken in select states to address profitability concerns. So think of it, those are the states that we have mentioned in the past that we had concerns about, Florida, Massachusetts and New York, in some respects. So some of it is due to rate change. The other contributing factor in the Direct channel is our mix of payment patterns or the billing options that consumers have taken has changed a little bit, where we are actually getting a little bit less paid in full business relative to those who might pay on installment basis. We know that the PLEs of those customers is a little bit less, but we feel good about the change in conversion that has happened and the ultimate lifetime -- our premium, we feel is also a positive. So net-net, whereas we don't want that PLE to be going down, at least we understand the drivers of it, and we look to change things to make all of those things go into positive direction. But the primary drivers will be a little bit of change in terms of rate level in selected states and somewhat a change in billing practices for some of our new application accounts.

Glenn M. Renwick
Non-Executive Chairman

Just a slight add on to that with what we use as a proxy for future retention and that's our Net Promoter Score, discussed that on numerous occasions. For the same reasons that PLE went down, we have a declines in Net Promoter Score. But I would say that in general, we're seeing a negative pressure on Net Promoter Score in general, which is something of great concern to us. A recent data point, and it's just the data point we do for ourselves, that tries to get a comparison with ourselves and other competitors on a relative basis. Are we're experiencing more or less than our competitors? The very recent data points suggest that there's nothing particularly that we should take away and say it's something that Progressive's doing, but increasing our Net Promoter Score, which for us is really a leading indicator of longer-term retention, is something we care a great deal about. It does seem, seems, that in general, consumers are just a little less happy with everything and that's reflecting in our scores. But our best efforts to see if it's reflecting in our scores more or less than our competitors suggest no long term concern for us. But having said all of that, there's always ways to improve it. We weren't at a level that we thought was our max by any stretch of imagination, so retention and retention efforts, that we've talked about probably in calls through many years, still remain a very top priority for Progressive.

Jon Paul Newsome
Sandler O'Neill + Partners, L.P., Research Division

And the other products as well, is it a similar kind of commentary?

Glenn M. Renwick
Non-Executive Chairman

Yes, actually that commentary would span across to even our special lines customers, which tend to be some of our happiest customers, if you like. So I think that general statement I'm saying where NPS or Net Promoter Scores in general are a little flatter or down, there's some credibility to that when we see it happening in areas where there's really no great other explanation for it.

Brian C. Domeck
Former Vice President

This is Brian again. One thing, in the Agency business, our PLE is actually up. And some of that is due to certainly some of the things we've tried to do in terms of rate stability and loyalty programs and the like, but also some of it is our ability to write some more of what you might call a preferred customer set that have, by their own sort of nature, longer PLE. So on the agency side, our Policy Life Expectancy is up on a year-to-date basis.

Glenn M. Renwick
Non-Executive Chairman

I think in the Q, we have it up 2% for auto overall.

Brian C. Domeck
Former Vice President

2% in agency, but down in direct.

Glenn M. Renwick
Non-Executive Chairman

Correct. Those are the things that frankly, specially, the Direct business is hugely dependent on Policy Life Expectancy. So just know, those are big deals for us and while we don't see anything broken there, they're clearly things that we'd like to see shift in the other direction.

Operator

Our next question is from Michael Nannizzi with Goldman Sachs.

Michael Steven Nannizzi
Goldman Sachs Group Inc., Research Division

I just had one question. You talked about PIF trends in the 4 states weighing on your results. I noticed another large Direct writer saw PIF growth lift in the third quarter, and it's been rising for the past year or so there. I'm just trying to compare that to your trajectory, obviously, growth is still positive. It's just been slowing. Is that something you find surprising? And how do you think about that? How should we think about that and just one more follow up, actually.

Glenn M. Renwick
Non-Executive Chairman

Yes well, PIF growth is around 5%. We certainly would like to see it more. I assume you're referring to GEICO, an extraordinarily confident writer. No question about that. If we -- and it's very hard to get perfect comparisons, but let me sort of use one that I think is reasonably public information on Internet. And if we take sort of the sales through the Internet, GEICO and Progressive are neck and neck on that one. I think they're about 39% of the sales from the Internet, we're about 38%. But there are some states, and we already mentioned one, New York, where they clearly have -- that's a higher risk premium state, they clearly have a significant lead over us in that state. There's no question about it. They're much more mature in that state on their direct writings. I don't have enough color to give you sort of issues or what's going on in California, but I do know that they did not get the rate that they were looking for. That's always unfortunate. I think that's an unfortunate comment for the industry and maybe writing at rates, they would prefer not to be. But overall, PIF growth for us is not bad. I think if you take a look at GEICO's most recent quarter, you'll see a slowing from their new app rate of about 13 for the year. Our calculation, certainly they would be better to give you their numbers, ours would suggest it's somewhere closer to 4.5% to 5%, something like that new app growth for the quarter.

Michael Steven Nannizzi
Goldman Sachs Group Inc., Research Division

Clearly a very different investing approach between the 2 companies. Well, is that something that you think is relevant in terms of the 2 companies growth trajectories or is that just more of an operational element?

Glenn M. Renwick
Non-Executive Chairman

This is one where you get to make your own cases for that. What I can comment on is how we're going to run Progressive and I sort of did that a few minutes ago. We're just not going to stretch for yield and in so doing, put the operational backbone of the company at risk. Everybody would draw up those parameters a little differently, I'm sure. We have a set of parameters that we feel have done really well for us for a very long period of time. So we're going to play our game and we think GEICO's an incredibly competent and good competitor in the marketplace. I suspect they feel similarly about us, and the fact is the 2 of us are still relatively combined, relatively a small player, less than 20% of the market share -- quite a bit less than 20% of the market share. And if I had to bet, I think both of us are going to do just fine. So we're not going to change our game plan, is really to answer your question.

Michael Steven Nannizzi
Goldman Sachs Group Inc., Research Division

Great. And then just one question just to switch to mobile for a second, how do you think about spend on mobile and what are your metrics for success there? I guess just intuitively, I would imagine that the research element of insurance is less well suited to mobile. So I'm just kind of curious how you're thinking about that as a business?

Glenn M. Renwick
Non-Executive Chairman

Not sure that I can answer your question with regard to research. No one wants to really -- at least I don't with my eyesight want to read everything on a small footprint. But when we start to think about iPads and so on and so forth -- so let me give you a little bit of color because mobile is hugely important, and the fact that there are services that many of you have access to that are starting to take into account quite good metrics on the Internet, but recognize that, that, to my knowledge, doesn't include a lot of mobile. And you say, well at first, that's really not that important, it's a rounding error. I would suggest to you it's becoming slightly more than a rounding error and just to give you flavor for it, we have about 800,000 visitors to us, to progressive.com through mobile devices in any given month. And our payments, so just flavor, payments, we're taking at about $8 million in payments on a monthly basis. So there are people doing things that may not be sort of what you might do, but it's an expected kind of proposition. From a quoting and sales perspective, I'm not going to give specific numbers there, but let's call it 5% to 10% of our quotes and sales are now coming from mobile devices. Little down on that scale, closer to the 5% end, but the program is such that I give the range 5% to 10% for any sort of meaningful guidance here. So it's actually not just something to be played around with. Mobile for us is a very serious strategy. It's representing, like I say, about 5% to 10% of our sales. It's a good chunk of payments, it's a meaningful way to interact with consumers. And our investment internally on mobile, while we don't give out those sort of numbers, is strong and we expect this is an opportunity for us to do very similar kinds of work that we've done on the Internet. For those who care about those things, you'll see the key note just again recognized Progressive as the leading website, 17x out of 18x now, I think. And I only bring that up not to sort of endorse one more thing or another but that's a sweet spot for us. Combining technology with our underwriting is great. We were using the Internet to do things, such as name your price and even to some extent, UBI that we wouldn't be able to do easily in another environment. Mobile is offering up for us some very exciting propositions. I don't think now is the time to go into those, but probably by the time the investor meeting next year, I think we'll have some of the indications that we gave you this year closer to reality.

Operator

Our next question is from Doug Mewhirter with RBC Capital Markets.

Douglas Robert Mewhirter
RBC Capital Markets, LLC, Research Division

I just had 2 questions. First one is regarding your new business versus renewal you gave. It's a pretty good data on your 10-Q. Could you just give me an idea of the proportion of your business, either on a written premiums or a policies book basis, which is new business versus renewal? And just rough numbers, if you know the exact data is that 60/40 or 20/80, 80/20?

Glenn M. Renwick
Non-Executive Chairman

Brian, do you have a feel for that? I know what's on top of my mind but...

Brian C. Domeck
Former Vice President

In terms of -- we actually don't, have not historically disclosed that number. But suffice it to say that renewal business for us is a vast majority of the business. I suspect our new business percentage is actually higher than lots of other companies, particularly say State Farm, Allstate and the like. But the vast, vast majority of our business is renewal business.

Douglas Robert Mewhirter
RBC Capital Markets, LLC, Research Division

My follow-up question is your media campaigns, the Flo has undoubtedly had an impact on the success of your branding and the success of your media campaign. Have you looked at the relative impact of your follow-up creatives, particularly like the Messenger campaign, in terms of whether that kind of positive impact has met your expectations or anything around that?

Glenn M. Renwick
Non-Executive Chairman

The answer is we really look at those things all the time and very hard. The Messenger campaign, obviously, Flo, you're correct, is sort of carrying most of the weight. We also want to make sure that it's not something that we are, to the point, where it's carrying all the weight and for whatever reason, maybe it's not as effective in the future is it might be. So we're always going to try to bring along something else. We'll do that in a measured way. The Messenger is a different kind of message in the sense that he's a almost free radical, he's a customer, he's out there delivering a different kind of message and Flo as an employee type message would be delivered. And yes, we do have a fair amount of -- not just early in the market research, we do some research before we put it in the market, research after we put it in the market. I'm not going to give the details of it now. I think we have a way to take the Messenger campaign and reshape the campaign into a different kind of campaign. Something we think is quite unique. And you'll see more of that as -- this year and early part of next year, and our expectation is that the Messenger will be focused on certain day part and television viewing audience as more selective media plan and selective -- along with that, selective age group. So we do know that he appeals to some stronger than others.

Operator

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

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

I know you've been sort of beaten up on this all morning. But in the Q, you talked about not wanting to be too exposed to the impact of interest rates on, if interest rates rise to the impact on capital. From a statutory standpoint though, the impact would be lesser and I'm wondering why there's no -- I just want to get your thoughts on why you're not looking for more yields from that perspective.

Brian C. Domeck
Former Vice President

Sure. From a statutory point of view, you're absolutely right. But that's not what's really driving us. It's more of the total return on the portfolio overall. And if you look at the now flatter yield curve with much lower rates, the protection against the rising rates is pretty small with Yields being low. So our view of the risk/reward there is that it's better to stay short and better to take some credit investment bets if you will, where we think we've got a really solid risk/reward profile on businesses or other underwriting credits that we like, take up deal there. And also the boost there, total returns, that's our focus now. We may be stuck in this environment for a while, but if and when it does change, it will change relatively quickly. It just doesn't feel like it's great risk/reward rate for us to go out the curve. Now we are adding paper at lower yields than a book yield, but our book yield is really just a historical artifact and from a different environment. The environment we are in today is, kind of what we have. But we're not going to try to hit the nominal yield we have in a different environment in this current environment and take risks that we don't feel comfortable doing -- taking to get there.

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

And sort of a big picture and maybe an ignorant question, but are you missing out on any business by not having some sort of captive agency channel?

Glenn M. Renwick
Non-Executive Chairman

Glenn, answering that. I have no way of knowing that because we've never really had it. So being definitive about it would be inappropriate. But I really don't think so. Our independent agency channel obviously, we do business with more independent agents than anyone else. We're very proud of that. So we have strong geographic presence. We have -- just numeric presence is very strong, and I don't think that's the case. This does give me, if I can exchange your question a little bit, opportunity to follow up on the question I think from the last call that I said I didn't know but let me check. And the question really related to prior carriers, are you seeing any significant difference in prior carrier relative to your channels of business. And so let me go through that and keep linking it back to that first question. In our Direct business, the answer is not any great story to tell you. The observation there is GEICO and Progressive, obviously, trade customers in the Direct channel. So rather than flowing from market share, GEICO is our largest source of Direct business, and I suspect we may be for them, but I don't know that. And then State Farm and Allstate and then the people that you expect to be slightly lower than that. In the Agency side of things, a little bit more reflective of those that do business through agents, captive or otherwise, so State Farm and Allstate, and again nothing intended here other than data observation. We're certainly getting, and probably the only notable thing is, of the more recent times this year, our prior carrier of Allstate has picked up somewhat. And there is an opportunity to at least say that people who may have shopped in the captive channel may also be comfortable shopping in an independent channel. And more so if they were in that channel, they may be more inclined to stay in a channel like that rather than go to Direct. So in answer to your question, I can never know what would have been had we had captive agents. At this point I certainly -- that's not even a consideration for us. Our independent agency channel serves that need and serves that customer choice very, very well. And I don't think we're giving up much at all, and our advertising by design is trying to build, yes, a very strong Direct business, but also a very nice halo for our independent agents. And if you take a cross-section of the players in the independent agency channel, we certainly are the one that has given our agents a brand that they can leverage.

Operator

Our next question is from Brian Meredith with UBS.

Brian Robert Meredith
UBS Investment Bank, Research Division

Two questions here for you. The first one, looking at homeowners' results here for this year, they've been pretty poor with all the catastrophe losses. And I imagine the same holds for some of your partners. And my question is has that or do you expect that to have any impact on your new business generation or retentions here going forward as some of your partners probably put through some pretty hefty rate increases to try to recover some of that lost profitability?

Glenn M. Renwick
Non-Executive Chairman

Well, we certainly haven't got any specifics at this point in time. The answer to your question will be yes. Just pure physics here, right? Homesite may be more so than Ameriprise, certainly had their share of just natural issues with the losses and they will price for that. There's really no doubt in my mind or restrict some availability or do whatever is in their best interest, which frankly is always in our best interest -- for if you have a partnership relationship, it has to be what's in their best interest. We would all like to believe that there's a never never land where nothing bad ever happens and they never have to adjust and in this case, the potential for that to come back and reflect on Progressive, the place they bought the policy, is almost certain -- so I say that just as I should. Will we do anything to try to mitigate those things and work hard to make sure that there is comfortable for both our customers and our partners alike? Yes. And I think that on average, or not I think, I know on average this is still very, very much a significant move for us to offer a different class of customer that we've now shown we can attract products to keep them with us. We are over 11% of our entire book now, has more than one product with Progressive and that's a combination of whether special lines or homeowners or renters or whatever it might be. So we're starting to change the mix of who we are, and those relationships really matter. But direct answer to your question is, I think everybody's going to feel some pain as the homeowners companies adjust for their losses.

Brian Robert Meredith
UBS Investment Bank, Research Division

Great. And then second question, Glenn, if I take a look at your ad spend, you mentioned that it was up for the quarter, consistent with the Direct earned premium, so about 7% growth in ad spend. Yet we continue to see a decline in new apps. I guess my question is what's your thought about the current effectiveness of the ad campaign and perhaps, are we coming closer to an end in the lifecycle of Flo and do we need kind of, in need of a big rework of the ad campaign?

Glenn M. Renwick
Non-Executive Chairman

A couple of questions in there. We've taken up -- and I'll give you a sort of year-over-year something 6%-ish on advertising cost. We're comfortable with that. I think we've told you many times, so I won't repeat that at how we look at yield and make sure that our yield is in line with expectations and we're not overspending for the last customer in the door, and we're comfortable. Now is the creative working? Actually, we don't see any reason to believe that Flo or her effectiveness is coming to an end. One of the things that you may be seeing a little bit of and hopefully we'll see more of, is that we've really been able to take the campaign to, I think, some different places in the last 12 months or last 6 months, in terms of viewing for those looking from the outside, where Flo's character and her exposure is a little greater, a little different. So we try to mix it up. We're refreshing the campaign up. The campaign certainly had the potential like all to get a little bit predictable, a little bit stale. We've really taken that head on and as result, we don't see Flo as -- or the Superstore and Flo as something that is in the phases where we're starting to think about retirement, not at all. But to a question a couple ago, we're working on other campaigns. The answer is yes. But it's not necessarily with the objective function of one having to replace the other. It's making sure that we can talk to as wide a range of audience as possible. And in some cases with slightly different messages, all messages that work well for our brand in total, but not necessarily all messages that can be delivered by one campaign.

Brian Robert Meredith
UBS Investment Bank, Research Division

So the decline in new apps, you would say there's really nothing to do with the ad campaign, simply just some of the factors you mentioned in the 10-Q?

Glenn M. Renwick
Non-Executive Chairman

That's absolutely what I believe. And that doesn't mean that I don't expect even better things, if in fact we get some pricing movement in the marketplace, that may be a way to dislodge customers and as we all have, you and us, have questions about shopping behavior. Has it gone up? Has it gone down? Which way is it going? One thing we can reasonably sort of suggest is that when the market gets disturbed by prices, it's at least the catalyst for shopping and I would expect our campaign then to -- that's when rubber will meet the road. I think it will work out fine for us.

Operator

Our next question is from Alison Jacobowitz with Bank of America Merrill Lynch.

Alison Marnie Jacobowitz
BofA Merrill Lynch, Research Division

Most of my questions have been answered but I was just wondering, as you look at the pieces of your strategy, how do you put it all together or do you think about earnings growth for the company overall?

Glenn M. Renwick
Non-Executive Chairman

Maybe, Brian, you can tack on here. Do we think about earnings growth? Absolutely. But what I described before in terms of an operating company with a clearly defined 96 grow as fast as possible, that doesn't change. That is the big driver. I understand different combinations of what, 92, in a different growth. We understand all those combinations but we're trying to drive for long-term results that our shareholders will be very happy with. It's always terrific when we get investment results that are significantly additive to net income. But for the most part, our business model, our strategy -- you do understand it and I know you understand it and I don't intend to change dramatically. It's not because we don't understand or perhaps see other choices, but on a long term basis, what we do, we feel very, very, very comfortable with. And it pays off. Now things like, as Brian mentioned, accelerated share repurchase, that's less about trying to manage earnings per share and more about trying to do exactly what we say and the guidance we've said. When we have capital, sufficient capital, to run our business, perhaps excess and we see conditions in our price of our stock at a level that we feel attractive, that's one of the ways we'll return capital to shareholders. And over any reasonable period, let's just take the last 5 years, you'll see us return capital through share repurchases, through our variable dividend and through an extraordinary dividend. We don't forecast exactly -- we're certainly not going to forecast extraordinary dividend, or they wouldn't be extraordinary. But our actions in the marketplace, especially with the share repurchase, have been totally consistent with the guidance we give on that. Anything to add on that?

Brian C. Domeck
Former Vice President

No, I don't have much to add on that. We definitely do think about earnings, but it's more in context of 96 combined ratio and growing as fast as possible subject to that 96. And that's how we will generate the earnings growth from the insurance operations and then we will always consistently manage the investment portfolio on a total return basis and less about what the current period earnings are.

Matt Downing

We have time for one more question.

Operator

Our next question is from Dan Johnson with Citadel.

Daniel Johnson
Citadel Investment Group

One quick one and then a real question. The quick one's on new money yields. You talked about what your -- where the book yield was at. Can you tell us where you're deploying capital or what sort of rates you're deploying capital at?

Brian C. Domeck
Former Vice President

Sure. Last quarter, if you look at what we bought outside of treasuries, it was just a little under 3%. And I would also note that the duration of those ads was longer than the duration of our overall portfolio of new money.

Daniel Johnson
Citadel Investment Group

In aggregate with the treasuries then?

Brian C. Domeck
Former Vice President

About 20%, 25% of those are treasuries and the treasuries are in the front end kind of in that 50 to 75 basis point range.

Daniel Johnson
Citadel Investment Group

So 25% at, call it, 50 and 75% around 3-ish sort of will be all in?

Brian C. Domeck
Former Vice President

That'd be fair.

Daniel Johnson
Citadel Investment Group

Okay. Great. And then the real question is sort of just trying to follow up on Mike Nannizzi's question around sort of relative performance. We have so few significant direct players in this market. There's really only 2 to look at to help us get a sense as to what's going with that channels growth characteristics relative to the rest of the industry. And when we look at sort of sequential PIF growth in the Direct business of yourself and the sequential PIF growth in GEICO, sort of pre-2009, you were running around a like a 1/3 or so growth rate -- well not growth rate. But if you just look at the number of PIFs for every 10 PIF they added, you added 3 to 4. And then in 99 it came up nicely in -- I'm sorry not 99, 2009 came up nicely. 2010 almost up to par and then back this year down to sort of back to the 1/3 sort of ratio. Can you help try to put a little color on that? Is there something particular about the markets? I know you talked about New York, I'm just sort of struggling to try to understand why that is or maybe the issue is really the peak in 2010 and not the sort of 1/3 relative of 2011, any insights there? I appreciate it.

Brian C. Domeck
Former Vice President

Sure, Dan. In terms of sort of the absolute change in terms of policies in force, GEICO versus Progressive Direct, at least in any sort of given quarter or over a year-over-year, a lot of it is due to the delta growth rates in new business. So in early 2009, early 2009, first couple of quarters -- 2010, excuse me, our growth rates in the Direct channel and new business were in the 20% range. So we were growing our new business quite a bit in the first half of last year, which then subsequently moderated throughout the remainder of 2010 and frankly has been down a little bit in 2011. Whereas on the flipside, GEICO, their new app growth rate was negative since the first half of last year and then has since turned positive, and so far this year, as Glenn mentioned, they're up 13%. So some of the delta difference in terms of how many additional policies in force do you add in any one quarter or on year-over-year basis is somewhat a function of your new business acquisition. And I think it's safe to say that GEICO and Progressive, we will be fighting it out and as Glenn mentioned, we respect them as a competitor and I suspect a lot of it is a function of rate levels in some very big states. So in 2010, when we thought we had profit concerns in Florida and New York and some other big states and we raised rates, my guess is it made GEICO's rates more competitive and they gained in new business. And so it's a juxtaposition in large part, in lots of large states, in terms of your aggregate rate level on competitiveness. Because I think, as Glenn mentioned, based upon some external source data, we both get a very high percentage of the quoting activity, particularly on the Internet, and head-and-shoulders above most of the rest. So I would say a lot of the delta difference is under new business. There is some difference likely on in terms of policy life expectancy and retention rates, but I bet you the vast majority of that variance on a quarter-over-quarter, year-over-year is the new business production deltas.

Matt Downing

I'll turn it over to Wendy.

Operator

Thank you. This does conclude the Progressive Corporation's Investor Relations Conference Call. An instant replay of the call will be available through Friday, November 25, by calling 1 (866) 353-3066 or can be accessed via the Investor Relations section of Progressive's website for the next year. This does conclude the presentation. Thank you for joining. You may disconnect at this time.