S&P Global
Market Intelligence

The Progressive Corporation NYSE:PGR

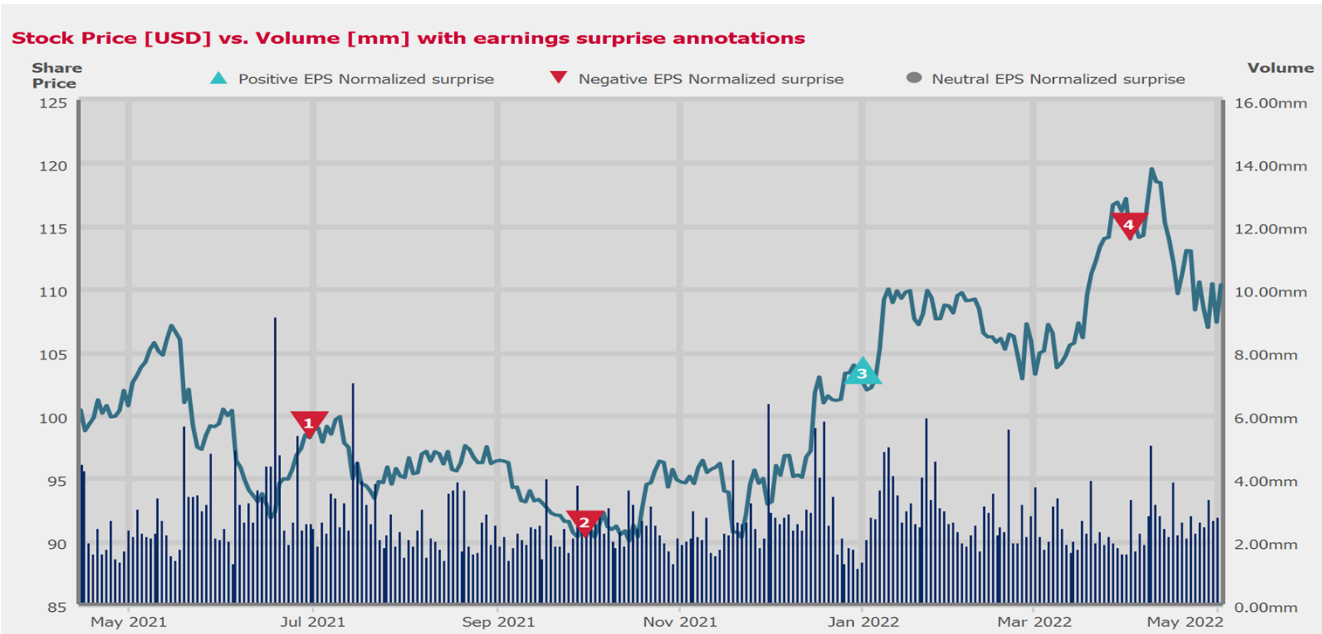
FQ1 2022 Earnings Call Transcripts

Tuesday, May 03, 2022 1:30 PM GMT

S&P Global Market Intelligence Estimates

	-FQ1 2022-			-FQ2 2022-	-FY 2022-	-FY 2023-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	1.24	1.15	(7.26 %)	0.95	4.66	NA
Revenue (mm)	13327.33	13181.00	(1.10 %)	12247.34	50655.09	NA

Currency: USD
Consensus as of May-02-2022 8:50 PM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ2 2021	1.05	0.71	1 (32.38 %)
FQ3 2021	0.22	0.15	2 (31.82 %)
FQ4 2021	1.02	1.08	3 5.88 %
FQ1 2022	1.24	1.15	4 (7.26 %)

Table of Contents

Call Participants

EXECUTIVES

Douglas S. Constantine
Director of Investor Relations

John Peter Sauerland
VP & CFO

Jonathan S. Bauer
Chief Investment Officer

Patrick K. Callahan
President of Personal Lines

Susan Patricia Griffith
President, CEO & Director

ANALYSTS

Alexander Scott
Goldman Sachs Group, Inc., Research Division

Andrew Scott Kligerman
Crédit Suisse AG, 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

Jamminder Singh Bhullar
JPMorgan Chase & Co, Research Division

Joshua David Shanker
BofA Securities, Research Division

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

Michael Wayne Phillips
Morgan Stanley, Research Division

Ryan James Tunis
Autonomous Research LLP

Tracy Dolin-Benguigui
Barclays Bank PLC, Research Division

Yaron Joseph Kinar
Jefferies LLC, 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 on 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's 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, Emily, and good morning. Although our quarterly investor relations events often include a presentation on a specific portion of our business, we will instead use the 60 minutes scheduled for today's event for introductory comments by our CEO and a question-and-answer session with members of our leadership team. [Operator Instructions]

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, 2021, as supplemented by our 10-Q reports for the first quarter of 2022, 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

Well, thank you, Doug. Good morning, and thank you for joining us today. Anniversaries are a natural time to look back on the past, and since this is the first investor call of Progressive's 85th year, I wanted to do just that.

We have grown from a scrappy start-up trying to find a foothold in The Great Depression to the 10th largest homeowners carrier, the 3rd largest personal auto carrier and the #1 commercial auto carrier. In just the last 5 years, our total company-wide written premium has nearly doubled.

Nowhere has growth been more remarkable than in Commercial Lines, which just passed a major milestone of over $9 billion in written premiums on a trailing 12-month basis. We grew Commercial Auto premiums over 200% in the last 5 years, all while generally achieving a better-than-average industry profit margin, and ended March just shy of 1 million Commercial Lines policies in force. It has truly been an incredible run with significant opportunities still waiting to be captured. Congratulations to the Commercial Lines team, and thank you to all Progressive employees and customers who have made the last 85 years so extraordinary.

Throughout our 85-year history, we've worked through many hard and soft markets, and we continue to address the hard market we're in today. While some indices suggest the value of used vehicles is leveling or even beginning to decline. Used vehicle values are still significantly above those of early 2021. Steady but increasing trends in bodily injury severity has also contributed to the increase in loss costs we've experienced. Further, as the country emerged from the Omicron wave, we saw Personal Auto vehicle miles traveled recover to fourth quarter 2021 levels, which were in the 9% to 10% range below the prepandemic baseline.

Our response to these trends have been to reduce marketing expenses, increase underwriting scrutiny, limit build plan options. And in the first quarter, we implemented rate increases of 7 points in Personal Auto that's still into [Indiscernible] which is in addition to the 8 points we took in 2021. While we're making progress, we still have more work to do to ensure all of our states reach rate adequacy.

Our rate and nonrate actions have had the expected effect on Personal Auto growth. While Personal Lines PIF growth is still positive on a year-over-year basis, sequential PIF growth is negative. New applications are down year-over-year, and our policy life expectancy is also declining. When we look across all the metrics we track, it seems likely that we're ahead of our competitors in increasing rates, which explains a large part of our slowdown in growth. As we look forward to the rest of 2022, we're optimistic as more states reach rate adequacy, we expect to be able to increase marketing spend and reengage the growth engine. Because of the advantages we believe we have in the way we buy media, we can adjust marketing spend at the local and segment level and in such a way to ensure the new business we write meets our economic goals.

And since we believe we're ahead of the competitors in taking rate actions, we hope to continue our long-term trend of writing more than our fair share of quotes. Even as we face these macroeconomic pressures, we have not slowed our pursuit of segmentation superiority. Our U.S. Personal Auto product model is now available in over 8 -- in over half the states and is showing early promising results, especially among more preferred segments.

We have also further expanded the footprint of our 4.1 homeowners product into 4 additional states in the first quarter, bringing the total to 12. Our new normal since the onset of the pandemic has been disruptions in the economy that has buffeted our business. While there are many paths the future can take, I'm confident in our strategy and our people and believe our greatest successes are still to come in the next 85 years.
Thank you, and I'll take your questions.

Question and Answer

Operator

[Operator Instructions] The first question comes from the line of Jimmy Bhullar from JPMorgan.

Jamminder Singh Bhullar
JPMorgan Chase & Co, Research Division

So I had a question first just on the pricing environment. And what your expectations are in terms of getting price hikes through all of the states? Because I think some of the states like California have obviously been reluctant to raise -- to give permission to raise prices, are you seeing any changes in that at all? Or do you expect changes over the next few months?

Susan Patricia Griffith
President, CEO & Director

We still have some challenges in a few states, including the one you mentioned, and we're working closely with regulators to get the rate that we need. Our desire is be able to be more open to open up our build plan options, to open up -- or to loosen our underwriting restrictions. And once we get that rate, we can start to have that growth engine move. So we've got a couple of states we're still working with a couple of big states that we've had some success and why we feel pretty optimistic about the future.

Jamminder Singh Bhullar
JPMorgan Chase & Co, Research Division

And the reluctance of California and some of the states that have been difficult, is it just because of the strong results companies had in 2020 and early '21? Or is there something else behind it?

Susan Patricia Griffith
President, CEO & Director

Specifically, in California, it's a little bit how they look back versus prospective. And so I think the data is showing that these are real trends, inflationary trends and the need across the industry is very significant. And we want to be open for Californians and we'll work closely with the regulators to make that happen.

Jamminder Singh Bhullar
JPMorgan Chase & Co, Research Division

Okay. And then just on -- so the claims trends in January and February, do you think your business saw a benefit from the Omicron wave at all in the early parts of the first quarter?

Susan Patricia Griffith
President, CEO & Director

I don't know if there's a huge benefit, things opened up a little bit more. But still, vehicle miles traveled and frequency is still below prepandemic levels. Would you want to add anything on that?

John Peter Sauerland
VP & CFO

In January and February, we did see vehicle miles traveled drop a little relative to the fourth quarter of 2021. We've seen that since return in March, so a very modest benefit, if any at all.

Jamminder Singh Bhullar
JPMorgan Chase & Co, Research Division

Okay. And then just lastly, have you changed anything in terms of how you're investing in this environment? Any sort of major classes that you're deemphasizing or conversely where you're seeing good value?

Susan Patricia Griffith

President, CEO & Director

I'll talk a little bit about our investing guidelines. And then Jon Bauer's on the phone, Jon, if you want to add anything, let me know. We've had a long-standing approach to our investing, and that is we don't want to target a certain book yield or level of investment income for that matter. We want to earn the best risk-adjusted rate of return on our portfolio. And most importantly, Jon's team, their most important job is to protect the balance sheet. That way, the operating company can grow as profitably and as fast as possible. Jon, do you want to add anything?

Jonathan S. Bauer
Chief Investment Officer

Yes. Thanks, Tricia. I would only add to that. Obviously, the environment is pretty dynamic right now. And we continue to search out for good opportunities that would create long-term value for the portfolio. But always with the focus on, number one, protecting the capital and then getting the best total return that we can in the portfolio.

Operator

Our next question comes from Andrew Kligerman from Credit Suisse.

Andrew Scott Kligerman
Crédit Suisse AG, Research Division

Regarding the underwriting restrictions that you mentioned, could you give a little color on what in particular you're doing there?

Susan Patricia Griffith
President, CEO & Director

Yes, Andrew. First of all, I enjoyed your write up last week, welcome to P&C insurance. And yes, and a couple of different underwriting restrictions. So we look at -- we'll look at gathering additional data possibly if we have more questions on a customer. So we call it prebinding verification. So we may ask a little more specific to make sure we have the garaging just right and things like that.

Do you want to add anything, Pat?

Patrick K. Callahan
President of Personal Lines

No. No. I think that's exactly what we do is when we want to be certain, we've got all the underwriting characteristics accurately reported. We will have some additional follow-up questions for customers, both at new business and then occasionally at renewal.

Additionally, we will put restrictions on how open we are from a build plan perspective and other things. Just as we look at overall profitability, we want to make sure we're getting the right rate for our new business customers at inception.

Andrew Scott Kligerman
Crédit Suisse AG, Research Division

And as a result of these initiatives, what percent of your book ends up with a -- or has ended up with a rate change over the last quarter? And maybe even the last 12 months as you've gone through these underwriting restrictions?

Susan Patricia Griffith
President, CEO & Director

Well, I think it's more of a entering in and getting the right rate at inception. So we've had a higher percentage of customers that once we have the additional information, we have blocked and they've likely gone somewhere else because we don't have the accurate information.

Andrew Scott Kligerman
Crédit Suisse AG, Research Division

I see, I see. And any sense of proportion on that, Tricia, that you could give us? Like how much of your book you're seeing that on?

Susan Patricia Griffith
President, CEO & Director

Probably, I would say of incoming flows, probably double digit, low.

John Peter Sauerland
VP & CFO

Low double digits, which is up from sort of half that when we were more comfortable with underwriting margins. So what we're trying to do here is ensure that every piece of new business coming in the door is going to be profitable for us. We understand that there's a distribution around our pricing. So on the tail, where we're less sure that we're going to make money, that is we're going to ask a lot more questions.

And frequently, those questions lead to the customer seeking insurance elsewhere. That is more frequently the outcome than an adjustment in the overall premium because, frankly, some customers are looking to achieve a lower premium by not answering the questions accurately. So some of these efforts are focused on that segment by pushing that segment to our competitors. Obviously, we ensure that we're profitable. And to the extent our competitors do not employ such methods, it will affect our competitors' adverse.

Andrew Scott Kligerman
Crédit Suisse AG, Research Division

Got it. And just lastly on Commercial Lines, you noted in the letter that it was a remarkable 63% growth. Is there optimism that you can continue to grow in the double digits? And what would give you that optimism?

Susan Patricia Griffith
President, CEO & Director

Well, that growth is significant for a couple of different reasons. So we did grow double digits in all of our business marketing tiers, and we still are growing significantly in FHT, in our for-hire transportation based on still a massive amount of goods being moved across the country since the pandemic.

In addition to that, about half of that increase came from our transportation network renewals. So we have one of our partners, we went from 6 months to 12-month policy, so that obviously is significant. We increased our projected mileage, which is how we compute our premium, so that was part of the increase. We had rate increases to reflect the inflationary environment. And fourth, we seeded less to our reinsurers. So about half of that increase was in T&C.

So all that said, even if on the commercial, the BMCs that we have now, the 5 on commercial, even if they slowed down a little bit, the great part about what we've been doing, and you wrote about this over the last several years is thinking about the future. So we just are getting going on our BOP, our business owner's policy, small business, continue to grow there. We have 37 new states are being rolled out and 3 new states actually in this year. We have our fleet program, where we've expanded the number of power units that we write from 10 to 40. We had the acquisition of Protective, so medium to larger fleets.

So how we think about really business in all, at least horizon 1 and 2 for now, and ultimately, we'll do that in horizon 3 is how do we continue to have growth even if maybe 1 segment of that business may slow down or may fluctuate based on macroeconomic conditions. So I'm excited about all the opportunities in Commercial Lines because we've spent the last 4 or 5 years investing in the future.

Operator

Our next question comes from Elyse Greenspan with Wells Fargo.

Elyse Beth Greenspan
Wells Fargo Securities, LLC, Research Division

My first question, I was hoping that you could quantify what percent of premiums the states represent where you think the majority of rate increase is behind you? And then associated with that question, what gives you guys the confidence to make that statement about rate versus forward loss trend given there's just so much uncertainty still with both frequency [into those].

Susan Patricia Griffith
President, CEO & Director

Yes. I probably won't dissect all the states. I would say that we feel pretty positive that, one, we got ahead of competitors, which we think is important and has been important in the past. And we're watching trends closely. I don't -- the crystal ball I wish we had would help us, but we'll watch those trends. We still are watching labor rates and some other indicators that could make us need to take more rate.

I think the beautiful part is we got out ahead of rate but our hope is that the rate we take, if we need to, in some states will be less. It will be the smaller price of the apple that we'd like to take. We obviously couldn't do it in this environment because the trends were so dramatically increased.

But we think there's a few states we're working on. We think that the majority of the rate actions are behind us. And what we're really thinking about now is when we can pull the trigger on some of that growth. And Pat and John and I sit down with the controller from Personal Lines very frequently to talk about return to profit and return to growth in that order. And what we're looking at is literally state by state, channel by channel, in the auto book and saying, "Okay, if April results come out here, could we reduce underwriting restrictions? Could we open up a little bit of the local marketing?" And I talked in my opening comments about how we have the ability to do so in each segment, in each market because of the way we buy media.

So it's a complicated question, and there's 50 shades of this and actually 100 because of the channels and that we're working closely to figure out when to do that. But we feel confident, and of course, we have that 7 points to earn in. So more will come to the story, but we're watching things closely.

Elyse Beth Greenspan
Wells Fargo Securities, LLC, Research Division

Okay. And then my second question, as we've gone through this kind of this environment, have you guys noticed any change which is Snapshot and the take up on your UBI products? And then has there been any change in discounts that you guys have offered or the time period that you've either observing with your products?

Susan Patricia Griffith
President, CEO & Director

We saw initially a pretty big increase in the take rate in the agency channel, which has been a challenge with us. So right now, we sit at about 40% take rate on the direct channel, about 10% in the agency channel. And this, of course, is excluding California and North Carolina, where we're not -- we can't use telematics. So that blended amount is about 28% take rate. We continue -- we have surcharges and discounts and of course, participation discount. And we continue to learn from those and really try to make sure that, ultimately, we try to price to the whole curve. And that's what we'll continue to do as our Snapshot evolves.

Operator

Our next question comes from Michael Phillips from Morgan Stanley.

Michael Wayne Phillips
Morgan Stanley, Research Division

Speaking of evolving Snapshot, can you talk about, I guess, earlier lessons learned from, I guess, it's been about a month end since you've gone continuous in 1 state, kind of take away from that, maybe what we can expect for that to be a national plan for you guys when that could be the case?

And then just what does that mean for you? If you do go national for that, what does it mean? Is it more accurate price, and therefore, better loss ratios? Better growth? Just kind of talk about what that means for you.

Susan Patricia Griffith
President, CEO & Director

Yes. It's literally been in 1 state, Oklahoma, for 30 days, we'll have to answer that question of how it's going, maybe next quarter or the quarter after that. We like to continue because, especially as we thought about the pandemic, it's more responsive in change to driving behavior. And we think we can -- the costs have gone down over time on both mobile and the dongle, and so we thought it was a good time. And we have -- I hope Oklahoma will be successful and that we'll continue to roll that out once we have more data.

Michael Wayne Phillips
Morgan Stanley, Research Division

Okay. Second, completely unrelated question. What percent of your new customers, when they come in the door, start off by going online and end up switching from online to actually using a call center for you guys? And I'm wondering, is there any near-term opportunities you can take advantage of them to use from a competitor what they're doing in their call centers?

Susan Patricia Griffith
President, CEO & Director

Yes. I think it's a pretty small percentage. It used to be much larger, but I think our technology has gotten so much more sophisticated that more people finish to buy online whether they're -- it's a small percentage.

Operator

Our next question comes from Gary Ransom with Dowling & Partners.

Gary Kent Ransom
Dowling & Partners Securities, LLC

I wanted to ask about claims counts and claims personnel. And you've had a lot of growth on the commercial side, maybe it's a little bit flatter. But I wondered if you are a little bit flatter on the Personal Lines side. But I wondered if you could talk to us about having the right people as things are changing rapidly? And if there's any difficulty in getting the staffing right there?

Susan Patricia Griffith
President, CEO & Director

Yes, that's a great question. And over the years, we've really spent a lot of time making sure that we think about centralization and consolidation, having the right file with the right representative at the right time. And we took advantage of the slowdown when frequency plummeted during the beginning of the pandemic to do the same thing on the Commercial Lines side because it's such a different [indiscernible].

And what I would say is turnover is up, especially with new hires. And we're seeing that maybe -- in across the industry and across with entry-level jobs. That said, we've had this recruiting machine that is just amazing, and it has enabled us to really continue to hire at a rate that helps us to get out in front of our growth. So we want to make sure that people are not just here, but they're trained and can do the right thing on behalf of our customers.

I think one of the things that I'm most proud of that we didn't do was to reduce our claims force during the pandemic. We were severely overstaffed for several months. And Mike Sieger, who was the claims president at the time, and I made the decision that we just couldn't do it. We knew that this was for the country, not for our company, and that allowed us to have staff waiting and available when things picked up. So we're going to continue to hire in advance of need on both the claims and CRM side, make sure we have the right training in both the virtual and maybe sometimes in-office environment.

We also look at -- and this group reports to John Sauerland, our internal audit group looked at the quality of the files, and we have seen continued good results in there in that.

Gary Kent Ransom
Dowling & Partners Securities, LLC

Can I also follow up just on going to the Snapshot? I know you've talked on other times about using Snapshot as part of the claims process as well. Have you...

Susan Patricia Griffith
President, CEO & Director

You cut out, but I think what you're saying is are you using that in the claims process? That's something we'll definitely consider as we think about continuous. We'll think about other services and claims to be 1 where we could actually help with the investigation, should our customers have that Snapshot device.

Gary Kent Ransom
Dowling & Partners Securities, LLC

So that's still a future thing you're looking at? Nothing really happening now?

Susan Patricia Griffith
President, CEO & Director

Correct. Yes, we're testing all the time. So that's what I would say.

Operator

Our next question comes from Josh Shanker from Bank of America.

Joshua David Shanker
BofA Securities, Research Division

During the repricing and marketing rationalization, the policy count growth in Progressive property was still fairly healthy. I'm going to guess that you're not terribly interested in ensuring from a home they're not also going to give you the cars. Can you talk a little bit about the different experience in retaining Sam versus retaining Robinsons in getting new ones over the past 9 months?

Susan Patricia Griffith
President, CEO & Director

Yes, I'll take a stab at that. So Sam's are -- have always been defined as shoppers, and so they're very rate sensitive. And so we know that our retention is going to be left when we crank up rates on the auto side, and that has proven to be true. And we've had less of retention fall in the Robinson side.

From the home perspective, we've been clear on our desire to derisk and to get more of our nonvolatile storm states more in the 2/3 of our book versus the 50% it is now. This quarter, we'll start to non-renew the policies that we talked about in Florida, about 60,000 policies over the next year, and we continue to try to derisk our portfolio.

With property, it takes a little bit of time because there are 12-month policies, and it's also reflective of industry pricing. So I think you've seen the storms that have happened in March and now again in April. So a lot of it has to do with growth could be that, right now, it's still a competitive market because everyone is increasing rates. But we're going to continue to increase rate and try to stay ahead of that trend and to derisk our book a bit.

Joshua David Shanker
BofA Securities, Research Division

And so net-net, but the Florida nonrenewal, obviously, you're growing in 47 other states with fairly desirous appetite. Should we feel that the -- and is the deceleration in policy count growth overall for property? Or do you think that those 2 things neutralize each other? And it will be hard for us from our perspective to be able to see that going through the numbers?

Susan Patricia Griffith
President, CEO & Director

Yes. I mean, our desire is to grow in the nonvolatile states, so we're taking action to do so with more agents that are able to sell our property book. So it's hard to say. Again, that will be relative to what our competitors do. And in addition, I talked a little bit in my opening comments about our increased use of deeper segmentation in the property product.

We believe we have industry-leading segmentation on the auto side where our R&D departments work closely together to get that same level of segmentation in homes. I think that would be really important. And in many of the states that we still have a decent amount of policies in, we've been able have higher deductibles, they have cost sharing. And so that -- this was not treated as a maintenance policy that we just wait for that hailstorm to come and we'll replace your roof. And so those are some of the other things that we've changed. I can't really look out into the future and know how we're going to grow in the nonvolatile states, but that is our approach. And I think it will take some time.

Operator

Our next question comes from Greg Peters with Raymond James.

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

So in your answers, and you mentioned eventually getting -- returning to growth. And I wanted to focus on the advertising piece of that. Your advertising spend is down in the quarter or down year-over-year. And I'm just wondering whether you absolutely need the lowest price to win the customer? Or put another way, does the brand of Progressive get you to a customer when even if you don't have the lowest price? And when will the advertising space be turned back on, if your -- most of your rate increases have been -- are behind you?

Susan Patricia Griffith
President, CEO & Director

Yes. I do think our brand would have us win in the marketplace and doesn't always have to be the lowest rate, especially for people that have had experiences with us. I remember years ago, when I ran claims, we had really high NPS for those people that had claims because of the way we treated them when they needed us most. So yes, I think that makes sense.

And when we look at the difference between agency and direct as far as like a PLE, we see that direct has gone down less, and we think that has to do with the brand. So what Pat and I talk about is really state by state, and we'll do some sensitivity analysis of if we turn on local marketing by X amount X plus, X plus, what we think could happen to new apps, et cetera, we will only do that if we're sure we're in the position to start that growth again.

So we are as anxious as anyone. We do not like having new business app negative. We want to grow. We want to grow as fast as we can. But again, profit is one of our [poor] values, and that will trump growth. But let me tell you these conversations are happening every day. And when we turn it on, we will feel pretty confident that we're in a good position to do so. Of course, things can change and will always be -- we have to be nimble with those changes, and we'll be able to do that based the data that we look at literally daily.

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

Got it. And my second question, I wanted to pivot. You talked about rolling out the new homeowners product. Can you just step back and tell us a little bit about that product? And what differentiates it from what you were offering before?

Susan Patricia Griffith
President, CEO & Director

Yes, I'll have Pat take that.

Patrick K. Callahan
President of Personal Lines

Yes, happy to talk about that. So part of the segmentation that we need to enhance in the property side of the businesses is on the age of the home and the age of the roof primarily. And we've just got better segmentation that we're bringing in as we expand that product over time.

There's also some coverage expansion that agents have asked for. But primarily, it's understanding the risk better and recognizing that the majority of our losses are coming from damage to the roof on that home and capturing both the age of the roof and/or the age of the home or in most cases, both helps us better rate and better underwrite.

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

And just as a follow-up to that answer, does that mean that the older the roof that you're -- is there a different -- is there a depreciation schedule that you're applying allowing the customer to buy out for roof replacement? I'm just trying to understand how that fits with what some of your competitors are offering in the marketplace.

Patrick K. Callahan
President of Personal Lines

Yes. It certainly varies by state, what we can offer. And when we talk about a market like Florida that limits our ability to price a depreciated roof accurately, that's one of the challenges that we see in a market like Florida. But we do offer a depreciation or effectively a roof depreciation schedule for customers. So they're not, I guess, incentivized to have that roof replaced when it's old and there's damage to it.

Operator

Our next question comes from David Motemaden from Evercore.

David Kenneth Motemaden
Evercore ISI Institutional Equities, Research Division

Tricia, you had said you believe that the major auto rate increases are behind you and obviously looking to turn on the growth. I guess just saying that the major auto rate increases are behind you. We still have 7 points of rate that's going to earn in over the course of the rest of '22. How should we think about the auto loss ratio? And when that will start to stabilize and eventually improve? Do you think that's a second half of '22 event? Or how are you thinking about that?

Susan Patricia Griffith
President, CEO & Director

Well, we just follow the data. So we watch as the rate earn in to the loss ratio. And we have a couple of big states where we were able to get rate pretty quickly in, namely Texas and Florida, and so those are 2 big states for us. And so we'll watch those states closely to see when we think it's the right time to grow.

And again, we're watching all the macroeconomic factors that are going in to the inflationary pressure, specifically with collision and property damage to make sure those don't continue to increase, I think of labor rates and items like that. So we'll watch those closely too to make sure we have amount of rates to start the growth.

David Kenneth Motemaden
Evercore ISI Institutional Equities, Research Division

Got it. And then I guess, just thinking about maybe on that last point, just some of the severity factors and trends that you're observing throughout the course of the first quarter and then also your outlook. Could you maybe break down how you guys are thinking about used car prices, as well as labor is one that you mentioned and the outlook on those items as we move forward from here?

Susan Patricia Griffith
President, CEO & Director

Yes. So we've we watched the Manheim Index pretty closely. And even though there's a couple of data points that say it's flattened or maybe even gone down, it's still 35% higher than January of 2021. So there hasn't been step function change and a drop in used car prices.

In addition, no accidents are happening at a higher rate of speed, so there's more damage. We know that parts are up over 12%. Labor has only been up a couple of percentage points. We're watching that closely just because of watching the unemployment environment and how tough it is to hire in the industry and [techs] in the industry.

And then because of body shop capacity, we're also seeing rental car extensions of several days. And so all those things kind of go into play when we think about severity on both collision and PD, and that's why they're higher.

I feel pretty good and pretty stable on the BI side. In the last 4 quarters, it's been the 6% to 8% range. We'll continue to watch that. We have -- we've seen a little bit of attorney rep rate increase in some of the general damages, which are the nonmedical damages increase. But we feel like that's at least stabilized over 4 quarters, but we'll watch that, of course. But those are the big drivers that go into the extreme sort of severity trends in collision and PD.

David Kenneth Motemaden
Evercore ISI Institutional Equities, Research Division

Got it. And as a follow-up, when you say that you're ready to move potentially to more growth and your rates, you feel like most of them are behind you. What is the severity view that you're baking in to that statement?

Susan Patricia Griffith
President, CEO & Director

The severity view, I think we're just looking to see if we can -- the severity will be what it will be in terms of what's happening from an inflationary perspective, so we're just pricing to that. And we believe we can make our calendar year and lifetime target profit margins will start the growth.

John Peter Sauerland
VP & CFO

It's important to recognize a lot of these decisions are made locally. So we have product managers who are responsible for geography and products. And they are obviously adjusting rates with their view and the pricing team's view of future loss trends. They take the rates up. And while they're fairly confident that the projections are right, now we're going to want to see some results come in before you open up the [Indiscernible] on the new business side.

That said, there are in geographies now where we have done that, but there are also a lot of geographies where we have either not gotten the rate we need, such as some of the large states we mentioned earlier, or we're still a bit tentative on understanding if we have taken enough rate such that we can open up this practice. So it really is a day-to-day PM state geography level decision on when to turn advertising back on, when to loosen the underwriting.

But again, I think one of the strengths we have is that team of product managers who are considering everything locally and making the best call, again, on a day-to-day basis. So it's not something we can predict at the sort of the aggregate level. It's going to come down to state level decisions, and we're confident we're going to be making the right ones in each state at the right time.

Operator

Our next question comes from Yaron Kinar with Jefferies.

Yaron Joseph Kinar
Jefferies LLC, Research Division

I was just curious with the situation in Eastern Europe and Russia. It seems like some of the European OEMs have had some supply chain issues. Are you seeing that impact on your fee, U.S. manufacturers or prices on cars, used cars, parts and so on?

Susan Patricia Griffith
President, CEO & Director

Not really. I mean we see the same sort of bottlenecks in supply chain with chips that happened before what's happening in Russia and the Ukraine. And there's still some supply issues there, especially with new cars, and that has, of course, increased used car prices, but that was prior to this.

Yaron Joseph Kinar
Jefferies LLC, Research Division

Great. Okay. And then I think one of the comments you made around homeowners is that kind of your ability to grow is going to depend on competitive environment. Can you maybe talk about how you see the competitive environment in homeowners outside of the Southeast in Florida?

Susan Patricia Griffith
President, CEO & Director

That's also sort of state by state as well because if you go out west, there's issues in terms of fires, et cetera. So I think we look at each state, look at the proclivity to have major weather events, understand our segmentation more deeply and then we'll look around into competition on both the direct and agency side.

So we've got the -- not just the agency side where we sell Progressive Home against some of the captives or bigger players, so we also have the direct side where we have the opportunity to have Progressive Home as well as many unaffiliated partners. And so we have some advantage to get Robinsons that are not always on our paper as well. But we look across the country, we're trying to get to the more nonvolatile states. We believe when we look at our results against the industry and non-weather in those states, we are very competitive.

John Peter Sauerland
VP & CFO

And we have a great and broad distribution network in those nonvolatile states that are quite committed to Progressive as a company they use in their offices. So our independent agents across those nonvolatile states ensure a lot of Robinson. So we have access to a lot of that business, and we're going to spend more time going after it. And I know you sort of excluded Florida and the Southeast states in the question. But it's really important that there are solutions in those states that are viable for consumers and the industry. And it has been very challenging in some of those environments. And so we're working with regulators and legislators to find solutions because Florida specifically right now is a very disruptive market.

Pat was talking about the liability of depreciating a roof in Florida. It -- you must offer full replacement value on your roof in Florida. So it's very difficult to find solutions for homes that have older roofs that are not up to code. So we hope to obviously grow in the nonvolatile states, we also hope for solutions in some of those [Capricorn] states that are, again, amenable to both consumers and the industry.

Operator

Our next question is from the line of Tracy Benguigui from Barclays.

Tracy Dolin-Benguigui
Barclays Bank PLC, Research Division

Before declaring victory on REIT adequacy with the exception of [Indiscernible] I'm wondering if you're seeing favorable seasonality in the first quarter like others are talking about? And if so, have you taken that into account when you say the majority of your rate increases are behind you?

Susan Patricia Griffith
President, CEO & Director

I think our seasonality has been relatively stable as it has been in the past. I'm not saying we're winning, Tracy. What we're saying is that we believe we got out in front of our competitors with rate from the data that we look at. We're watching trends very closely, a lot of caveats to that. All we're saying is that with the rate we have from last year and the rate that we have on The Street, we believe we're well positioned. Again, lots of caveats on making sure that we have enough and that we can grow and turn on that local media.

So I'll -- in maybe in a quarter or 2, we can have a different conversation hopefully. But right now, we're still positive, but we wanted to just give some color on the fact that we're really proud of our rate making machine that we're able to get out in front of that despite a lot of headwinds.

Tracy Dolin-Benguigui
Barclays Bank PLC, Research Division

So I hear your optimism, but I'm also just wondering in some states, are you just simply reaching your maximum limit? Do you think regulators will allow you to take? Or in theory, you choosing to take more rate, you could do so?

Susan Patricia Griffith
President, CEO & Director

We look at the data and we look at prospective rates in terms of what we're seeing in trends. And if we need more, even in states where we have already increased rates several times, we will share the actuarial data to get the right rate to get to our profit target margin. And that's how we've always worked. And I think regulators are thinking about their constituents because of all the other inflationary pressures. But this industry, it's been very clear, needs rate has needed rate for some time since last year. And now we feel good that we're starting to get it in many of our larger states.

So I'm just optimistic because we were able to have great conversations, great relationships in a couple of key states and many states across the board with key regulators where they get it. They see the data, they understand it. And they know the worst thing you can do is not give the rate because then you're not going to have insurance available for their constituents.

And ultimately, you're going to have to get the rates. So it's going to be, over time, there'll be bigger rates in the future. So I think that's how it works. And so I am very optimistic.

Tracy Dolin-Benguigui
Barclays Bank PLC, Research Division

Okay. And I know you make local decisions, but to any extent, are you taking any cross state subsidies like higher rates in states where you have success to make up for rate inadequacies in states like California?

Susan Patricia Griffith
President, CEO & Director

No. We have a very specific goal of not subsidizing and to have every one of our products in the aggregate coming to our 96 combined ratio goal.

Tracy Dolin-Benguigui
Barclays Bank PLC, Research Division

Okay. I'm sorry, just real quick, you mentioned the 20% take-up in telematics. Is that for new business only? If not, what percentage of your in-force uses telematics?

Susan Patricia Griffith
President, CEO & Director

The 28% is in-force -- it's -- no, no, I'm sorry, new. 40% on new and direct, 10% new and agency, yes.

John Peter Sauerland
VP & CFO

And we don't report the per...

Tracy Dolin-Benguigui
Barclays Bank PLC, Research Division

[Indiscernible]

John Peter Sauerland
VP & CFO

I'm sorry?

Tracy Dolin-Benguigui
Barclays Bank PLC, Research Division

Sorry, if that's new, what would it do for your in-force, which is a lot larger than your new business?

Susan Patricia Griffith
President, CEO & Director

I think we're saying -- we don't share that.

Operator

Our next question is from Brian Meredith with UBS.

Brian Robert Meredith
UBS Investment Bank, Research Division

Jon, first one for you. Just curious, where do new money yields stand right now as of today versus your kind of book yield on your fixed income portfolio? And maybe perhaps you can give us just a general sense of how much of your portfolio rolls every 12 months?

Jonathan S. Bauer
Chief Investment Officer

I'll take that one. So I don't like to give too specific, but I would think in broad swaths. If you look at March 2022 in terms of where investments were inclusive of treasuries, it was about 2.5%. And taking that out on either side of 3%. Generally, as you think about a portfolio with a 3-year duration and our size, I would think about every 12 months anywhere from sort of $6 billion to $8 billion of that portfolio rolling up.

Brian Robert Meredith
UBS Investment Bank, Research Division

Great. Really helpful. And then second question, I'm just curious, Tricia, would you care to speculate or tell us -- give us some sense of when you think California will actually start granting rate increases?

Susan Patricia Griffith
President, CEO & Director

Brian, if I knew the answer to that -- we're -- all I can say is we're working -- yes, we're working with the regulators and doing all that we can because we want to be able to open up and we want to be able to have affordable available insurance for California that's the most populous state. We'd love to grow there, and we'll do what we can to do so.

Brian Robert Meredith
UBS Investment Bank, Research Division

Great. I mean is there, I'm just curious, is there amount of time that you're willing to wait to get those rate increases? Are you taking some pretty significant nonunderwriting actions there to improve results right now?

Susan Patricia Griffith
President, CEO & Director

Yes. We're taking very significant -- yes, we're taking very significant nonrate actions because of the inability to get the rate. And obviously, we'll work with the regulators to figure out the best thing to do for our mutual constituents, and we just need to continue to do so.

Brian Robert Meredith
UBS Investment Bank, Research Division

Great. And can I just one more quick one. I'm just curious, PLE continue to kind of drop pretty significantly. Is that reflective of kind of a change in business mix? Or is that just the pricing environment? I'm just -- maybe remind us exactly kind of what that PLE reflects.

Susan Patricia Griffith
President, CEO & Director

It really does reflect the pricing environment. And I talked a little bit about the difference in agency and direct with the agency being a little bit more elastic. And when we look at PLEs ex Texas and Florida, they obviously don't drop as dramatically, which would tell you it's pricing because we got out in those 2 big states early. I think that our Holy Grail is retention, but we also have to be priced right.

We also know that some consumers are trying to figure out, can they change their coverages or do things differently or a Snapshot and things like that to reduce their prices. So I know in our CRM organization, we continue to try to grow what we call our preservation teams. So they call in and they're challenged to pay their bill because of increases. Can we work with them on build plans, on coverage to make sure they're obviously still covered, but to get them the right rate in order for them to stay. But it is reflective, the majority of -- with prices.

John Peter Sauerland
VP & CFO

And just to reiterate a couple of points made earlier in response to that question, we do see different elasticity by our consumer segments. So on the more preferred end, less elastic and on the more nonstandard or Sam and far more elastic. So that obviously plays itself through into the PLE change.

Additionally, as Tricia noted earlier, we do see a difference by channel. So some of that's because our agents have access to other markets and might proactively shop, but we also think there's some brand benefits. So we do see less degradation in the direct channel than we do in the agency channel.

Operator

Our next question is from Alex Scott from Goldman Sachs.

Alexander Scott
Goldman Sachs Group, Inc., Research Division

First one I had is just on the Personal Auto NPW growth. I think, high level, when we try to triangulate the PIF growth you're getting and the rate, the NPW growth isn't sort of showing as much of the rate flowing through as I would have expected. And just interested if there's any kind of mix shift or something affecting that? Or if there's any nuances to that, that I should be considering?

Susan Patricia Griffith
President, CEO & Director

Yes, I'd probably point to average written premium cost with the pricing increases coming in, and I think that's reflective of our new business growth in the overall growth.

John Peter Sauerland
VP & CFO

A couple of other comments on that. So we did mention we still have 7 points of rate to earn in, in our Personal Auto programs. So some of the rate we've taken has not yet affected the policies. We report the written premium change, so the earnings will affect combined ratio more so down the road. But if you look at the change in new average written premium versus renewal, you'll see renewal is up significantly more. So as we take revisions that are predominantly base rate revisions, those will flow through directly to all our renewal customers.

On the new business side, people shop. So we won't see all that average written premium benefit for new customers, perhaps at any time when we are taking rates up. So there's some timing issues there, but we're also cognizant of the new renewal mix and how that flows through in terms of the total average premiums. So we think the rate we're taking is definitely earning into the book. It's being accepted by consumers actually at a little higher rate than we've seen historically, which is also reflected, we think, of the market conditions. So we think the actions we're taking are absolutely resulting in the outcomes we're expecting.

Alexander Scott
Goldman Sachs Group, Inc., Research Division

Got it. And second one I had is just on competition. You talked about some of the advantages you have in your sophistication with the ad spend. And I'm just interested if you've seen anything as we've kind of gone through the pandemic, which I think was a bit of a wake-up call to some of the more brick-and-mortar type distribution companies. Are you seeing more competition there? Are you able to execute that strategy to the same degree you've been able to in the past? Even just thinking beyond like where pricing is at the moment and relative to peers near term?

Susan Patricia Griffith
President, CEO & Director

Yes. And I would direct you back to our 4 strategic pillars that we talk about all the time and make sure that we invest in all the time, and I have seen our strength there. So the first one is our people and our culture, our most important competitive advantage. So during the pandemic, we have really made sure that we are connecting, even if it's virtual to our employees, I continue to do every new hire class. I am out and about virtually and now more in person. But people and culture are really important. And it's important for people to feel good about being on a winning team.

The second we've talked about a lot is our brand. So we're going to continue to invest in our brand and have some really great creative coming out end of this month or early June. And then, of course, competitive prices, that -- we've been talking about that for the last hour. We want to get to where we are really competitive. So part of that is getting the right rates, but it's also the continuation of our superior segmentation and making sure that we care deeply about expenses. So we continue to create expense goals for the future.

And then lastly, and John had brought this up, is our broad coverage. So we're going to continue to be where, when and how customers want to shop. And I think that's the key. So regardless if the people enter the independent agent channel or the direct channel, we've been in both for a long time. We appreciate both. We appreciate the fact that consumers have a choice of if they want to buy on their phone, their iPad, through an agent, through 1 (800) Progressive, and we're going to be there as they change, especially as we've invested more in business called Explorer on the commercial side, HomeQuote Explorer. So all those 4 strategic pillars really work hand in glove to make sure that we stay competitive. So I feel really great about our position in both channels and how we think about the future.

Operator

Our next question comes from Meyer Shields from KBW.

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

Tricia, in response to an earlier question, you talked about the return to profit preceding the return to growth in conversations with the controller. Is that true on a monthly basis? Or is that a full year? In other words, if you're priced adequately but haven't earned it in all of the rate increases that are in the market now, will that constrain growth?

Susan Patricia Griffith
President, CEO & Director

Yes. We'll look at timing of when to start, when to ramp up some local advertising. Remember, we haven't shut off our national advertising, so it's not like our brand isn't out there. So we still have some ability to grow. But yes, we'll look at the kind of pivotal time, right time of when we should start that growth, making sure that the rates in each particular state are adequate for us to reach our target profit margins.

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

Okay. So if there's some monthly combined ratio pressure because of lower prior rates, that's not an impediment to growth?

Susan Patricia Griffith
President, CEO & Director

I don't understand it.

John Peter Sauerland
VP & CFO

No. No. We are obviously managing through a calendar year 96 or better, so we have that as an objective function for sure as do the product managers. But if they've taken rates up to where they think the lifetime combined ratio for new customers, they're writing is adequate, they will likely err towards growing more. There is the consideration of the calendar year combined ratio for sure as well. But generally, if they think the new business customers, they're writing today are adequately priced over their lifetime, they will be happy to go for growth.

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

Okay. Perfect. I apologize from not expressing the question well. Second question on price sensitivity, is that heightened across various customer segments when overall inflation outside of car insurance is elevated?

Susan Patricia Griffith
President, CEO & Director

Yes. I'm not really sure if we know that, but I think what John was saying, too, in terms of elasticity, our renewals are improving on the elasticity side, which tells us that. And we do sort of a histogram on decreases or increases to a certain percentage, we use buckets of percentages. And we're seeing more people, even if they're shopping, they're staying when they get the renewal, which likely means they can't find a better rate. So that's the only thing we can look at what's in data, but it's hard to say with all of the economic things going on in the country.

Operator

Our next question is from Ryan Tunis from Autonomous Research.

Ryan James Tunis
Autonomous Research LLP

I just had a question on, I guess, operating within Progressive's constraints. So the plan historically has always been doing 96 or better and grow as fast as you can. The vast majority of the time, growth is easy because you're not usually close to the 96. But whatever you've gotten kind of close to 96 in the second half of last year, it's been focus on reunderwriting, focus less on growth, all that.

I guess I'm just curious, and you did that before you were even at a 96 to when we were getting there. So after having gone through the first quarter when you did -- again, somewhere around a 94 on a group basis and above a 96 in Personal Auto, is it safe to say that sort of you have the same risk appetite that you did later in -- later last year?

Susan Patricia Griffith
President, CEO & Director

Yes. I mean I think our standard and our operating philosophy hasn't changed. And remember, if we're reporting in 94.5, we're still looking at prospective rates and we're looking at trends that will be future over 96 is if we don't do something. So the data is in a moment in time. We're looking at rate need ahead of time to make sure that we put that business on the books for both the calendar year 96 and a lifetime 96.

I think those constraints, as you called them, I mean, I think I called them just our operating philosophy, have worked well over the years. In fact, the first time we talked about 96 was in our annual report in 1971 when we went public, and it's worked really well for us. If you look at our long-term trend, it's nice to have that governor. It helps keep us disciplined around our pricing. It helps keep us disciplined around our expense philosophy, and it has built us to the #3 Personal Auto carrier.

And I can say when I started in 1988, we were nowhere there. So we will continue with that. Of course 96 is in the aggregate, so it doesn't mean that, obviously, our new business from the direct side wouldn't come in at a 96. And there's other areas where it be aggregate up to the 96. And I think it's been a great winning business model.

Ryan James Tunis
Autonomous Research LLP

Got it. That's clear. And my follow-up is just on retention. So retention has continued to actually hold up a lot better than I would have expected. And just seeing how much rate you implemented in the first quarter, yes, I was just maybe wanting some clarity of what you've implemented. How much has actually been shown to the customer? Is that -- was that mainly a first quarter event? I'm just kind of trying to think of like maybe that might be somewhat of a tailwind adding in the second quarter.

Susan Patricia Griffith
President, CEO & Director

Well, I think if you -- it depends on if you're looking at the trailing 3 or trailing 12. I think trailing 3 is more responsive to our rate increases. And so like I start to say before, we saw early results with our retention in some of the states where we take increases more quickly. We could still see a little bit of degradation again. And one of that is relative to what our competition's doing.

So if you're getting your renewal and you're shopping and rates are going up, and again, that's why we try to get a head of rates because if we can be stable, which is what consumers want and they go to shop, and now it's much more increased with our competitors, they're going to stay with us. And then, of course, the new business we've been talking about for a while.

So we keep a close eye on retention, especially because we've been really proud of the work we've done to date over the many, many years. But we'll watch that closely and do everything in our power to keep our customers that we've taken, so much to acquire.

Douglas S. Constantine

Director of Investor Relations

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

Operator

That concludes The Progressive Corporation's first quarter investor event. Information about a replay of the event will be available on the Investor Relations section of Progressive's website for next year. You may now disconnect.