S&P Capital IQ

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The Progressive Corporation NYSE:PGR

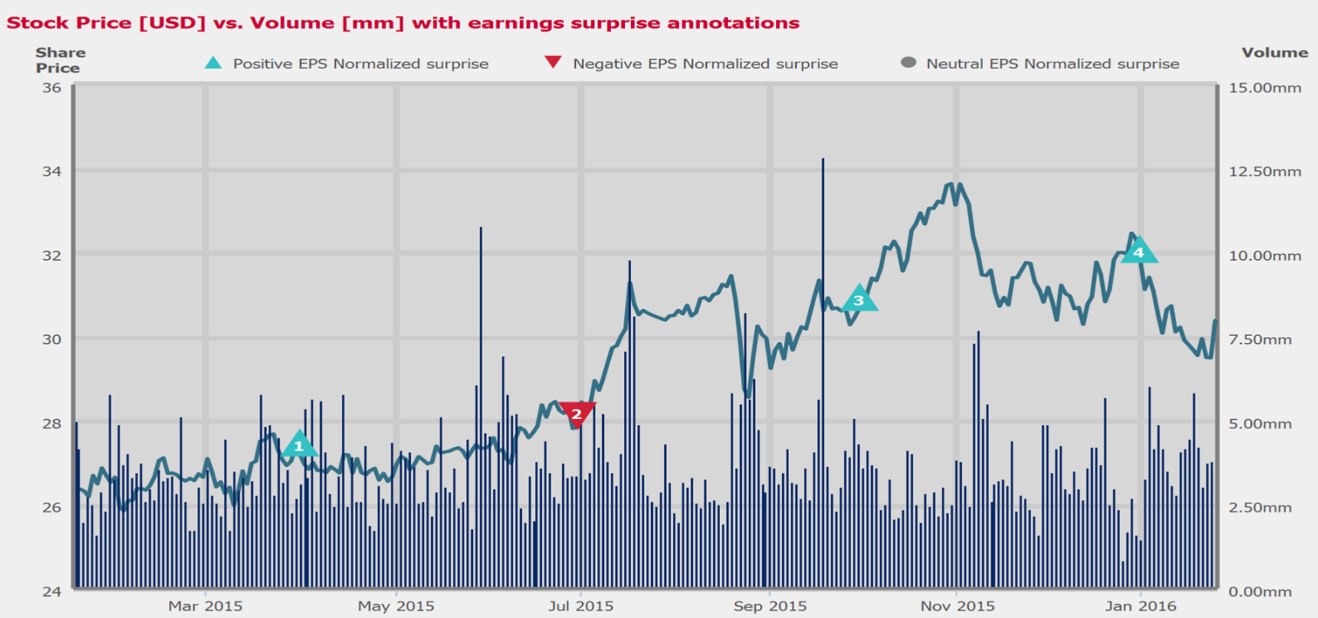
FQ1 2016 Earnings Call Transcripts

Friday, May 06, 2016 1:00 PM GMT

S&P Capital IQ Estimates

	-FQ1 2016-			-FQ2 2016-	-FY 2016-	-FY 2017-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	0.51	0.42	(17.65 %)	0.48	1.94	2.16
Revenue (mm)	5788.31	5818.40	0.52	5729.91	22677.46	24455.06

Currency: USD
Consensus as of May-06-2016 12:34 PM GMT



- EPS NORMALIZED -	CONSENSUS	ACTUAL	SURPRISE
FQ1 2015	0.43	0.46	6.98 %
FQ2 2015	0.55	0.53	(3.64 %)
FQ3 2015	0.48	0.49	2.08 %
FQ4 2015	0.46	0.55	19.57 %

Call Participants

EXECUTIVES

Glenn M. Renwick
Non-Executive Chairman

John Peter Sauerland
Chief Financial Officer and Vice President

Julia Hornack

Trevor Hillier

William M. Cody
Chief Investment Officer

ANALYSTS

Brian Robert Meredith
UBS Investment Bank, Research Division

Gary Kent Ransom
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Ian Gutterman
Balyasny Asset Management L.P.

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

Mark Alan Dwelle
RBC Capital Markets, LLC, Research Division

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

Robert Ray Glasspiegel
Janney Montgomery Scott LLC, 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 the letter to shareholders, which have been posted to the company's website, and we will use this conference call to respond to questions.

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

Julia Hornack

Good morning. Welcome to Progressive's conference call. Participating on today's call are Glenn Renwick, our CEO; John Sauerland, our CFO; Tricia Griffith, our Personal Lines Chief Operating Officer; 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 2015 annual report on Form 10-K, 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. These documents can be found via the Investors page of our website, progressive.com.
Nicole, we are now ready to take our first question

Question and Answer

Operator

[Operator Instructions] Our first question is coming from the line of Josh Stirling from Sanford Bernstein.

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

So Glenn and team, I'd love to ask sort of big picture question on growth. You guys have had a really strong, really -- probably 6 months here with growth rates rising. I'm wondering if you can help us a bit to segregate it because there's a lot of moving pieces. And I think the big picture question I'm sort of struggling with is how much is the cyclical story because of the environment? And how much is structural and the impact of your initiative -- of the various initiatives? And so when I think about it, it would be really helpful to get your sort of color on how much you think it is a function of kind of just the competitive environment changing around -- other folks taking pricing maybe on the first point. But then you obviously have a lot of retention initiatives under way the second. And then you got new products, whether it's Snapshot or homeowners. I imagine these are having some impact, and -- probably more Snapshot than homeowners at this point. But what I'd love to get from your perspective, as we think about looking forward, how much of this is kind of a cyclical upswing in the growth rates and how much of this is the impact of big sort of powerful initiatives working the way through?

Glenn M. Renwick
Non-Executive Chairman

You did a nice summary of our strategy there. Yes, you're right. So I'm not sure I'm going to get as specific, but think about our October IR meeting is a better opportunity for us to address a lot of those issues. Frankly, some of them are a little bit tricky to -- but cause-and-effect to, but growth is actually, boy, sign me up for another first quarter like that one. I know we certainly has some hail at the end, but frankly, we also missed some winter. So no great consent there on 94.6 [ph] or whatever. The kind of growth rates we put together. Nice quarter. Why? The fact is it's not -- it's certainly not luck that other competitors take rate. We try to take rate at the right time and make sure we're always positioned. I use the analogy of the wave last time. We tried to ride the crest of the wave. That's sort of the underlying core of everything we do. So forget all the other initiatives. We've got to run the base business exactly the way we want to run it, and keep it at a point where we'll always be in a position to take advantage of market conditions when they swing our way. We expect always to grow. That's part of our two-pronged most important statement: 96, and grow as fast as possible. But when we get that opportunity that others are perhaps scurrying where we have perhaps got ahead, we'll take those opportunities and welcome them when they come. And then, second piece is you got to manufacture your own future growth. And the kind of things with Snapshot, you're more than familiar with Snapshot representing now almost close to 2 million policies being rated with Snapshot sort of fundamentals. So you've seen from the policies that I put in my letter. That's a material part of our book, and you know it's more material on the direct side than on the agency side. We've got some nice initiatives that we'll continue there with Snapshot. We've talked last time briefly about the app which we think can also give us an opportunity to reach out to yet some other customers that are perhaps not as comfortable with a dongle inside the car. We've announced something with General Motors that will kick off within about 10 days, where we have to actually collect vehicles -- vehicle data with General Motors. So we're starting to -- as I've always said, we're starting to worry more about just the data, the algorithms and the impact on rating, less about the method of collection. So Snapshot has got some real gas in the tank, and we'll continue that. Obviously, our brand strength, we continue to push on that, and we've been able to do that in an environment where others have perhaps pulled back just a little bit on their advertising. So it seems some nice brand strength measures moving the right direction. You flip over into the agency channel. Actually, I'll stay with both for a while. Product advancements, we've talked primarily about 8.3, but we're always get -- we're always in the hopper for 4 -- 8.4 or 8.5. So we're continuing to develop that, probably the biggest move in the agency channel. Other than rate competitiveness is our bundling initiatives that we really have done so nicely within the direct side. Lots more gas in the tank there where we use a lot of carriers. In the agency side, you know the story on ASI. That's not a big factor in agency growth right now, so I wouldn't overplay that. But to the extent that we talk this time next year, I expect that to be a bigger factor in the growth. So growth initiatives are all on track, different stages of maturity. I will put Snapshot higher. We've started to see agent acceptance. I talked about that last time when you asked the question. We started to see the more recent states with agent acceptance frankly close to double what they had been previously, so we're starting to see that move in the right direction. So Snapshot moving along very well. Platinum in the agency channel really is starting to get a grip, and we'll talk about that more on our October meeting. And as long as we're very diligent with the pricing, clearly, we see, and we release numbers for at least you to get a flavor for what's going to happen in April. We're still a few days away, of course, for closing out April and getting you the information 8, 10 business days, but we know that's not going to be a great month. So we'll take a look at our rating overall. And I would say that probably we're still in a mode where we can think in terms of 4 to 5 in terms of annualized rate increases, which is a nice place to be. We gave you some indications on trends. So that core should keep rolling and the initiatives are doing well. I did not see a question specifically in terms of percentages relative to growth and that is hard to do. We have some feel, but I'm not confident to sort of push that out to a greater audience at this point.

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

That's really helpful, Glenn. I want to so might ask a bit more sort of a numbers question then. I think the market has been worried about frequency for a while, and I guess, it's been a bit more benign. I guess, one, sort of would you characterize this is mostly sort of a let up from sort of favorable weather, which seems to be sort of implied by your Q and maybe some other competitive commentary? Or do you think frequency trends have really peaked now and the industry can now start -- maybe talk about the possibility of rating severity, which I would love to get your commentary on as well?

Glenn M. Renwick
Non-Executive Chairman

Yes. Always tricky with the variation there, but I'm happy to comment on that. In fact, a little piece of the story will be even different in my comments last time around. Frequency is pretty benign. And certainly, when we look at the BI, which I tend to worry a little bit more about BI frequency than anything else, so we're really in pretty good shape there. So we're not seeing anything dramatically go away. I would tell you wait another conference call or 2 to get too concerned about commentary on PIP. We've got some issues in New Jersey that we think may be driving that number a little bit differently than the true read. I won't say true read, true long-term read. So severity really is the play, and for the most part, not too much of concern there with bodily injury. I think the interesting point for severity is really the collision. And I think it's a little bit too early to suggest that we've clearly put in our Q that frequency was moderated by winter weather this year in the Midwest and the Northern states. That's absolutely the case. We also discussed last time that based on our Snapshot measuring, we were not seeing fifth -- the last quarter of '15 was overlaying the last quarter of '14 more on miles driven -- vehicles miles driven. That's changed in the first quarter. So we're actually seeing an uptick now on vehicle miles driven in the first quarter of '16 relative to the first quarter of '15. So that's interesting and that tracks very much with the public gasoline demand as well. So while we all speculate on the effect of the increased miles, and I've always cautioned that you need to know what kinds of miles, and we are seeing the longer trip miles be the primary driver of that. We may see a little bit of a tick up in frequency, and we certainly need to watch that for what I'll call short- to mid-term pricing. But we may, we may, and please stress that. We may really be seeing a more structural long-term change and in lower frequency, as we know, cars are getting safer. We've always talked about that. That's very, very hard to sort of measure on a month or even quarterly basis. But it would not be surprising to me to see in the future that we'll see a long-term structural decline in frequency, and quite possibly, as history has shown us, a similar offset on the severity. So those would be my primarily issues there. Right now, frankly, given that there has never been a time in history there hasn't never been some puts and takes on frequency and severity. This is a reasonably predictable of mile time. The only outlier perhaps is a little bit of PIP severity for us right now and little bit of collision severity that we'll take a look at. But that's sort of from a pricing perspective is being offset by frequency.

Operator

The next question is coming from the line of Brian Meredith of UBS.

Brian Robert Meredith
UBS Investment Bank, Research Division

So Glenn, I'm just curious. You've owned ASI for about a year. Obviously, some high CAT loss activity in March. It sounds like in April there is also. Is it higher than you would've expected? And as a result, any thoughts about maybe changing the reinsurance program or something you can do to maybe mitigate some of that volatility?

Glenn M. Renwick
Non-Executive Chairman

I'll answer the first question now. No thoughts. That doesn't mean we won't ever have thoughts. We're always going to consider that, but I think about the percentage of the overall book of business that we have, we currently have a small quarter share percentage. We have a single attachment point of about $45 million for any single event, and we have an aggregate attachment of $175 million. Those feel very much in proportion to things that we're willing to handle. Do I like volatility? Of course not. No one does. You don't and I don't. But if this was sort of in the realm of understanding of what likely could happen when we did something like this, absolutely, it certainly also plays to the fact that we're writing an awful lot of homeowners, not necessarily with some of these results that we have to report in-house. So the partners that we have, they're all obviously having those problems. So it's a different dynamic when we have it in the place that we absolutely need it, and as I said in my letter, it hasn't even been a momentary thought to be of any concern whatsoever. And there's no pressure from my perspective to take any less reinsurance, but equally no more reinsurance.

Brian Robert Meredith
UBS Investment Bank, Research Division

Great. And then just quickly, on the Commercial Auto business, the strong growth that you guys have been seeing, some of that, I know, comes from some new products that you have out there, but I imagine there's also some of this going on from the dislocations that we're seeing out in the marketplace, especially with some large Commercial Auto riders. How long do you think that continues for?

Glenn M. Renwick
Non-Executive Chairman

You're right in your summary. John, you've to look at this. Do you have any -- I don't have a really strong view because I can't know what the other competitors are doing, but do we have any other insight?

John Peter Sauerland
Chief Financial Officer and Vice President

Sure. Yes, we have seen a lot of dislocation, and we think we were well ahead of the marketplace even as much as 2 to 3 years ago in seeing some trends that we took some material rate to address, and also added some significant underwriting efforts to a lot of the lines we right there to ensure we were writing business that was going to be profitable. So we're really well positioned now. And yes, we are seeing a big increase in corp volumes. So if you think about new business incoming is either a function of an increase in conversion or quotes and in Commercial Lines is predominantly in quotes, which it generally means competitors are raising rates or just not choosing to quote the business. As far as where that goes, we can't know with certainty for sure. We are confident on our rate level. In some of the areas, we might take rates up a bit, but, obviously, you see combined ratios there that are very good. And we expect we'll continue to be very good, so we're pretty bullish on growth moving forward for commercial.

Operator

[Operator Instructions] Our next question is coming from the line of Gary Ransom of Dowling & Partners.

Gary Kent Ransom
Dowling & Partners Securities, LLC

I noticed you gave some attention to your new relationship with Uber in Texas, and it seems like there's a big increase in the potential for the data that you can collect and your understanding of driving behavior. It's not just individual drivers like you're doing with Snapshot, but it's tracking a network. Everyone of these drivers has a GPS, and you'll have your own app that you can combine with it. I'm just wondering if you could give us a little more color of how much of this might change your view? Or how you can look at driving patterns, driving behavior out there.

Glenn M. Renwick
Non-Executive Chairman

Gary, right now, I'm not dodging that question. I'm genuinely not, but the fact is your thesis is so on point. Just understand, that's sort of what we're all about. And when you get a situation like Uber where you can truly collect the data, there's a wealth of data, whether you incorporate Snapshot or whether we use the data that's otherwise available to us, this is truly an exciting situation because it just plays entirely into everything that we feel we're good at. And, hopefully, we're playing into one of Josh's comments earlier, just one more thing to have another arrow in the quiver of places to see growth coming later. But there's not a lot to report right now, and I'm simply not dodging your question. But the idea that this is just an insurance program, it's much more than that. And that's why I used the analogy of square peg, round hole. And I think we've really developed a program that makes a lot of sense. And hopefully, the way this is really successful is that we know what that vehicle is doing, where it's going, sort of route intensity, braking intensity. All sorts of things that we can know, not only at the fleet level, but we can know it at the driver level as well. So frankly, this is one that, if I was in person you'd see me smiling because I think this is sort of one of those opportunities that comes along relatively and frequently, and this just seemed like we had our name written all over.

Gary Kent Ransom
Dowling & Partners Securities, LLC

My imagination may not be enough to see other opportunities of a similar nature, but are there other opportunities out there where you can gather more informative data like that?

Glenn M. Renwick
Non-Executive Chairman

Yes, I think, you got to accept strategically that, that is the mind set you've got to have. You can take it all the way from the private passenger automobile, which we're doing slowly with Snapshot, but you'll see taxicabs being sort of more involved in this type of thing. There's a release today in The Wall Street Journal about GM working with Lyft. We have a relationship with Lyft. There's a lot more vehicle sharing. It's a minute part of the economy right now, but certainly one that if you are a betting person, you'll probably bet on seeing that being a lot bigger later. We want to make sure that we're designing contemporary style insurance programs for those kinds of options. And frankly, I think, we're extremely well-suited for it. We know others will have some interest, but we're doing an awful lot of groundwork right now, and we're very happy with that. So I think this is going to be something we're going to be talking about a lot more in the years to come.

Operator

[Operator Instructions] Our next question is coming from the line of Meyer Shields of KBW.

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

Glenn, you mentioned, I think in response to Josh, that you expect increases in severity to offset the frequency decreases that you can anticipate from improving cars. And that kind of surprised me because, I guess, I wouldn't have necessarily seen the historical connection persist, and I was hoping if you could talk a little bit more about that.

Glenn M. Renwick
Non-Executive Chairman

Well, we've actually shown in at least one IR meeting, I'm not quite sure whether it was 2 or 3 years ago, sort of what I would call, if not a perfect monotonic function over some reasonable period of time, a declining frequency. The fact is we made our cars safer in this country for the last 30 years. And there's is nothing on the immediate horizon that suggest that we're not going to make them continuously safer. Some of the things, even the federal mandate for emergency braking. Those sorts of things, it's impossible for me to think there isn't a real macro driver to yet make cars safer. So that's my primus for declining frequency. What's interesting is that over that time period, the market for private passenger auto has grown, and that is largely a severity offset to the, actually, it's even more than an offset, it's a gain, over the frequency decline. And those are interesting and accurate and observable facts. When you start to decompose it to try to sort of say exactly coverage by coverage what's driving it, that gets a little trickier. But I'm working, at least my mind set, is that a long-term strategic view is that we will see fewer accidents and more expensive accidents.

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

Okay. That's fair enough. And a second sort of a detailed question. The jump in the Commercial Auto sales ratio in March, is it fair to tie that to the new Uber relationship?

Glenn M. Renwick
Non-Executive Chairman

No. I wouldn't tie that -- it might be $0.01 or $0.02 there for sure, but actually, there's probably 2 bigger drivers of that. We're working to put a great new system in for commercial, so some expense associated with that. But mostly is driven by advertising costs as we continue to grow our penetration and/or our attraction for direct operations. So that landscape is in small-business people who have needs that are not that dissimilar to private passenger auto and choose to operate or interact with us on a direct basis. We're building that out and that definitely seems like the demand is there, so we're doing more advertising to support that. That will be the biggest driver of the expense difference.

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

Okay. And then, it sounds like it'll continue based on your comments on the environment.

Glenn M. Renwick
Non-Executive Chairman

Yes, it will be a little spiky from time to time based on seasonality, but yes, I expect that. But that doesn't mean there won't be some equal and opposite offsets, as we build out retention book indirect, so a lot of it is front-ended.

Operator

[Operator Instructions] The next question is coming from Ian Gutterman of Balyasny.

Ian Gutterman
Balyasny Asset Management L.P.

Glenn, I just want to talk real quick on the frequency comments in the Q sounding a little bit better and then your comments earlier about miles driven being up, which we can all see. Usually, though, those 2 seem to correlate a little bit more. It Seems like they went in opposite direction this quarter? Any thoughts on that?

Glenn M. Renwick
Non-Executive Chairman

Yes, I'd be careful to make a quarter-to-quarter comparison there. Let's take a look together sort of to next quarter, even next 6 months to see how the frequency is ultimately being reflected through. It should be a pretty close comparison, but I'm not always convinced that it gets one for one, so I'd wait just a quarter and see.

Ian Gutterman
Balyasny Asset Management L.P.

Got it. Okay. Great. And then a couple of things on the homeowners. One is just can you just tell us a little bit about how your reinsurance is structured? And I guess what I'm getting at is I'm guessing because a lot of others have done this. You probably have some aggregate recover. And just given the March events and the April events sort of how do you stand with the aggregate cover? What's the risk of essentially going through that if we have more events later in the year, especially a hurricane? Do you need to sort of by live cover for the rest of the year? And then just big picture on your home, just the one I could see in the market share, obviously, your 2 biggest states are Florida and Texas, which are heavy CAT states. As you rollout the Platinum, is it a specific goal to grow away from CAT areas? Or is this just sort of take it where you can get it if it's good customer, and you'll sort out the CAT mix later?

Glenn M. Renwick
Non-Executive Chairman

Well, we try not to do things later, we try to think about them ahead of time, but the fact is Florida and Texas, that's where people live. So we're going to be active there and we're comfortable with it. And the reinsurance that ASI has put together right from the beginning is obviously in a position to respect the fact that they have coastal exposure. So I could -- why don't you go through, John, the sort of the 3 layers. We're a long way from sort of overly any concerns that Ian has there, but why don't we at least talk about the 45 single event, the 175 bond, and Trevor is right here, so if we need additional help, we can get that.

John Peter Sauerland
Chief Financial Officer and Vice President

So, obviously, we gave you some insights into ASI reinsurance program in the Q, Glenn has just covered them. The first layer is 45 million and the tower on the first event, we won't start quoting PMLs, but trust me that it is much higher than I would expect the average industry buys to. So going to the top, so to speak, is a highly unlikely event. Yes, we then have a pretest, pre-bond [ph] facility that is an aggregate of $175 million and that is for -- strong throughout calendar period. We have covered on second event similarly, not quite as high a tower, but we also prepurchase reinstatement on many of the layers. So now completely up the tower. But unlike many other players, once -- if we ever had to reinstate, those premiums are prepaid for much of the reinsurance. So ASI has an extremely robust reinsurance program. All of the players in that program are -- virtually all are A- rated or better. So we're very comfortable with the program. And that $45 million, they had targeted previously that retention to ensure that at any one event, less than 10% of their surplus was at risk. And, obviously, less than 10% of their surplus is a pretty small percentage of the combined entities, so a pretty robust reinsurance program. Trevor, I don't know if you want to add anything to that?

Trevor Hillier

No, I think you nailed it pretty well, so.

Ian Gutterman
Balyasny Asset Management L.P.

That's great, very helpful. If I could just clarify, Glenn, on the Platinum part again. Just -- is there any restrictions at all? I mean, do you say we'd rather not grow Houston if we're not -- if we're going to grow Texas? Or we'd rather not grow Miami if we're going to grow Florida? And maybe just market it more aggressively in the Midwest or the Northeast or other places if we have a little bit less CAT risk?

Glenn M. Renwick
Non-Executive Chairman

ASI has historically sort of controlled the risk to a significant degree in Florida, only taking the amount of business they feel comfortable with. We're very conscious of the concentration layers. But as we roll out the rest of the country, obviously, that will become less dependent on any one state. So there's a yes, and a no answer in there. Yes, because of where we are today, but ultimately, we want to be a meaningful bundled option for consumers, and Florida is a big state. And we will, as you just heard, make sure that we have all the right reinsurance. We're not going to put -- we're not going to go crazy. We know our objective here is to try to get customers and have them with us for a long period of time. And if we are more than comfortable letting someone take the layers above that and, hopefully, they'll make profits on that over a reasonable period of time because we'll achieve our objectives as well. But don't assume that somehow we're going to only be marketing this in the sort of interior states or something like that. We're going to be as aggressive in states as we can be, but, hopefully, you would agree we will be very thoughtful about that and have the right level of risk sharing. That doesn't mean, and this is probably interesting, that we sort of got the layers that we have. We've got the results that we have. This may be sort of the pain point right now in terms of absorbing the results. And the real question is how do we feel about that volatility? I think we're getting, I wish it wasn't the case per se, but I think we're getting a sense of exactly what that volatility can mean to us. And my own encouragement -- just my encouragement, is given that we're monthly reporter, you're going to see that volatility just be a little bit more dramatic than you would over a longer periods of time. There's not an ounce of us rethinking strategy or doing anything differently at this point. I shouldn't make it flippant in that case. It doesn't mean we haven't thought a great deal about it. We're just coming back and confirming the positions that we have.

John Peter Sauerland
Chief Financial Officer and Vice President

ASI did enter California in January, I believe you said where we started writing business, in February. And we expect to be in New York midyear May. So sort of naturally as they expand across the country, you'll see less concentration in those coastal states. But to date, yes, they've been pretty highly concentrated in the Southeast. But I think naturally, as they enter more states where other -- there's a large populace as well, you'll see that concentration decrease.

Operator

Our next question is coming from the line of Mark Dwelle of RBC Capital Markets.

Mark Alan Dwelle
RBC Capital Markets, LLC, Research Division

I just wanted to get a little bit more information on the CAT losses that you've already reported for the second quarter. Were those primarily concentrated in the Texas market? Or was it a little bit more geographically dispersed than that?

Glenn M. Renwick
Non-Executive Chairman

Jump in guys. I think Texas is a big driver. You probably, even if you watch television, you'll see that Oklahoma has got something. There's a little in Kansas, but the real driver is Texas.

Mark Alan Dwelle
RBC Capital Markets, LLC, Research Division

Is that more skewed towards the flood losses in Houston or the hail losses in San Antonio?

Glenn M. Renwick
Non-Executive Chairman

Well, let's breakout 2 lines apart. Frankly, for vehicle -- well, we have the same real issue. Hail and driving weather really have been the cause for both auto and home. Home is not really affected by the flood conditions in Houston. Some of our vehicles are, although that actually was a relatively manageable number. My memory tells me, about 450 losses directly related to the floods. So that's not a big driver of our results this month. So when you see that 135, the 85-50 split, think about the really nasty peril of hail. When hail gets to be the size that it is, it is warfare out there for roofs and for sheet metal and there's a lot of damage. That's just plain and simple. Hail is one of the most nasty perils that we come into, so comp is going to be dramatically affected by that. And as I said, we are -- we will take a couple of opportunities even though the numbers will be what they are. The first thing that we'll do is recognize that these are first-party claims. So in turn, we're going to have -- we're going to pay the loss, so we've got to turn that into a marketing expense. This is the time that we get with our customers and make their lives better after an upset, whether it's their roof or whether it's their windshield or whatever. So first thing the attitude we're taking right now is turn that into a marketing expense. We know how important retention is. We know the relationship when you give great service in claims and the future retentions, so that's the first thing. Second is take a look at our pricing, make sure that we're where we want to be. Certainly one spike of a month, we've seen that on numerous occasions. We're not at all concerned that we off-track for our commitments to shareholders, they are 96 or better. But we will reevaluate our CAT loss or CAT loads. And I would tell you if I was looking at the overall market, I see rate change in an overall basis, certainly some driven by big competitors. The last data point we have, February, around about a 4.5%, which is about 110 basis points stronger than earlier in the year. My suspicion based on knowing what's being filed, we will get more clarity on that from competitors for April and May. But we know there's been a lot of rate changes filed, so you could see that go a little higher. And I would say if I was giving you direction last call, I probably would've said think in the 4% range. Think about a point per quarter if you average it out. I'd say put another 25 to 40 basis points on that per quarter, as we look at the rest of the year. And we might be a little higher when you factor in CAT loss or CAT loads. But for the most part, I think this is all quite manageable for us.

Mark Alan Dwelle
RBC Capital Markets, LLC, Research Division

That's really helpful. One last kind of nerd question. When events like these happen, do those tally into frequency and severity statistics? Or do -- is that like a different calculation for CAT or inflictees?

Glenn M. Renwick
Non-Executive Chairman

Well, they are mostly comp, at least on the vehicle side. So typically, when we give you numbers for frequency and severity, we don't put comp in there because it's kind of -- that just be a random walk in terms of your graph. So most of the frequency and severity numbers we give you are the more sustainable coverages like BIU [ph] and BIPD. But certainly, as we look at it, yes, it factors in.

Operator

Our next question is coming from Bob Glasspiegel of Janney Montgomery Scott.

Robert Ray Glasspiegel
Janney Montgomery Scott LLC, Research Division

Glenn, I'm going to push back a little bit on your sort of slight warning about miles driven potentially having an impact on frequency. I mean, gas prices are up 30% from sort of roughly the average level of where they were in the quarter. And we're going to soon be sort of lapping year-over-year impact of gas prices. If lower gas prices hasn't really driven a big impact on frequency to your book to date, why just -- in the future, should we be incrementally more nervous about it?

Glenn M. Renwick
Non-Executive Chairman

Well, I would -- I'm going to probably relieve myself here a little bit. The last quarter, we had our 2015 fourth quarter wasn't that much different than 2014 fourth quarter. As we start this first quarter of '16, we're starting to see be considerably above. That tracks with gasoline demand, that all makes reasonable sense. Now the question is, how high will it go? Well, people aren't going to drive infinite miles just because gas is cheaper, they're not going to drive to work more often. So this is more recreational and discretionary-type trips. And frankly, I think everybody can have a theory on that. I would just tell you that what has changed is in the first quarter, we are seeing miles driven as our Snapshot population, which is large enough to be credible, make the claim that it's different than the claim I made for the fourth quarter where we hadn't seen it be dramatic. In fact, it had flattened off. It is now showing increase. And we're going into what is really the high vehicle mile traveled part of the year. So it'll be interesting to see whether or not the discretionary usage continues to be higher or not. And this one, Bob, I think all I can do is report the news. We have incredible interest in this sort of thing because it makes a big difference. But whether I could say that we're seeing a dramatic change in frequency simply because of that, no, we take it as it comes. And there's indications that because those miles are more discretionary and longer distance trips that the effect on frequency is not quite as linear as you might expect.

Robert Ray Glasspiegel
Janney Montgomery Scott LLC, Research Division

Totally with you. I guess I was asking more a futuristic question. The data that you're looking at is when gas prices were down a whole lot year-over-year, and we've had a 30% spike in gas prices. And I'm just saying if you're looking at real-time data the last few weeks, I would think that you're not going to see the same year-over-year mileage increases that we saw in the first quarter where gas prices were down a whole lot versus a year ago.

Glenn M. Renwick
Non-Executive Chairman

I wouldn't bet against you on that one. I don't have the April numbers actually. As soon as I get off this call, I'm actually probably going to get more of the April numbers because -- that will be very interesting, yes.

John Peter Sauerland
Chief Financial Officer and Vice President

While we can't model it perfectly, we think gas prices -- there's some step functions in there. Certainly back when we had $4, that was a ceiling that people retracted it a lot. But we think in some reasonable range, sort of the marginal change in driving is not that linear with gas prices.

Robert Ray Glasspiegel
Janney Montgomery Scott LLC, Research Division

Certainly economic. And trucks -- I mean, this is a very complicated, trucks versus trains can obviously impact it a lot.

Glenn M. Renwick
Non-Executive Chairman

Airline travel, too. Discretionary travel.

Robert Ray Glasspiegel
Janney Montgomery Scott LLC, Research Division

Right. Switching gears on... [indiscernible]

Glenn M. Renwick
Non-Executive Chairman

Yes. Unfortunately, we reported news more here, but we have our own theories, but I don't dismiss or suggest that yours is not an interesting one as well. April will tell a story because we're really going into April in May and June, which are the high travel vehicle miles travel months.

Robert Ray Glasspiegel
Janney Montgomery Scott LLC, Research Division

Right. It looks like you lengthened your maturities a little bit in the first quarter. You took your short term down. Anything material behind that? And anything on the investment side that we should be aware of that you're doing?

Glenn M. Renwick
Non-Executive Chairman

Bill, if you want to jump in on that?

William M. Cody
Chief Investment Officer

Sure. Yes. Actually, we shortened the duration of the portfolio a little bit in the first quarter as rates sell. The short-term change or the big increase in short-term in the first quarter is really not so much a portfolio strategy change as it is a definitional change. What I tried to get through in this Q is that we had about $1.1 billion of short coupon treasuries that accounted in our Treasury portfolio that matured in the first quarter. And we rolled those into treasury bills, which were accounted in the short-term portfolio. So no real big change there other than a tenth [ph] of a year decline in the duration of the portfolio. The other changes that we had was we increased our corporates a little bit in the first quarter as we saw some more compelling opportunities when spreads were wider. And then we've made some little repositioning around the ARX portfolio where we took control of the management of that portfolio on January 1. So there has been some turnover in regards to that. But other than that, no material changes in the portfolio and certainly no changes in our overall strategy there.

Julia Hornack

It would appear that, that was our last question. So that concludes our call today.

Nicole, I will turn it back over to you for the closing script.

Operator
Thank you. That concludes the Progressive Corporation's Investor Relations Conference Call. An instant replay of the call will be available through Friday, May 20, by calling 1 (800) 253 1052 or can be accessed via the Investor Relations section of Progressive's website for the next year.