S&P Global
Market Intelligence

The Progressive Corporation NYSE:PGR

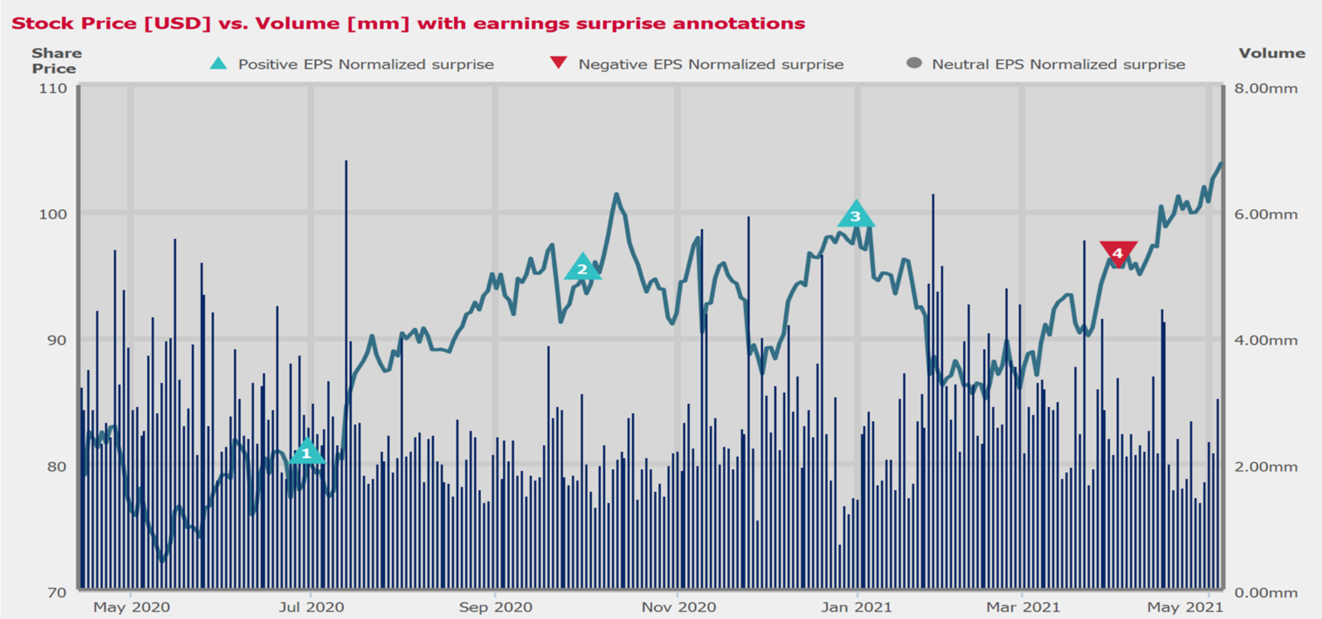
FQ1 2021 Earnings Call Transcripts

Wednesday, May 05, 2021 2:00 PM GMT

S&P Global Market Intelligence Estimates

	-FQ1 2021-			-FQ2 2021-	-FY 2021-	-FY 2022-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	1.74	1.72	(1.15 %)	1.41	5.81	NA
Revenue (mm)	11713.00	11729.10	0.14	11322.23	45909.72	NA

Currency: USD
Consensus as of May-05-2021 6:48 PM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ2 2020	1.73	1.85	1 6.94 %
FQ3 2020	1.69	1.88	2 11.24 %
FQ4 2020	1.69	1.84	3 8.88 %
FQ1 2021	1.74	1.72	4 (1.15 %)

Table of Contents

Call Participants

EXECUTIVES

Douglas S. Constantine
Director of Investor Relations

John Peter Sauerland
VP & CFO

Susan Patricia Griffith
President, CEO & Director

ANALYSTS

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

Brian Robert Meredith
UBS Investment Bank, Research Division

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

David Kenneth Motemaden
Evercore ISI Institutional Equities, Research Division

Elyse Beth Greenspan
Wells Fargo Securities, LLC, Research Division

Gary Kent Ransom
Dowling & Partners Securities, LLC

Joshua David Shanker
BofA Securities, Research Division

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

Michael Wayne Phillips
Morgan Stanley, Research Division

Tracy Dolin-Benguigui
Barclays Bank PLC, Research Division

Presentation

Operator

Welcome to The Progressive Corporation's First Quarter Investor Event. The company will not make detailed comments related to quarterly results 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, although CEO Tricia Griffith will make a brief statement. The company will then use the remainder of the event to respond to questions. Acting as moderator for the event will be Progressive Director of Investor Relations, Doug Constantine.

At this time, I will turn the event over to Mr. Constantine.

Douglas S. Constantine
Director of Investor Relations

Thank you, Ditamara, and good morning. Although our quarterly Investor Relations events typically include a presentation on a specific portion of our business, we will instead use the 60 minutes scheduled for today's event for introductory comments by our CEO and a question-and-answer session with members of our leadership team.

Questions can only be asked by telephone dial-in participants. Dial-in instructions can may be found at investors.progressive.com/events.

As always, discussions in this event may include forward-looking statements. These statements are based on management's current expectations and are subject to many risks and uncertainties that could cause actual events and results to differ materially from those discussed during today's event. Additional information concerning those risks and uncertainties is available in our annual report on Form 10-K for the year ended December 31, 2020, as supplemented by our 10-Q report for the first quarter of 2021, where you'll find discussions of the risk factors affecting our business, safe harbor statements related to forward-looking statements and other discussions of the challenges we face.

Before going to our first question from the conference call line, our CEO, Tricia Griffith, will make some introductory comments. Tricia?

Susan Patricia Griffith
President, CEO & Director

Thanks, Doug. Good morning, and welcome to Progressive's first quarter conference call. We appreciate you joining us.

During our fourth quarter call, we took the opportunity to reflect on 2020 and the emotional toll of the pandemic and social unrest. Now with the first quarter of 2021 behind us, we look forward with the optimism that the vaccine rollouts brings and the hope of a return to normalcy. Our people are showing tremendous resilience in the face of hardships and a willingness to react to whatever comes next with a positive attitude, which allow us to continue to deliver fantastic results.

This quarter, our net premiums written growth was 19%, and we report a healthy combined ratio of 89.3. All lines were profitable, with the exception of property, where catastrophic weather losses added 30.6 points to the combined ratio. Policies in force growth continue to be strong at 12%, and I'm most excited to report that we passed the milestones of 17 million personal auto PIFs, 5 million special line PIFs and 25 million company-wide PIFs during the first quarter. I also want to point out that this is the first time since the second quarter of 2004 that we reported double-digit growth in Personal Auto, special lines and Commercial Lines policies in force. We couldn't be prouder that so many people trust Progressive to protect some of their most important assets.

I'd like to take some time to address the effects the pandemic will have on our year-over-year comparative results for the next several months. March was the first month where we saw the effect of the pandemic in our previous year's results. So it feels like a good time to give some further insight into our March 2021 results and to remind everyone of the actions that we took in 2020 that could affect our year-over-year comparisons.

This quarter, we reported 14% new app growth in Personal Lines and 29% new app growth in Commercial Lines. The year-over-year growth reflects 2 items: the effect of the stimulus package and the denominator that includes the onset of the pandemic in which shopping virtually stalled. Even considering the effects of the pandemic, growth is robust. We've often said that PIF growth is our preferred measure of growth. This is a great example why since the denominator was only nominally affected by the pandemic.

Last year's new business metrics continue to be affected by the pandemic well into the summer of 2020, though not always negatively. In mid-April 2020, the first wave of stimulus checks were released, which restarted new business shopping. We expect the uptick in shopping last year will affect our second quarter 2021 year-over-year new business growth.

Also, starting in April of last year, we took actions to support our customers, including our Apron Relief program, which we believe will have an impact on many key metrics, including our expense ratio. At the end of April and May of 2020, our Personal Auto customers received monthly premium credits of 20%, which provided substantial financial assistance to our customers, but also increased our expense ratio.

In addition, as part of the Apron Relief Program, we initiated payment and billing leniency, which temporarily increased our bad debt expense, but also increased our policy retention. Both policy in force counts and retention metrics were affected by billing leniency.

In Commercial Lines, our T&C business saw a sudden and dramatic decrease in miles driven and estimated future miles be driven in March of 2020, which contributed to the significant Commercial Lines net premiums written increase in March of 2021, as noted in our March release. Miles driven in those premiums slowly recovered over the course of 2020, so we anticipate the effect on the denominator will decrease over the remainder of 2021.

Our Property results continue to be rocked by catastrophic losses. In the first quarter, which is normally a relatively quiet quarter for cat losses, Property business suffered significant losses. Further, the hailstorms in Texas and Oklahoma that occurred in late April appear to be another large event. While it's too early to assess our ultimate exposure, I'll take this opportunity to remind everyone that we have an $80 million retention threshold from a single storm under our occurrence excess of loss reinsurance program. We'll have more details on the late April events in our April release, which is currently scheduled for May 19.

I'd also like to take a moment to thank everyone who participated in the perception study we commissioned at the beginning of the year. It was encouraging to see all the positive comments we received and helpful to receive feedback on ways we can improve. One opportunity that we heard loud and clear was the desire to return to the quarterly call format we had before the pandemic, one in which senior managers from around the organization would present on various aspects of the business. We intend to return to this format during at least 2 of the calls each year, starting with the August call, where we will highlight Commercial Lines.

Looking forward into the rest of 2021, I'm filled with a sense of optimism. While the pandemic is far from over and we still have many challenges ahead of us, I think pride in the strength of our business, the resilience of our people and have confidence that the plans we have in place will likely continue to deliver great results in the coming quarters.
Thank you. And I'm ready to take the first question, Ditamara.

Question and Answer

Operator

[Operator Instructions] Your first response is from Elyse Greenspan with Wells Fargo.

Elyse Beth Greenspan
Wells Fargo Securities, LLC, Research Division

My first question is on the frequency disclosure in the 10-Q. Your frequency was down for all coverages of collision in the first quarter. I was just interested knowing why and just getting more color on what was going on.

Susan Patricia Griffith
President, CEO & Director

Yes. We are actually assessing that right now. When we look at the gap in PD and collision, at least one other competitor had similar results. We believe in part it is due to our CWP rates being different in PD and collision. So right now, Elyse, we're having Gary Traicoff's group and our claims control group dig in a little bit deeper. The reporting is similar. CWP rate is different. So we're trying to discern exactly what that is.

Elyse Beth Greenspan
Wells Fargo Securities, LLC, Research Division

Okay, that's helpful. And then in terms of direct, you saw some pretty strong new app growth there. And you also saw strong renewal growth as well. So I guess my question is, is the new business penalty significant? And is it being masked by the increase that you're also seeing within your renewal business as well?

Susan Patricia Griffith
President, CEO & Director

I think whenever we acquire a new business, we're obviously going to spend more for it in terms of both advertising, which you saw increased 25% of the direct sliding commission. So I don't know that the penalty is extraordinary. John, you can weigh in a little bit on that. The renewal, one, we're proud of our service and our rates. So we know that some of the retention gains are likely due to what has happened during the pandemic in terms of non-cancellation, et cetera. But I wouldn't say that there's a big penalty.

John Peter Sauerland
VP & CFO

I would agree. The new business growth is certainly a function of denominator. We all recognize that. But it's also a function of 25% more advertising spend. And we always like to reiterate that we are only spending where we believe it to be efficient. But in terms of a penalty, the mix in terms of policies and premium new to renewal is fairly stable, even when you grow in new business a lot. The business is mature as our businesses are.

Elyse Beth Greenspan
Wells Fargo Securities, LLC, Research Division

And then just one quick follow-up on my first question. When you said CWP, I just want to make sure, is that claims with payments when you were discussing on the collision question I had at the start?

Susan Patricia Griffith
President, CEO & Director

I'm sorry about that, Elyse. We have a lot of acronym here. It's claims without payment. So claims that come in and then we close them because we no longer see an exposure.

John Peter Sauerland
VP & CFO

So the collision -- I was just going to clarify. The trend for close without payments for collision has been going down. It actually predates the pandemic. And for property damage, it's been going up. So that obviously affects the total frequency number.

Operator

Your next response is from Greg Peters with Raymond James.

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

My first question will be on commission rates. I know some of your competitors have lightened up on the commissions they pay their agents. This has happened in the auto business, but we're also in the Property business, a lot of the regional carriers have been slammed with high combined ratios and underwriting losses. And we're also hearing them apply pressure on commission rates. Can you talk to us about your view on commission rates? Give us a synopsis of the history and then what do you think is going to happen in '21.

Susan Patricia Griffith
President, CEO & Director

I mean the history of our commission rates, we try to look at an aggregate right around 10%, 10.5%. And then it's different depending on the type of customer that comes in, if things are bundled. We obviously have several thousand Platinum agents who get a higher commission because they are bundling the auto and home, those Robinsons customers. And if you bring in a -- some -- a group of customers that we believe are going to be there short term, the commission might be less. Again, the aggregate is we try to keep around 10%, 10.5%. And we also do have some preferred programs and bonuses for our agents depending on their loss performance. It's not across the board. It's with specific agents. Do you want to add anything, John?

John Peter Sauerland
VP & CFO

The 10.5% that Tricia is citing is generally where we run in our auto business. On the Property side, we have a higher commission rate. But the overarching objective here is to ensure we have competitive prices. That means we have to have competitive commissions as well as competitive other costs, what we call non-acquisition expense ratio or cost. And so really, it's the combination of go-to-market in terms of having a competitive aggregate expense ratio, both of those come into play. And obviously, a commission which we think our agents will thrive. So there has been downward movement from competitors, you're right. I think we have seen some positives to that, to some degree, because we are -- our commissions are more like competitive these days than perhaps they were previously, but we couldn't really tease out any specific impact to that, if that's where you're going.

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

My next question will focus on the Property business because it does stand out for its underwriting result, which is very un-Progressive-like. I'm wondering if the view on the Property business at this point in time is more of a loss leader to drive retention in the Robinsons and so you're willing to sacrifice your margins in order to drive up retention. Or alternatively, do you also have this overarching objective to eventually get that business down to, I think, your corporate target is 96% combined ratio. Maybe it's lower because it's property, but some color there would be helpful.

Susan Patricia Griffith
President, CEO & Director

Yes. No, we do not want to be a loss leader. We -- profit is one of our core values. We have a very specific target margin for our Property business that, as you stated, rolls up to our 96%. We've just been riddled with a lot of catastrophes. It's also a fairly newer business for us in terms of segmentation. So if you look at over the years how much we've improved and continued to improve at a really quick radar segmentation in auto, we anticipate we'll do that in home. So we have new product models. We have our R&D group working on the right product models, which could be year of roof. And we've also have some restrictions for customers in the hail-prone states to have them buy relatively higher deductibles for wind and hill because we've seen that, that really causes a lot.

In addition, we have done a lot of rate increases. So in 2020, we took about 11.5 points, another close to 1.5 in Q1. And we have another 4.2 expected in quarter 2. So we continue to raise rates to ultimately get to that goal.

Now what we're happy with, and I wrote it in my letter, is the fact that we are getting a high percentage of bundled customer on both the direct and agency side. And what we know on the agency side is, without having a property product, we would not have gotten -- likely have not gotten most of those autos. So we want those, but we want to make our target margins across the board, period. So that's what we're working towards. We really have, along with the industry, been rocked with catastrophes. And of course, we also have heavily reinsurance on the property side to protect the downside. But no, we're not thrilled with those results. And we're going to continue to chip away to get to our ultimate goal.

Operator

Your next response is from Michael Phillips with Morgan Stanley.

Michael Wayne Phillips
Morgan Stanley, Research Division

First question on telematics and outside of pricing. We've seen some competitors talk about increasing telematics and claims. And I guess I'm curious if you could talk about any value that you're currently getting from Snapshot in claims. And then related, is there any opportunities maybe outside of pricing segmentation for Snapshot to, I guess, extend the period of time that you collect data from Snapshot to help in other areas besides pricing segmentation?

Susan Patricia Griffith
President, CEO & Director

Thanks, Michael. Yes. We've been testing and looking into claims in Snapshot, understanding the fact the loss brought other things for quite some time. I think we have about 150,000 customers that are currently -- that we currently have access to claims information should they have a loss. And we'll have more to come on that. We've been working on that for a while, but we think it is an important next step for the use in our telematics.

And we've talked off and on, too, about do we have continuous monitoring. Would that help not only with understanding the likelihood of changing driving behavior, but also could help with other necessary things that customers have grown accustomed to in terms of added services like tows and gas stations and things like that. So that is on our list as well.

Currently, obviously, during the pandemic, our big effort was to try to understand vehicle miles driven and how that relates to work from home versus not work from home, et cetera. as well as some of the other items we've talked about, the Apron Relief that I've talked about in terms of actually a shorter monitoring period to give people who believe that they're driving less the ability to improve that through data and give them a lesser rate. But we've been on the UBI bandwagon for a couple of decades. We'll continue to do so. We do so on both the Personal Auto and the Commercial Auto side, really happy with our Smart Haul results, very successful. And the program is very profitable on the Commercial Auto side because that's a big expense for truckers. But I mean, all of those things are on our agenda, and we continue to invest a lot in this area.

John Peter Sauerland
VP & CFO

The other thing -- I don't know if we're talking telematics or not, that is evolving is dash cam video. So especially in the commercial space, those devices are frequently one and the same. And with the higher limits in the commercial space, if you have video, it can be extremely helpful in resolving claims because some of those vehicles are targeted excessive limits. And if you have video that clearly shows it was staged, it resolves the claims very quickly. So telematics is certainly a benefit, obviously, profitability and ratings side, as Tricia mentioned, evolving for claims for personal -- and evolving for commercial as well, including dash cam video.

Michael Wayne Phillips
Morgan Stanley, Research Division

Okay. Great. Second question. You got some kudos this weekend from the friends in Omaha on your lead you have in telematics and risk-based pricing. But I guess if we look at -- and they said they're going to start to do more. So I would think that, that gap could narrow possibly. If we combine that with -- if we look at some states where the use of credit score and use of telematics has been limited, if not all about banned, and these aren't small states, Mass and New York, as examples, there the lead from that competitor is pretty significant over you in terms of market share gains.

I guess, if we combine those 2 things and credit score may start to fade away in other states and then their use of telematics may start to pick up, how do you think about that competitive dynamic between you and them in states as the overall market shifts away from credit and they start to shift more towards telematics?

Susan Patricia Griffith
President, CEO & Director

Yes, great question. I'll just -- I'll use the G word. So yes, GEICO did -- or Berkshire talked a lot about it. And they're a formidable competitor. And we like the competition because it makes us better, and it's better for customers.

Here's how we think about segmentation. We have -- we've had an edge on a lot of our competitors for many, many years now. And we're not going to stop. We believe rate to risk has a lot to do with many different variables. Insurance credit scores being one of them. Usage-based insurance being one of them, but there are a lot of other variables. We will comply with the regulators. We believe they help to match rate to risk, and they're correlated to ultimate losses, which is really important for all consumers to keep the rates competitive. So I'm not surprised that they are going to spend more money on that. We also will be spending more money on continuation of our many, many million miles of Snapshot data on both the auto side and the Commercial Auto side. So we like the competition. We think it's great.

And now -- 10 years ago, I might not have said this, but now we have head-to-head brands. So you may like her or you may not, but you know who Flow is, and we're very proud of Flo, the network and all the different characters. So I think going head to head on all those things is a good thing. I've always been competitive, and we like that. I think it makes us better. It makes Sure that you don't just rest on your laurels. So we will react to whatever we need to react and continue to invest in segmentation, especially in usage-based insurance, but other segmentation variables as well as our brand, our broad coverage and the people and culture at Progressive. And we think all those together are really a winning formula.

Operator

Your next response is from David Motemaden with Evercore ISI.

David Kenneth Motemaden
Evercore ISI Institutional Equities, Research Division

I had a question, Tricia. In your letter, you spoke about Robinsons PIF growth up 20% in the direct channel and up 16% in the agency channel. I guess I'm wondering if you could just sort of level set us here and just think about what percent of the book now is bundled customers and also maybe just talk a bit about margin differential and policy life expectancy differential where that stands today.

Susan Patricia Griffith
President, CEO & Director

Yes. So we're very happy about the increase in Robinsons. That's really what our goal has been, to have those bundled customers. We added some Platinum agents on the agency side. I would say our total book of Robinsons right now is right around 10%, which is much higher than it was many years ago. So we continue to kind of gain that momentum in Robinsons. And what was the other part of your question?

John Peter Sauerland
VP & CFO

Profitability.

Susan Patricia Griffith
President, CEO & Director

Profitability. Yes. We -- they are preferred customers. So we believe they're more profitable. And on the retention side, the retention is dramatically different, not just on the Robinsons side, but as you have more and more and more policies with us. So that's why it's so important for us to continue to give people a reason to stay for decades and decades to be able to have products that can all come from the same care, whether or not we write it on our paper or not. So yes, so that's the preferred customer and we want wider margins there, and the retention is longer.

John Peter Sauerland
VP & CFO

So target, just for clarification, across the customer segments for auto is pretty -- on a lifetime basis is consistent. So obviously, the loss cost vary at times. And frankly, during the pandemic, more preferred customers who have the ability to work from home have been driving less than other customers whose professions require them to drive to the office. So while we might have different margins by segment in the near term, due to extenuating circumstances, our target margin across those customer segments is consistent. It's the 96%.

David Kenneth Motemaden
Evercore ISI Institutional Equities, Research Division

Got it. And then maybe just switching gears a little bit. Just over to the severity side of the equation, just thinking about loss costs. It didn't look like you saw a big increase in severity this quarter. Property damage severity is flattish, collision up a little bit. But obviously hearing a lot about supply shortages, chip shortages, just wondering how you're thinking about severity as we go forward, combined with the mix of maybe claims coming back a little bit, so the mix of claims might be somewhat of a tailwind for severity where you have a bit more fender-benders and that could potentially bring it down. But sort of just maybe at a high level, just want to get your take in terms of where you expect severity to go just given everything that we're seeing in the macro environment right now.

Susan Patricia Griffith
President, CEO & Director

I wish I knew the answer to that question. That is such a tough one. We are seeing some losses come back, especially now it makes sense on the special line side. We'll watch that closely. We haven't been affected yet from the semiconductor shortage. We watch those things closely. Some of the severity we'll look at in terms of our average premium is down a little bit. We've had a lot of cat losses. So all those things play into it. And then, of course, it really does, like you said, it plays into it in terms of what do people do as different states open. So will there be more highway travel because you're packing up the kids that go see grandma and grandpa? And will that cause less volatile accidents we've been seeing? Obviously, the congestion is less in the pandemic than it will be. So we're watching all those things closely. And we're going to be able to react to those. And we're -- we've never been in this situation. So we'll watch closely with, not just UBI data, but some other data that we're starting to glean in terms of understanding when more people are starting to work from the office. And so we have some occupations and some data that shows some people are already there. Some people are there a little bit more often. And we're going to continue to watch that because we think that will -- that could creep up pretty quickly, and we want to be on top of that.

David Kenneth Motemaden
Evercore ISI Institutional Equities, Research Division

That makes sense. And maybe just following up on that point. Did -- was any of that just sort of, I guess, caution and uncertainty? Did that come through? Because it looks like you guys, after decreasing rates last year, it looks like you increased rates in auto, obviously, not a little bit -- by a little bit, under 1%. But did that have any influence on that rate change?

Susan Patricia Griffith
President, CEO & Director

Well, we look at all the trends in terms of what we do. So after we took the credit, then we looked across the board and we look state by state, product by product, channel by channel. And our goal was always to take small bites to the apple because our customers, we know they want rate stability. And so we felt great at the end of this year. And now we're doing the same thing. We're taking a look. And different states have very different attributes in terms of increases in frequency and severity and driving behavior. So that less than 1% is just based on us looking at the data and making tweaks. And we'll do that for the rest of this year as we see things unfold. So it's really using the data and then saying, "Okay. We need a little bit more on in this product, in this state, in this channel." And that's why I think the way we're set up is so good because we're a machine that can react pretty quickly to those trends as they unfold.

Operator

Your next response is from Josh Shanker with Bank of America.

Joshua David Shanker
BofA Securities, Research Division

Just a clarification, please, on the March 17 shopping day. The biggest shopping day you've seen, when people got their stimulus checks, are these same with discontinuous coverage who've come back into the insured population? And along those lines, I mean, I know you are -- would certainly write that business, but it obviously doesn't have a lot of persistency. I'm just trying to understand the surge related to the stimulus and what that means maybe for April and May.

Susan Patricia Griffith
President, CEO & Director

Thanks, Josh. And actually, for years, if you go back, we presented this in an IR meeting probably maybe 7 or 8 years ago. We saw that shopping, when people get their earned income tax stimulus from the government. And it is largely Sams. It is other people that I think other constituents that have lost their insurance or couldn't afford it. But in a large part Sams. And our theory on Sams, we grew up with them, we love them as long as we can make our target margins. So the stimulus just exacerbated that. These are people that are trying to do the right thing and maybe lost coverage and want to get back in the game and be legal and do the right thing. So we see this and other stimulus that started and will continue to be something where we'll increase shopping behavior for the industry as a whole. But yes, in large part, it is predominantly Sams.

Joshua David Shanker
BofA Securities, Research Division

Okay. And then just final on David's severity question. We've obviously heard a lot about lumber prices going up. And we heard about rental car issues and whatnot. Those issues have seem very, very close to what might be a severity inflation-related issue for Progressive. In your current pricing, are the inflation issues that are sort of kitchen table issues that everybody knows about? Is that captured in how you're pricing right now? Or is that going to contribute to future rates?

Susan Patricia Griffith
President, CEO & Director

We look at all the macroeconomics that are going on and react to that on a severity basis. I would say, on the rental coverage, especially for our first party, we have contracts in place to minimize the amount that you pay per day on a rental. So we feel good about that. We also believe on the rental side that if you get out there and see the car, customers want their car back in their driveway. So we really do try to compress the time with which to get the car back into at or better shape than before the accident. So we've always prided ourselves on the actual time that, that takes, which, of course, affects rental.

On lumber, we will start to see that unfold. And if we believe that it is a piece of the severity, we will price that in future rate increases.

John Peter Sauerland
VP & CFO

Yes, Josh, as you know, insurance is an interesting product because you truly don't know the cost of goods sold until a year from now in the case of home. But our rate indications is what we call them forward-looking process, to say what should our price level be over the coming 12, 18, whatever months. We are selecting trends for frequency and severity. And they are informed, as Tricia said, by macroeconomical views, but also a little more specific views such as the cost of lumber. But obviously, near-term spike over the long term, we're not sure where that goes. And we would have taken a little more holistic approach to selecting, in that case, the severity trend for the price level going forward.

Joshua David Shanker
BofA Securities, Research Division

All right. Well, there's a lot to digest in there, and I appreciate the answers.

Operator

Your next response is from Gary Ransom with Dowling & Partners.

Gary Kent Ransom

Dowling & Partners Securities, LLC

I wanted to ask about quoting and conversion. I think I see your conversion is up a lot. That probably is explained by accurate matching of price and risk. But on the quote side, you're doing something powerful that gets people in the funnel in the first place. And you have a big flow of customers. So if I'm sitting at home, whether I have a stimulus check or not, maybe I'm a Robinsons. And at some point, I decided I'm going to go shopping. Just wondering, what's sort of the key ingredients of being successful at getting that customer in to get a Progressive quote?

Susan Patricia Griffith
President, CEO & Director

Yes, Gary. I think a lot of it is our brand. So we started out -- I started out one of the answers with 10 years ago, 11 years ago, our brand would be different. It's about awareness. And people know who Progressive is. They know our brand. It's a solid brand. It's a reputable brand. So that's kind of awareness gets you on the short list. And then when you're on the short list and you shop our competitive prices and our broad coverage gets you in the door. So we believe that we've obviously spent a lot more on brand, another 25% increase in this quarter. And again, we're spending a lot in expanding our broad coverage. So if you're sitting on a couch and you're a Robinson and you want to buy an auto and home on your phone or your iPad or you want to call in or you want to go to your agent, we try to be aware when and how you want to shop, just to make it easy for all customers.

And those -- then you have competitive prices. So I think that is really important. And that goes, of course, into our segmentation and understanding rate to risk.

John Peter Sauerland
VP & CFO

Gary, to that I would add, much of our advertising is mass media, but a massive portion of our advertising spend is in digital media, and that can be sort of displaced up, but it is increasingly what we call digital auctions and there are multiple digital auction marketplaces on the web these days, and I would give huge kudos to our digital media group because they use the analytical powers that are inherent in Progressive people and make great real-time decisions, meaning where should we spend more, where should we spend less. They also do it, recognizing the lifetime value of the prospects that are looking to quote. So you can imagine, if we have a longer retaining customer and it's direct, we can spend more. If it's shorter, you get the whole concept there. So I think we are pretty good in that space, and that has been a space that has been growing for us a lot for a number of years now.

The other important thing to do is, once you get the person in the front door, you got to get them to the price. And that is not as simple as you might assume. There are multiple avenues where customers can decide to quit the quoting process, and we optimize continuously to make that funnel that starts at the top of the flow, as you said, get as efficient as possible to get them a quote and then obviously to translate that quote to a buy. So I think a lot of this is our great people, great analytical skills, massive data sets. And I think we're doing some impressive things there.

Susan Patricia Griffith
President, CEO & Director

And the only thing I could say, and this is a little bit off, but once they're in, and you do have an incident or accident, I believe we have industry-leading claims service. We're out there. We care. We're there when you need us most. I talked about that a lot when there's cats, that we can't control the weather. All we can control is how we treat you as a customer. And we've always gotten really high marks on that. Did you have another question, Gary?

Gary Kent Ransom
Dowling & Partners Securities, LLC

Yes. I was just going to follow up on the 25% ad spend, too. Based on what you said, is that -- is it reasonable to assume that a lot of that growth was more in the digital space?

Susan Patricia Griffith
President, CEO & Director

Yes. When we look over the years and we look at -- take the last 10, 15 years and we look when people bought on phones to now when they're buying digital, it is the highest rate of growth.

Gary Kent Ransom
Dowling & Partners Securities, LLC

Yes. Okay. And just one little more on the same topic. Just is -- if I look at the body of science that you're putting into this in terms of the quoting process and all of that and kind of compare it to the body of science you have for matching price and risk, are they both just as robust?

Susan Patricia Griffith
President, CEO & Director

I think so. I mean I think, when you look at our ability to continue to have new product models coming out where we can even more accurately price rate of risk and get to that preferred customer, we just continue to excel in that. And then on the buying analytical side, I'll concur with John. We have an incredible team. We do a lot of our buying in-house. So it's proprietary to us. We have an incredible team that understands both the art and science around branding and then getting in our customers at or below our allowable costs. So both are highly analytical teams of people that we continue to invest in.

Operator

Your next response is to the line of Adam Klauber with William Blair.

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

Commercial -- the Commercial Auto is clearly growing part as comparisons. But I think you called out that the for hire is growing rapidly. And again, that makes sense with the economy ticking up. But I guess, what are you doing different in that line of business? And in particular, is more of that business being distributed through the direct and digital?

Susan Patricia Griffith
President, CEO & Director

Yes. I think we were ready, not intentionally, but when the pandemic happened and more drivers decided to go from big firms to their own, buy their own tractor trailer because spot rate coverage went up, so we were ready and we're priced well. And we look at that very closely because we've grown substantially both on the direct side and the agency side. We -- for many years, we sold the majority of our -- all of our Commercial Auto on the agency side. But again, we want to be aware when and how our customers want to shop.

So there was -- for Commercial Auto overall for-hire trucking, the highest growth in the direct commercial auto ever came in March of this year. And that's when we normalize for our 4-, 5-week month. It only bested by January of this year and then August of last year. So we were ready kind of make hay when the sun shines. We're ready for when this happened. We feel great about the trends and the underlying cost. We also are careful about that because it is high limits coverage. And so we have selected a 12% severity trend, making us very comfortable with our reserves. So I think we're in the right place at the right time. We feel like we're more than accurately reserved or accurately reserved. And we're excited about this new business on both the direct and agency.

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

Great. Okay. And then my follow-up. In your letter, you mentioned that VMP is down 8% to 10% versus prior year through the end of March and the first week of April. You say that frequency of claims compared to last year is coming up, but -- end of March, early April. But as frequency of claims -- how does frequency of claims in the end of March, early April compared to, say, 2017 through 2019?

Susan Patricia Griffith
President, CEO & Director

Well, comparing -- let's go first, you can compare it to what's happening now. So VMPs were down about 10% to 12% in March, early April. Then it went down to 8% to 10%. It's back up to 10% to 12%. Claims has not caught up yet. We are starting, just in very recent data, starting to see features grow hasn't caught up yet, not surprising. Compared to 2017 through '19, what would you say, John?

John Peter Sauerland
VP & CFO

Well, so we don't actually provide our raw frequency numbers. So I'm sure you're trying to do that math yourself, and we don't give you the exact data for it. Recognize as well that overall frequency trends for a number of years now have been negative. Obviously, with the pandemic, it took a step function down. We look at the frequency. We look at a lot of things, not only versus '19, but sort of a range of '17 to '19. And frequency is still down from -- we'll call that generally that area, but recognize as well that before the pandemic, frequency was dropping. So I'm sure we're trying to do a look-through to what is April, May, June, et cetera, look like. And it's even difficult for us to know. But I wouldn't forget those long-term frequency trends, for a lot of reasons, have been negative. And of course, over the longer term, offset -- more than offset by severity. And that's why the industry has been growing. But I would think through that when you're trying to project that, what frequency is going to look like for the rest of the year.

Operator

Your next response is from Tracy Benguigui of Barclays.

Tracy Dolin-Benguigui
Barclays Bank PLC, Research Division

Just a follow-up on loss trends. Are you anticipating any delays in seeing claims as the economy reopens? I'm thinking about medical procedures that might have been delayed during the pandemic. Are you booking extra IBNR for that possibility?

Susan Patricia Griffith
President, CEO & Director

Well, when we get an injury claim or a pit claim or a medical claim, well, specifically injury, we are -- we have an estimate on what we believe will be the cost, depending again how long that claim is open and what actually happened. And then the adjusters can come in and see if they believe it's less or more and can be influenced by data as it unfolds.

I think, early on, we saw sort of a stall, not necessarily in treatments, but more importantly, I think, surgeries. And of course, there's not a huge amount of surgeries in BIs. A lot of our injuries are soft tissue injuries. And so a lot of those can even heal on their own. What we did see was a closure of course. And so we can see that open up as well. But I don't -- with that data that we have years and years worth should already be priced in.

Tracy Dolin-Benguigui
Barclays Bank PLC, Research Division

Got it. Also, in your view, what is the quality of drivers in the for-hire space as folks are looking for employment?

Susan Patricia Griffith
President, CEO & Director

I think that varies. Yes, I think that really varies. We feel great about the business that we are putting on our books. We watch that very closely. I think a lot of it depends, just like in auto, on driver maturity. And right now, with the driver shortage, we can see -- you can see that changing overall in the industry. We have not seen that, but we'll watch that closely to make sure, again, that we priced rate to risk for that segment.

Operator

Your next response is from Meyer Shields with KBW.

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

I know because we talked in the past about how severity is reasonably predictable in auto and frequency less so, so you have to respond to that. I was hoping you could talk about how you view that in the context of the property book where policies are 12 months rather than 6.

Susan Patricia Griffith
President, CEO & Director

Yes. I think we -- largely, in property, we look at the age of the structure, the age of the roof, the location, is it a hail-prone state, et cetera. And that's right now. We're going to continue to understand deeper segmentation in the property space. And so I think that will change over time, and we'll have more variables that we look at even on the property side. Really, the property, the outcome, the CR, has been really solely on catastrophes and freely a lot in Texas. I mean there's been several things in Texas that have happened. But we look at that. And because of that, we -- I talked about the rate increases we put into place last year and next year. We will also look at making sure that we have certain restrictions where we believe we may or may not want to grow. Do you want to add anything, John, to that?

John Peter Sauerland
VP & CFO

No, I think it's very similar. And obviously, the models use what we call a trend to date with those trends that take into account durations of policies. You mentioned property as being 12 months. The commercial business is predominantly 12 months as well. And we have, I think, it's close to 10% now of our agency book and 12-month policy somewhere around there. So it's the same process. It's just a further out trend, too, generally.

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

Okay. That's helpful. If I can switch quickly to the small, I guess, the box side of commercial. Does the current competitive environment change the time line for Progressive ramping up there?

Susan Patricia Griffith
President, CEO & Director

Well, when the pandemic initially started, we rolled out BOP in a few states, and we kind of took a pause to reassess, not whether we're going to go in, but just reassess sort of what states we want to do audit, our computer system, et cetera. And we are now rolling out very quickly in many, many states. We're very excited about it.

Remember, when we think about small business, we think about employees of 20 or less, almost micro businesses. That is growing very rapidly, albeit on a very small base. But we're excited about what we're learning. We feel good about where we're at from a rate perspective. So we -- and Karen can talk about this more in August. I'm going to have her come because I know there's a lot of questions on commercial, and I'll have her outline where we're at on all the BMTs and especially BOP and small business and fleet. But no, we're very excited to continue to roll that out aggressively.

Operator

[Operator Instructions] Your next response is from Brian Meredith with UBS.

Brian Robert Meredith
UBS Investment Bank, Research Division

A quick question here for you. Could we dissect the rate or the average written premium per policy decline a little bit here? How much of that is rate driven, the minus 3%, versus how much is just rising deductibles or changes in coverages that customers have been implementing during the economic downturn?

Susan Patricia Griffith
President, CEO & Director

I would say the majority of it is our rates -- our reduction in rates. We had several customers call in. Sometimes they were delaying payments, but not huge changes in coverages. I would say rate would be the primary reason behind our reduction in average written premium.

Brian Robert Meredith
UBS Investment Bank, Research Division

Great. That's helpful. And then my second question, I'm just curious. So I know a lot of homeowners and policies have, we'll call it, inflation cards or inflation protections in them that are built in it, kind of gradually raise your premiums over time to account for inflation. Does your auto insurance policies carry that as well? Is that perhaps a potential offset here if we do see some rising in severity?

Susan Patricia Griffith

President, CEO & Director

We have some things we've had in place for years that actually take a factor into place every month for inflation on the auto side.

John Peter Sauerland
VP & CFO

Yes. It's such a degree that transpires in home. Generally, the home is driven predominantly by the replacement cost inflation. So something like lumber would be factored into how we would assess your replacement cost at your renewal. On the auto side, we have built in what we call monthly rating factors. So this is just an acknowledgment. But generally speaking, over time, trend in average losses is positive. And so we bake that into the pricing algorithm so that every month we see modest increases in premiums in those states. We don't have those in all states. It's not a huge impact on average premium. It does help ensure, all else equal, a positive trend in average premium in auto.

Operator

Your next response is from Josh Shanker with Bank of America.

Joshua David Shanker
BofA Securities, Research Division

I noticed that sequential policy count growth in Property was the best in March 2021. Since I guess, going back to September 2018, I know there's a lot of new housing starts and people are moving houses and whatnot. But also, there's the amount of appetite that Progressive might have for wanting those risks. It does seem that your growth in property slowed down the last few years and maybe is accelerating right now. Can we talk a little bit about appetite, how it relates both to your desire to convert to Robinsons and in general how it relates to cat aggregation and whatnot? And is the funnel opening up for Property compared to where it was a year ago?

Susan Patricia Griffith
President, CEO & Director

Yes, I think it depends on the state, Josh. So a couple of things. One, we've invested a lot on the direct side with our HomeQuote Explorer, HQX, so having Progressive property and other third-party non-affiliated companies we work with. So we've continued to do that and continue to have more and more of those companies have a buy button, which makes it really easy to be able to combine the auto, home and buy it online.

On the agency side, we've increased our Platinum agents, have a little bit over 4,000 Platinum agents now. So again, more ability to buy those. On the -- we want to make money on the property side. And so we have been -- I think we're in 47 states now. We want to grow across the country. And for years, we were -- we had a lot of density in Texas, Florida, that area. And we continue to, but we also want to grow out of those and do the right thing in terms of segmentation. So our appetite is we want to grow as fast as we can. But our other part of that, of course, is we want to make our target profit margin.

So we look at those states, we look at ex cat to try to understand where we believe the underlying price is accurate. And as I said, we are increasing rates and trying to understand segmentation a little bit more deeply. So we want to grow there. We want to grow Robinsons. That's one of the reasons why we've made so many big investments, but we need to make money on that product.

Joshua David Shanker
BofA Securities, Research Division

Can you give us any sense about how the percentage of auto policies you have that are bundled, whether by a Progressive property policy or a HomeQuote Explore policy?

Susan Patricia Griffith
President, CEO & Director

Yes. The HomeQuote Explorer, so I would say, overall, in Robinsons, take that, we're about 10%.

Joshua David Shanker
BofA Securities, Research Division

10% of your auto market share is Rob at this point?

Susan Patricia Griffith
President, CEO & Director

Yes.

Operator

Your next response is from David Motemaden with Evercore ISI.

David Kenneth Motemaden
Evercore ISI Institutional Equities, Research Division

Tricia, I just wanted to just maybe talk about the road test offering in a bit more detail and just see where that stands, if you have plans to roll it out on a broader scale and how much -- how traction has been there.

Susan Patricia Griffith
President, CEO & Director

You know what, we've been -- we continue to be challenged a little bit with the economics on road test. So we're redefining some of the metrics. And I would say on that, more to come. We continue to develop there, but we need to make the economics work.

David Kenneth Motemaden
Evercore ISI Institutional Equities, Research Division

Got it. And what is it about the economics? Maybe flesh that out a little bit? Like what is the sticking point that you see that make it hard for the economics to work there?

Susan Patricia Griffith
President, CEO & Director

There's several different things. I'd rather have us outline exactly what's working, when it's working. And hopefully, that will be soon.

Operator

Your next response is from Elyse Greenspan with Wells Fargo.

Elyse Beth Greenspan
Wells Fargo Securities, LLC, Research Division

My first question on -- you guys obviously just announced the Protective acquisition, and I recognize you're waiting kind of till that closes to give us more details there. But just as you broadly think about additional M&A from here, I know, obviously, Progressive has often shied away from M&A, except in a couple of unique circumstances. So can you just provide us kind of your current view on -- and anything that might cause you to do additional transactions down the road?

Susan Patricia Griffith
President, CEO & Director

We have a corporate development department that is under Andrew Quigg and our strategy group. He always kind of like searches the landscape to see things. Acquisitions are hard. And it's hard for us specifically, I think, because of our culture. And that's why the limited number that we've done, we have felt have great products, great culture, fit with us and could be cumulative. So I've talked a few times about the AFI acquisition. We didn't have the ability to bundle customers in agency channel. That gives us that. We talked a little bit about the Protective. And thank you for allowing us to talk more about that after the transaction closes. So I will always look at what does it bring to Progressive that we can't grow organically or that will help us get to market faster. And that's kind of how I see it. And we're always thinking to look. But again, I want to be able to -- does it give us excess customers, access to technology or the ability to get to market faster is kind of how I look at acquisitions.

Elyse Beth Greenspan
Wells Fargo Securities, LLC, Research Division

Great. And then my second question, you had mentioned that Snapshot Apron Relief product last quarter, and then there was a little bit of color within your letter in the Q. But I'm just wondering, it seems like it's still early, but are there any like observations that you noticed kind of some switching right to that shorter driving period relative to other products of just in general observation?

Susan Patricia Griffith
President, CEO & Director

Yes. So we have it in 43 states. And we -- again, like you said, it's early, so it could unfold. We sent out communications to about 14 million customers and about 40,000 of those enrolled. So to have that 30 days. So far, 9,400 have reached that 30-day point. And a pretty small percentage, about 4%, have called us to join the program. And we still feel very proud of the fact that we did that because it does allow people to reduce their rates if they're driving less or their behavior of driving differs. So again, we still have some time before all the customers roll out, but a relatively small percentage has actually joined the Snapshot program.

Elyse Beth Greenspan
Wells Fargo Securities, LLC, Research Division

Is the idea to keep this going? Like obviously, it was tied right to the pandemic and the impact that that's had on driving behavior. But is the idea to keep an option of a shorter driving monitor period available indefinitely? Or is there kind of normally might have this for a sort of time period?

Susan Patricia Griffith
President, CEO & Director

Yes. We have this program in place until July this year.

Douglas S. Constantine
Director of Investor Relations

We've exhausted our scheduled time, and so that concludes our event. Ditamara, I will hand the call back over to you for closing scripts.

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