S&P Capital IQ

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The Progressive Corporation NYSE:PGR

FY 2013 Earnings Call Transcripts

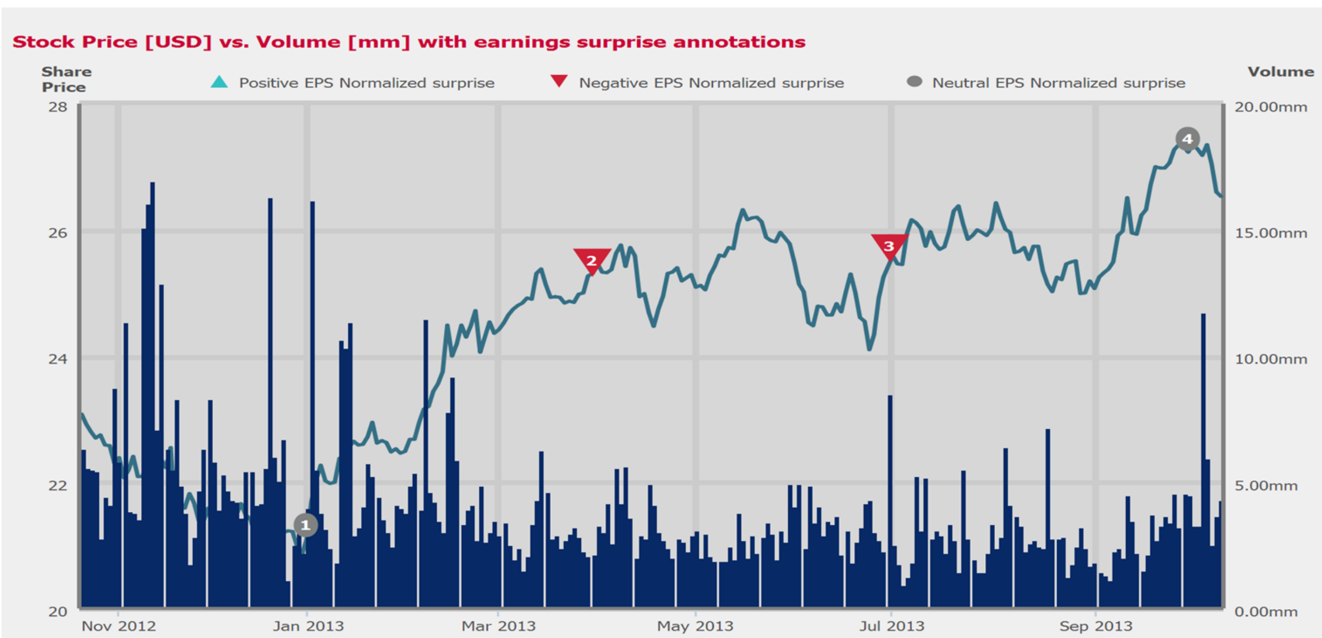
Friday, February 28, 2014 2:00 PM GMT

S&P Capital IQ Estimates

	-FQ4 2013-			-FQ1 2014-		
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	SURPRISE	CONSENSUS
EPS Normalized	0.42	0.41	▼(2.38 %)	0.45	▲2.56	1.59
Revenue (mm)	4061.89	4048.60	▼(0.33 %)	4655.28	▲1.33	17351.02

Currency: USD

Consensus as of Feb-18-2014 9:26 AM GMT



Call Participants

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Goldman Sachs Group Inc., Research Division

Vinay Gerard Misquith
Evercore ISI, Research Division

Presentation

Operator

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

Matt Downing

Thank you, Julie, and good morning. Welcome to Progressive's conference call. Participating on today's call are Glenn Renwick, our CEO; Brian Domeck, our CFO; and Bill Cody, our Chief Investment Officer. The call is scheduled to last about an hour.

As always, our discussions on this call may include forward-looking statements. These forward-looking statements are based on management's current expectations and are subject to many risks and uncertainties that could cause actual events and results to differ materially from those discussed during this call. Additional information concerning those risks and uncertainties is available on our 2013 annual report on Form 10-K, where you will find discussions of the risk factors affecting our businesses, Safe Harbor statements relating to forward-looking statements and other discussions of the risks, uncertainties and other challenges we face. Each of those documents can be found via the Investors page of our website, progressive.com.
Julie, we're now ready to take our first question.

Question and Answer

Operator

[Operator Instructions] The first question is from Vinay Misquith from Evercore.

Vinay Gerard Misquith
Evercore ISI, Research Division

The second half of last year. You saw a nice pick up in your policies in force growth. So my question is are you satisfied with the 3% to 4% PIF growth recently and are you happy with your 93.4% combined ratio price seeking to, maybe, ramp-up the rate of PIF growth by reducing pricing?

Glenn M. Renwick
Non-Executive Chairman

Vinay, sort of go back to our relative core principle of a 96% and grow as fast as we can. So both of those raised questions there. So very happy when were 93%, 94%, and 93% and change, but the modus operandi of the company is really to price as close as possible to a 96%. We're more than happy when we get better than that for sure, but PIF growth, and I try to express that in my letter, that our preferred form of growth is really PIFs, so bringing in PIFs at a reasonably higher rate, now recognize we are very cautious as you would be of any trade-offs, you're not going to trade-off a point of CR are relatively poor PIF growth, but there are combinations of PIF growth that we would see as attractive, and be more than willing to have a slightly higher CR than the what we achieved last year. Relative to how we achieved that PIF growth, there's really 2 big drivers there. You know that. There is new business applications and there is renewals. I foreshadowed -- more than foreshadowed in my letter that we took a hit on the renewals after taking rates that were discussed many times in '12. Those renewal rates now are actually becoming quite healthy. We shared with you a PLE measure, which is actually a slow-moving measure. And we have, actually, several other measures, and I think maybe, in our IR meeting this year, we will give you a little bit more of a way of looking at a scorecard of measures that might allow you to more insight into renewable behavior, but rather than try to do that on just a conference call, we'll do that in a much more formal way. But the acceleration factor, if you like, to the PLE, which is a little bit more of a slower moving measure, is actually working quite well, and for the most part, the deficit that we'd been in previously with renewals is really not the drag that we have now, so we expect to see that being in our favor. And new business application counts, don't want to get into overly specifics, but I'll give you some indication, more of just recent times, we're sitting here not that many days before we release February results. So both Brian and I will be cautious not to go into that territory. But it's fair to say that based on observing the business day-in and day-out as we do, our new business applications in our agency channel and I'll just go to the second half of February, the first half of February had some strange weather conditions, which caused presumably businesses to be not exactly on the regular schedule, but second half of February, we're seeing high-single digit grade of growth in new business applications and our agency channel, so pretty happy with that. And on the direct side, we're actually seeing very strong growth and high-double digit growth with new applications. So the outlook for us from PIFs could be healthy, and I say could, because we never know what rate we might need to take to balance that. But we would be looking for increasing PIF rate given that we feel our pricing points will allow us to achieve our 96 combined ratio goal. So the trade-offs are important. We don't want to trade-off small PIF growth for big give-ups in margin, but we think there are appropriate trade-offs and we feel we're well positioned for that.

Vinay Gerard Misquith
Evercore ISI, Research Division

So that's helpful. Just in terms of the improvement in the new applications, that also the PLE. Do you think it's more a function of you keeping rates flat? Was this the competitors having low-single digit rate increases? And how do you look at the trade-off right now from a competitive perspective? Are competitors being more rational and are raising prices right now?

Glenn M. Renwick

Non-Executive Chairman

Let me take that in 2 parts. The change in retention behavior that I've said is certainly, and predictably favorable and continuing to be so, is much more, in my opinion, a function of our own rate stability. So our customers are not seeing a dramatically different rate. So if I bought a policy for, I'll use a round term here, a $100 the next time it comes to renew, my renewal rate is not dramatically different than that. Then I'm not incented to, perhaps, be looking elsewhere. So for renewals, much more a function of our own ability to keep rates stable for our customers. In the new business marketplace, you are well aware that it's a highly competitive, almost auction-like environment, certainly in the agency channel, it is close to an auction rate environment. So our new [indiscernible] there are always going to be a function of a relative competitiveness in the marketplace. If you ask about other competitors, how they're acting, you're better off to assess that yourself. I just give you a little bit of the data set that I try to work from. We are very closely monitoring the rate changes brought about by other competitors and recognize we talk about in so many states there are a lots of data points here and there's no one single answer. But if I were to take a look at my SCADA Plus [ph] that I have for a few major competitors, I would probably say up through the end of last year, or maybe even through January, we're looking at what, I would say, for State Farm and GEICO to be something in the plus 2, so we're definitely in the plus territory as we observe it, and that's not inconsistent with the way we would view the world. Maybe, I'll state a little stronger than that, and 3 and our best records for Travelers, and I think that is not including the Quantum 2.0, some more of the business in place. We look at that in and FII bold that; I'd probably say maybe a plus 4. So yes, we see in general the marketplace taking rates up, but nothing in what I would call dramatic steps and there is a fairly good variance around any of those numbers I give you so there may be states that have a plus 6 and then maybe ones that have a minus 2, but that gives you a feel and I'd say on average competitors are taking rates up at a slow, low-single digit rate. And as we look out and think about primarily the driver of severity trend, I would tell you, I put that in the 3 to 4 category, that's never a perfect number, but we obviously, we're making estimates of that all the time. So if I look out and see a 3 to 4 severity, I'm not surprised to see that, kind of, rate all depends on your trend point, how far you're taking your rates out or expect to take them out. Your question was is the market acting rationally, that's always a really bad thing to be quoted on, so I really want to avoid that, but it seems like there's an awful lot of actions that seem consistent with the data that we see.

Brian C. Domeck
Former Vice President

Vinay, the only think I'd, sort of, add to Glenn's comments, particularly, in terms of retention rates certainly rate is a very big factor and influenced 2012, '13 and now in the '14. But we're also doing other things to try to extend each individual policies like with us and we've talked a fair amount about our Progressive Home Advantage program and we certainly are continuing to make inroads in that and that's continuing to grow nicely. And we know if we can get more of our policyholders to have more than 1 product with us, whether it be auto and a property product or auto and a specialized product, our propensity to have them stay with us longer increases dramatically. So we continue to do things in that environment. We also know our Snapshot program, where those who received discounts via Snapshot programs. PLEs of those are better so we have other initiatives other than just individual rate level changes that are -- have the ability to and are showing to show increases in our PLEs.

Operator

The next question is from Josh Stirling from Sanford Bernstein.

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

I appreciate, as always, the letter. So I have a couple of questions on Snapshot unsurprisingly. You guys didn't do a Super Bowl ad this year, and but you do say in your letter that we should be looking for new product changes and maybe, some new advertising and sales in '14. I'm wondering what you can give us a preview of both the product side and, sort of, the messaging? And more generally is, do you think 2014 is, sort of, finally going to be a big year for growth in the Snapshot?

Glenn M. Renwick
Non-Executive Chairman

Let me start with a backwards. I'm quite happy with $2 billion on the books for '13. So yes, we would expect to see that, and I can probably shouldn't, but I can tell you that in January, we're already looking at a very strong growth rates in our Snapshot numbers. So they continue in their fields more likely than some plateauing for sure. I don't quite know the Super Bowl ad, I live that experience once, I'm not sure that I've got any great keen desire to go back to that one. But we will sort of get our message from the rooftops as much as possible with regard to Snapshot, and I appreciate your comment on with regard to the letter, and I did try to saying there that we're going to use a lot of different tools in our arsenal to make sure that we get the Snapshot message out. You talked about previews of things to come, and I certainly reference that we continually work on this. So the answer is, no, I think the time to do that would be much better at a formal time when we really have some packaging, but I also don't hopefully, I'd never been someone who would say something and not back it up. But let's just take a couple of elements of Snapshot that you're starting to see or I'm starting to see some comments one way or another in the marketplace, whether it be GPS or whether it be continuous monitoring or things like that. One of the things that I would like you to, sort of, put in the back of your mind is that as we went through the first 10 years or so of R&D, we, in fact, did more extended monitoring periods. We clearly had GPS in the chip, and we never came out and said, "gee, we don't like those things or that I'm just choosing 2 elements right now." What we came out and said is we need to find a packaging that allows us to extract a fair amount of information that is relevant and provides us enough information to pass that on in true cost to the consumer and not absorb all of the monitoring with the cost of monitoring. So Snapshot was a time where we took a lot of information that we had and said what is something that we can take to market wherein, excuse my liberty here, we didn't need to compete against ourselves where we could actually have a package that was marketable and meaningful in terms of pure premium reduction that wasn't absorbed by the cost of getting that additional data. As I indicated, we will continually refine Snapshot-type offering, and it will reflect a lot of the consumer trends that we see as well. So I'll not rule out, in fact, I would say I rule in that we will consider more GPS-type monitoring and the like as consumers are willing to accept that as a viable option. And, I think that the answer to that is different today than it was in the past. Just as we do with almost everything else, there is not one solution that necessarily works for all. So monitoring periods, while we have chosen right now to be very discreet and believe that the cost of it of obtaining that incremental information is a nice trade-off, it doesn't mean that everybody will be equal. It might mean that customer X is monitored for a short period of time, and that's sufficient. customer Y may actually be monitored longer. It may be that certain conditions that you encountered during your tenure with us caused re-monitoring. So none of those things and you shouldn't infer that that is the direction per se of changes, but just know that we've got a lot of information about those sorts of things, and it's quite likely that Snapshot and the product will get a little bit more segmented to different customer audiences over time, and that we will use things like GPS. Just this week, I saw a intern -- our internal R&D, a research level view where overlaying trip data, we could overlay things and this one comes in a great surprise to you, but we're doing it as opposed to talking about it. We overlay the speed limits on any particular trip. We overlay the speed of the car and the delta to the speed limit. We overlay the frequency of accidents in all of United States on that very thing. So there's a lot of external data overlays that we can do. My point here is that Snapshot in the market relevant, producing results that are meaningful for the consumer, but we're scratching the surface of what it's potential can be. And as we are aware of some of those potentials, we'll try to build it into the product at a pace that doesn't have a cost absorbed all of the pure premium advantages and also at a pace that we believe the consumers are willing to accept and that we can market at. So it's actually for me, as hugely fun journey.

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

That's really a helpful color, and obviously a lot of great stuff. I guess, the big follow-up question I'd ask is when you put all of that in the context of an environment where the technologies pretty rapidly accelerating, much faster than you guys started on a journey 15 years ago working on this stuff. How should we think about strategically how you guys are going to play just trying to maintain the lead you have today? Because I think, obviously, you may -- you mentioned starting to talk about it, those are in some ways easier to put a box around, different channels and so on and so forth. The big question that, I think, a lot of people sometimes struggle with when they get excited about telematics, which is simply how you guys, sort of, maintain your lead against potential sort of inroads from like a new check kind of approach? And I'll leave it there.

Glenn M. Renwick
Non-Executive Chairman

Yes, no that's a very fair question. And surprisingly, at least to my knowledge I've been very publicly consistent on this. I love the fact that we have some patent protection and gave us an opportunity to get into the marketplace. But for me, this has always been an issue of get and win in the marketplace. Everything else is extra, and Progressive's strength historically has been using data and segmenting that data to its advantage. So we had no proprietary rights to something like credit, but it can use credit. We like to think we used it very well. So I would tell you that they homogeneity of actually being able to get the data will increase. I'm totally with you on that. Frankly, I'd like to get out of the business of having people plug chips into their car and so on and so forth. Because that's not an absolutely natural thing for them to do because it will be more than equipped, this will be a silly conversation 15 years from now, because cars will just be providing that information. Progressive's strength is always been about what you do with the information as opposed to whether we're the only ones to have it or the only ones to be able to extract it from the vehicle. So what I pushed out of my prior comments was just a feel that is far greater than it just heartbreaks out accelerations factors that we use today. It is demonstrably more and arguably a very different feel of data analysis, data collection and data use that is very, very different than when I was a practicing product manager, it's a very different skill set, and I think, that the winners and losers in this one will be the companies that have adapted to the technology and have the talent to be able to use that kind of data and convert it into a truly marketable products. So I'm -- that's where I've always seen our advantage anyway. The fact that we have a or have had for some time a little bit of a proprietary opportunity in the marketplace, that's great and that just allowed us to get a huge head start, and that head start will be tough to pull back.

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

We'll have to get our Snapshot, so we can grandfather ourselves in before you add all those new variables.

Glenn M. Renwick
Non-Executive Chairman

I got mine.

Operator

The next question is from Meyer Shields from KBW.

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

I'm sure this question will be more specific than any answer you choose to give. But you talked about Travelers raising rates at around a 4% cliff excluding Quantum 2.0, but even talking pretty optimistically about changing their own PIF trends as a result of Quantum 2.0. Are you seeing any signs that you may have to respond to competitive pressures differently in the agency channel, specifically in response to 2, 2.0?

Glenn M. Renwick
Non-Executive Chairman

No. Let me comment and that's fair. The 4% was definitely not including Quantum. They are running -- they're rolling that out in a separate company and keeping it apparently pretty clean. Travelers is a great company. I mean, I expect them to have great product, and I have no doubt that they've been entirely comfortable with some of the trends that they've set before. So but that's what we've lived within the agency channel all along. So to us, whether will be any competitive response, we are always going to price our product based on our data. We don't price it necessarily based on what our competitors doing or not doing. That's the only we way can possibly be true to our combined ratio, 96 goal, we must live with our own cost-based pricing. We clearly are responsive to what competitors are doing in other areas and making sure that our story is well told to agents, positioning ourselves appropriately on comparative raters, that's sort of thing. I just recently went to an internal colloquial on Quantum 2.0, so that all of our people are very briefed on what the product is and positioning. We have, and I gave you an indication that even the last part of February, our results for agency sales are strong by our standards. So haven't seen anything there, particularly. We track proof-of-prior from other carriers. Travelers is not a particularly high, or not the top 5 type of carrier, but we will watch to see if that moves any, and this is all data to tell us what's happening, not necessarily things that would provoke a particular response. But our expectation is that the companies will always be refining their product as we are all the time, and that Quantum 2.0 for Travelers whose their next best issue and my gut from what I've seen is that this feels, at least to the extent that we look at win rates between ourselves and Travelers and what actions have been taken, it seems like it's going to be a very appropriate product offering for agents, and that's always good for the channel as well.

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

That was very helpful. Can you talk a little bit about how competition in the Commercial Auto segment is evolving?

Glenn M. Renwick
Non-Executive Chairman

A little less. So let me break the Commercial segment down to 2, the sort of the light local type business, and for the most part I wouldn't say the competitive nature there has changed a great deal. We're reevaluating our own pricing in that space and may have put ourselves just a little bit on the high side for our light local business, but those are tweaks that we'll continue to review. In the, what I'll call the more trucking for higher trucking and specialty type business, I made a couple of very brief comments in my letter about that. That segment really has been very difficult to price, we've taken a lot of rate over the last 2 years, we actually feel that we're adding good rate point now, and we have seen some competitive actions there that are a little pullback from the marketplace. So if I was going to describe the higher end, not necessarily higher end in terms of number of units but the higher end trucks, more trucks than light local artisan type vehicles, I would describe that marketplace is showing signs of a hardening marketplace and that a rate level, and, I mean, significant rate level changes that we've taken over the last 2 years feel like they will start to become a little bit more competitive and we would see the opportunity to grow, but we have seen some competitors who, obviously, have assessed their rate level to be less and pulled back from that marketplace. I would say hardening in the top end of the market and not much change that I'm aware of in the light local. Brian, do you?

Brian C. Domeck
Former Vice President

No, I think that's a fair assessment. I think, the one place that we've seen a little bit more hardening in the market with competitor actions either via radar underwritings more in the truck segment.

Operator

The next question is from Paul Newsome from Sandler O'Neill.

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

I wanted to ask a follow-up on the, sort of, competitive environment in the independent agent channel. Particularly as it has to do with commissions, and Progressive, obviously, was one of the, if not the leader in taking commissions down, but trying to be extremely price competitive, as well as extremely user-friendly through the agents' computer systems. Do you think that the market has begun to follow you down in that strategy? It does seem that Quantum 2.0, for example, is basically kind of a mimic of

Progressive systems, but I'd like to get your thought not so much necessarily on Quantum 2.0, but just sort of on a broader question if we're looking at an independent agent channel, at least within auto is more of a low commission price, more price sensitive, kind of, market.

Glenn M. Renwick
Non-Executive Chairman

Paul, let me expand a little bit on that and try to be direct with answering your question. You're right. Progressive clearly would be seen by agents as the company that took commissions down. That doesn't always get said with a massive smile because no one wants their compensation to be taken down. So let me give you the background, and there's 2, at least 2 really relevant data points here, and I'd like to couch this. And I do this for agents as well. I'd like to couch this is wasn't some, sort of, arbitrary, let's just find a different level. 2 data points and they span a good number of years. Many years ago, and some on the call may remember, we offered 3 levels of commission to our agency channel and for reasons that really aren't pertinent now, we were not allowed to continue to do that. But in doing so, it was very interesting to note that the lower level of commission was, by far, the largest selected commission level. So there was clearly a marketplace for agents and agencies to be able to sell a product that have the lower commission, and of course, the lower commission reflected in the price. So that was data point one, and that wasn't arbitrary. That was across the entire nation and we saw the distribution being similar in almost every state. The second thing, and this is where I would argue that Progressive, perhaps, has a point of view that is certainly relevant and we think important is that we've been able to determine what, let's just say, the true cost of distribution of an auto insurance product is. Almost independent of channel so if on the direct side, I'm not going to get into the numbers directly, but we have now a pretty good feel for what our cost of distribution is through our direct channel. We are clearly and we'll state it 100 times, very agnostic relative to how we get our customers. We are happy to get our customer on a variable cost basis. We are happy to get a customer on a direct basis. One of the things we didn't want to do is create an arbitrage between those channels, simply on the cost of distribution. So I would tell you today that we have more of an informed way of deriving a commission rate because it is more reflective of a cost of distribution that we've been able to measure and observe more directly through the direct channel. Previously commission was a little bit well, X pays 15, so I'll pay 15, it didn't bare a lot of resemblance to what the true underlying cost structure was for an agency, and of course, that could be very different between agencies. So our way of looking at it is to try to find a cost that seems to be representative of either channel, both channels can be effective with a cost and no one is a particularly arbitraged. And let's just put a number around that, 10 to 12. And our position in the independent agency channel is a -- clearly a market leader, by far the market leader in the agency channel so to suggest that others might follow Progressive, that's a fair assumption, I actually don't know what the decision criteria is of why they're doing it, whether it's Progressive can do it, so therefore, we can do it. I don't know. That's for you to ask them, but we know why we've set, and we've been very clear with agents why we set our level of commission to be at what we think is a true market clearing rate for Personal Auto independent of channel. And if that 10 to 12 or even 10 to 11, I would say is, sort of, close to for our numbers. We feel very good about it and actually have much less conversations today with agents about why, because we have a stronger rationale. So that's some background for you, and does that ultimately mean that the market leader has a fair amount to say and what happens in the channel? To be determined, you will be able to observe that at the same pace that we will.

Operator

[Operator Instructions] The next question is from Mike Nannizzi from Goldman Sachs.

Michael Steven Nannizzi
Goldman Sachs Group Inc., Research Division

Just one question, Glenn, I think in the third quarter you, kind of, mention where you were on expectation of loss cost compared to future pricing that you talked about that gap being about 100 basis points. Just curious, did I get already reflected in results either in '13 or so far in January or we're still working through that? And how should we think about where you are in that spectrum now?

Glenn M. Renwick

Non-Executive Chairman

I'm trying to say the 100 basis points, just not coming to me right away. Third quarter of last year -- yes, I suspect that we were feeling that our rates were probably either at or just slightly above what they might have needed to be fourth quarter and I think, I've shown in a diagram or schematic of how rate revisions, sort of, coming through time. I would say that the fourth quarter was probably a period where we feel our rates are about close to where they need to be. And if I were a betting man, I would say that in general, we will be looking to move away from what was a very, very, very flat year in rating in '13 and probably start to see some just what I would call natural state adjustments made by our product managers to reflect the trends that are going forward. And certainly this winter, there's no question this winter has put some frequency stress on PD and collision, specifically. And we internally take a fairly disciplined approach and a quite remarkably detailed approach to determining what the possible range of seasonality might be around our combined ratios. So obviously, a good winter and a bad winter, we're going to see some different results. One of the things you want to be able to separate out is, sort of, noise and signal is my overall price level okay, and will it be varied a little bit by some weather conditions. And those are really important issues because you don't want to, sort of, justify or use weather as an excuse to perhaps lull you into realize thinking that your prices are right when they're not, and I would say that we're comfortable that we're in the right band. But going forward, we would think that these rate revisions, for the most part, and again, there is no way to overly generalize that, but for the most part, there've been in the marketplace about the time that we would expect them to be in the marketplace, and going forward, hopefully, we will see similar increases as I mentioned for some of our competitors going forward, just severity is severity, and unless that goes away, you can assume that we will be pricing to it.

Brian C. Domeck
Former Vice President

Just a little bit more on terms of the loss trends. Certainly, for the year, our frequency was pretty moderate, about 2%, primarily driven by property damage and collision. But fourth quarter frequencies were actually up, higher than the 4-year average. So fourth quarter frequencies were up, as Glenn mentioned, it could be weather-related but they were up and the severities were pretty much in line with, sort of, the low-single digit severities we saw for most of the rest of the year. But the fourth quarter frequency was definitely up.

Glenn M. Renwick
Non-Executive Chairman

And you can reasonably assume just by looking outside that the first quarter or at least the first 2 months of first quarter were not going to be any different.

Michael Steven Nannizzi
Goldman Sachs Group Inc., Research Division

Great. And then just one quick follow-up on the PHA. So it seems like the American Strategic Insurance relationship, that's mostly through the agency channel so that imply that the other partners that you have are mostly on the direct side? And where is that relative to, kind of, where your expectation whether that's 1 million customers at this point?

Glenn M. Renwick
Non-Executive Chairman

You're right with your assumption. And I think not a 100% perfect, we do some ASI on the direct side, but think ASI agent that is the good way to think about the PHA and for 99% of the time, that's exactly the way to think about it. All others are on the direct side. So we only have 1 in the agency channel. That's the proposition we're carrying 2 agents and why it's so very, very important to us and why the ASI relationships are very important. On the other side, obviously, we have multiple carriers. We've not been shy about saying that Homesite Ameriprise are important pieces of that, piece a little bit more so than some of the other 11. And some of them are there for very specific niche-type roles. You had a secondary piece that I don't think I touched.

Michael Steven Nannizzi
Goldman Sachs Group Inc., Research Division

Actually that's what I was saying is where are you on 1 million customers? Where are you on that? A year ago, is that ahead of your expectations? I guess, on that front, what is PLE for this kind of cohort?

Glenn M. Renwick
Non-Executive Chairman

Okay. Yes, actually the 1 million is great and we didn't -- we didn't set a specific goal, so I'm not going to do revision of history and say we should have been at 900,000, so we're ahead. We're very happy with the 1 million, I think, because we're best when we're perennially slightly unhappy with ourselves, we would like to see the agency contributions to that ramp-up some and certainly, that would be a goal for '14 as ASI has been able to work with us and expand the number of the states, that can get exciting for us. So keep the momentum that we're seeing. In fact, increase it on the direct side, but I'd say increase it even more so on the agency side. And did I miss anything? Well, PLE. How do I say this without over -- no, I'm not going to tell you the PLE because it's sort of -- it's going to be lots of different CMTs, and when I say CMTs, if you read the presentation, think Robinson, think Diane, so on and so forth. It is a variety. Here is what you clearly need to know. We said it many times that we're doing this, Brian mentioned it earlier we're doing PHA from Progressive's proof perspective, primarily to do 2 things. Extend the policy life expectancy of the customers that we write and we write a lot of new customers, so we want to make them extraordinarily sticky to Progressive and most importantly, we don't want them leaving us as happy customers, but finding a need to have additional products for that point and on in their life. That's a big part of the motivation to have PHA, and of course, to be able to speak to different customers even at new. So our policy life expectancy, especially if someone starts with us, perhaps as a nonhome owner and becomes a homeowner, that's the policy life expectancy that is very exciting, and it is meeting all expectations. And I say that with some quotes because we didn't know what to put as an expectation for PLE extension. We do it and measure it, but we're very happy with the measures and the extensions that we're seeing.

Operator

[Operator Instructions] The next question is from Ian Gutterman from BAM.

Ian Gutterman
Balyasny Asset Management L.P.

I wanted to follow-up on the [indiscernible] frequency a couple of minutes ago. In the K, I think you said frequency was up 2% for the year and I understand it said a little bit of that's weather in the quarter but we're used to frequency being down somewhat, so it seem as though, maybe, there's a little bit of core pressure. Can you just talk about any trends you might have seen in weather or weather aside you think that is persistent to '14?

Glenn M. Renwick
Non-Executive Chairman

Yes, that's a fair comment. Frequency, and I'm not trying to hedge here a lot, frequency is really touchy. I mean, the frequency for the fourth quarter, as Brian already said, is actually on a couple of coverages up and if that were the case, and we believe that was going to stay the case, we'd be reacting to it. So yes, weather is a very real phenomena, but it's not an excuse. It's just an interpretation of the data. Here's the one piece of signal that I would say is coming through that we might find to be a little counterintuitive to some of the negative frequencies of the past few years is, we're actually seeing gas consumption go up and mileage go up. So those are indicators that we follow it. I'm not, maybe we have people who are smarter, but I can't necessarily give you a straight causation model there, but they are certainly factors that we will keep our eye on. And as we look forward to the year, and whatever number I give you now, I guarantee won't be right, but we always has to have estimates any point in time. We're actually looking to a year where we think frequency will probably be in the plus, maybe plus 1, very hard, but that's -- and the plus 1 is not as relevant as it's not 0 and it's not negative. So even I see frequency go up, you're probably well aware that new car sales have started to actually show some real life in '13 and presumably the auto manufacturers are looking to see that they continue in '14. So gas consumption and mileage is another way of getting at some of that, we're seeing more cars per family. Those things move so slowly, but we don't see indications of negative or flat which is a change.

Ian Gutterman
Balyasny Asset Management L.P.

And then my other question is can you talk a bit more on the there is some language in the K, I think you alluded to a little bit earlier, on losing a couple of these patents and the liberty cases, and I believe there's a third one that's to be decided pretty shortly. And you obviously addressed your data advantage by getting the head start. But just what does that mean competitively if you were to lose the next case? What can your competitors do that they haven't been able to do so far and how does that change your competitive dynamics of usage based [ph]?

Glenn M. Renwick
Non-Executive Chairman

If we want to get into the technicality of that, actually, we have a Chief Counsel here and we can do that, but I think your question is more general, and again, I wanted to be very careful not to sort of give an answer that feels right for the time. Yes, those things are going on, a couple of adverse decisions, no question about that. I will tell you, and this is no exaggeration, I spent most of my time thinking about how we win in the marketplace. We are a regulated business, we came out a couple of years ago and said we're even going to let other people use the technology, and that was obviously for a fee. We were not going to get super rich off the fee per se, but there was some methods or views on that. I would tell you that if one of the primary objectives of a patent, and I believe this to be true, and have some experience in this, is to give you time to bring things to marketplace. I think, we have at least established for ourselves that we've had a fair amount of time and I would just tell you I'm quite delighted, I -- that doesn't mean we're not going to continue to press our rights, because we think we have rights. We think we were awarded these patents and we're going to continue to do what make sense for us to do. But for the most part, my answer to Josh earlier is all about, sort of, how do we use this incredible data opportunity and data source to our long-term advantage and when history is written 25 years from now, it won't be about the patents as much, it's about what we did with the data and how we won in the marketplace. So I'm not sitting here, putting that on my top 10 list of things to worry about, that doesn't mean my General Counsel does not get it on his top 10 list of things to worry about, because I think it is.

James F. Naklicki
Citigroup Inc, Research Division

Now, I understood. And I agree. [indiscernible] I was just -- as you sort of answer that, I'm more curious about you guys obviously had such a head start and others have sort of seems like they have dabbled if you want to call it that. Is your impression that we're close to seeing a lot more aggressive launches of usage-based than many of your competitors just, A, given your success, and B, that the patent issue might be less of a hindrance for them?

Brian C. Domeck
Former Vice President

We are not really changing...

Glenn M. Renwick
Non-Executive Chairman

I'm certainly not going to comment on battling, but that will only create a quote that I don't want to live with. I think, we're seeing that anyway. I think, we're seeing it whether or not we agree whether it should be done by some without our licensing, I think the fact is we're seeing it. I'll make one point to you that recognize that UBI, for the most part, is most effective for companies who write a lot of new business.

James F. Naklicki
Citigroup Inc, Research Division

Interesting, okay.

Glenn M. Renwick
Non-Executive Chairman

Very few companies that have a very large book of business that's relatively inert are going to want to throw a new rating variable on it, that either reduces the margins on the customers they keep or throws other customers into the marketplace. So keep in mind that those who will have the most advantage from a segmentation variable that is most effective at point-of-sale will be those who write the most business and it's a very important point in my mind to keep top of mind.

Matt Downing

And that was our last question. Julie, I'll turn it back over to you for closing scripts.

Operator
That concludes the Progressive Corporation's Investor Relations Conference Call. An instant replay of the call will be available through Friday, March 14, by calling 1 (800) 947-6332, or could be accessed via the Investor Relations section of Progressive's website for the next year. Thank you for joining today's conference. You may disconnect at this time.