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Earnings Call

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Call Participants

EXECUTIVES

Douglas S. Constantine
Director of Investor Relations

Patrick K. Callahan
President of Personal Lines

Susan Patricia Griffith
President, CEO & Director

Unknown Executive

ANALYSTS

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

Jamminder Singh Bhullar
JPMorgan Chase & Co, Research Division

Jian Huang
Morgan Stanley, Research Division

Joshua David Shanker
BofA Securities, Research Division

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

Michael David Zaremski
BMO Capital Markets Equity Research

Tracy Dolin-Benguigui
Barclays Bank PLC, Research Division

Unknown Analyst

Yaron Joseph Kinar
Jefferies LLC, Research Division

Presentation

Douglas S. Constantine
Director of Investor Relations

Good morning, and thank you for joining us today for Progressive's Third Quarter Investor Event. I'm Doug Constantine, Director of Investor Relations, and I will be moderator for today's event.

The company will not make detailed comments related to its results in addition to those provided in its annual report on Form 10-K, quarterly reports on Form 10-Q and the letter to shareholders, which have been posted to the company's website. Although our quarterly Investor Relations events often include a presentation on a specific portion of our business, we will instead use the 60 minutes schedule for today's event for introductory comments by our CEO and a question-and-answer session with members of our leadership team. Introductory comments by our CEO were previously recorded. Upon completion of the previously recorded remarks, we'll use the balance of the 60 minutes schedule for this event for live questions and answers with members of our leadership team.

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 can 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, 2022, as supplemented by our 10-Q reports for the first, second, and third quarters of 2023, where you will 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. These documents can be found via the Investor Relations section of our website at investors.progressive.com.

To begin today, I'm pleased to introduce our CEO, Tricia Griffith, who will kick us off with some introductory comments. Tricia?

Susan Patricia Griffith
President, CEO & Director

Good morning, and thank you for joining us today. At the end of the second quarter, we were in a difficult place. Rising loss cost, adverse development and catastrophic weather events meant we were facing a significant uphill battle to deliver on our calendar year 96 combined ratio target, while facing a very uncertain future. We made difficult decisions to steer the business through this challenging time.

Despite the headwinds, I believed in our strategy and the leaders who are in charge of delivering that strategy. While we knew it wouldn't be easy, we knew that if we execute it properly, we come out better on the other side. While there is still much uncertainty in our future and more work to do, the results in the third quarter suggest our strategy is working.

Before discussing what did happen in the third quarter, let's first discuss what did not happen. First, unlike the first half of the year, the third quarter saw modest company-wide reserve development of only 0.2 points unfavorable across all lines. As we discussed in our presentation during our last call, our reserving group adjusted reserves in the first half tracks many things, including higher severity caused by steepening trends in our fixing vehicle coverages, and higher attorney representation rates in Florida precipitated by House Bill 837.

In contrast to the first half, in the third quarter, we saw some flattening in the loss cost trends for fixing and replacing vehicles. We also now believe we have adequately reserved for the higher severity related to pre-House Bill 837 lawsuits. Second, in the third quarter, catastrophe losses were 1.3 points lower in total after reinsurance than the first half of the year. We do not write homeowners in Hawaii. So our exposure to the heart-wrenching Maui fires was limited.

After reinsurance, our property catastrophe losses in the third quarter were 28 points lower than the first 6 months of the year. And while Hurricane Idalia was devastating to the people in this path of destruction, the density of homes and autos we insured in that path was relatively low.

What did happen in the third quarter is that our rate and non-rate actions had a positive effect on premium and profitability. Including the 4 points of rate we took in the third quarter, we have now taken approximately 16 points in personal auto year-to-date with more of that rate earning in every day. Both Commercial Lines and homeowners also took rate as we looked to address loss trends in those lines. We continue to adjust and refine non-rate actions across the portfolio to help the business we are writing to meet our profitability targets.

In addition to improved underwriting results, our net income is also benefiting from the higher interest rate environment. For the first 9 months, our investment portfolio yield is 90 basis points higher, and recurring investment income is 59% higher than the same period last year. With sustained higher interest rates, we expect yields to continue to increase as securities with lower interest rates mature and those funds are reinvested at higher rates.

Many of the actions we took and continue to take to address profitability have an adverse impact on unit growth. New apps in personal auto were down 20% in the third quarter compared to the prior year and contributed to a decrease in PIF compared to the end of the second quarter. This is a reflection of our self-imposed pullback in media spend as we seek to manage our combined ratio through the acquisition expense ratio and find the right balance in cohort pricing, which we talked about at length at our last quarterly call.

We continue to assess our marketing spend. And as always, we endeavor to find the right balance between profitability and new business growth. While new applications shrank year-over-year in personal auto, retention reflected through our PLE measure continues to be robust at 35% in personal auto on a trailing 3 basis. We believe robust retention, especially in the face of higher rates than a year ago is an indicator that many of our competitors are still tight on underwriting, and we remain competitive in the marketplace.

Despite the headwinds created by our profitability actions, our year-over-year growth was very strong. Through September, company-wide PIFs were up 10% year-over-year. Positive year-over-year PIF growth plus higher rates means our premium growth was spectacular with net written premium up 20% year-to-date or $7.9 billion.

To put the first 3 quarters premium growth into perspective, we've added the premium equivalent to a top 8 personal auto insurance carrier, which is a truly amazing statistic. Despite the successes that occurred in quarter 3, we are not yet declaring victory. Our calendar year combined ratio currently stands 1.2 points above our 96 target. While loss trends have flattened, they are still elevated.

Macroeconomic indicators suggest inflation is abating, but we are vigilant. Given the geopolitical and macroeconomic environment, our view of the future could change overnight. We continue to refine our plans for the rest of 2023 and 2024 as new information comes in. We have built a business where we can quickly take advantage of the opportunities the market offers us. So I'm confident that as things change, we will react with the goal of delivering the best-in-class results we expect of ourselves.

Finally, as a reminder, and as we've previously announced, beginning this fourth quarter, we will move to reporting results on a Gregorian calendar basis versus our historical approach of a 544 convention. Consequently, for the next year, we will limit historical comparisons on a monthly basis and we will continue such comparisons on a quarterly basis.

Thank you again for joining us, and I will now take your questions.

Douglas S. Constantine
Director of Investor Relations
This concludes the previously recorded portion of today's event. We now have members of our management team available live to answer questions. [Operator Instructions]

Question and Answer

Operator

Our first question comes from the line of Bob Huang with Morgan Stanley.

Jian Huang
Morgan Stanley, Research Division

Just a quick question on the way you think about growth. Obviously, you are getting closer and closer to your 96% targeted combined ratio. Curious as to how should we think about the future growth trajectory going forward? Once -- now that appears that losses are improving, reserving appears to be more manageable, heading into 2024, once you -- assuming you get to a 96% combined ratio in 2023, should -- is it reasonable to assume that you would reaccelerate growth into 2024?

Susan Patricia Griffith
President, CEO & Director

Yes, that's definitely reasonable, Bob. Here's how I'm thinking about it. We obviously have 1.2 points to diminish to get to our 96, we're going to continue to work on that. We're still seeing a pretty hard market out there, so we're getting a lot of ambient shopping. And if you caught the last part of the statement even with us doing the self-imposed pullback from our media spend and from non-rate actions, we were able to grow the company nearly $8 billion compared to the first 9 months of last year. 10% PIF is a little bit higher on the direct auto side. So we're pretty excited about what we were able to achieve this year. And I say that not necessarily for the analytical community out there, but mostly for the 60,000 people that got us there.

So profit comes before growth. We'll continue to work on that. And what we'll start to do in the relatively near future, start to pull back some of our non-rate actions. So we have a hierarchy of non-rate actions that we'll look to start to pull back. We can test. There's obviously been a lot of uncertainty out there. So we're going to go -- we're going to be measured. And then we can pull back that next tranche in the hierarchy of non-rate actions. And we just met with our media team and are working on a pretty robust budget that we'll plan to put into effect. We still have, obviously, marketing the rest of this quarter but into 2024.

So I would say, we're excited. I will say that there's been a lot of uncertainty. And so we're going to be really diligent and cautious, but our goal is to grow as fast as we can at 96 or better.

Jian Huang
Morgan Stanley, Research Division

That's very helpful. Maybe pivot a little bit on reserving. On the 10-Q, you had a lot of disclosure on. An explanation on how severity trends are developing over time? But just kind of curious in terms of frequency, specifically on bodily injuries. It looks like frequency normalized, improved quite a bit. Just curious if you have any commentary there around what's causing the frequency numbers to improve? And is that a trend that we should be expecting that it will normalize back to a generally negative frequency number going forward?

Susan Patricia Griffith
President, CEO & Director

Yes. It's really hard to discern frequency. A lot of it has to do with geography mix, CMT mix, it could be -- have to do with our underwriting effect. So I don't really want to focus too much on that because there's just a lot of inputs.

What I would say from a stability perspective is we're down overall about 1.5%, 13 to 24 months. So we've been pretty stable as far as frequency overall. What I'll also say is when we look at our UBI data, we are seeing about 15 months of stability where VMTs are still down about 15% pre-COVID. Now again, I can't confirm that, that stability will continue. But what we're seeing is not a lot of more movement to commute hours, and we have some external data that shows that badge swipes in office remained pretty stable at about 50% of office workers working from home versus office. So there is some stability. There's always a lot of inputs and there's always a lot of change that's happening, especially as we talked about rolling back some of our non-rate actions, but it's been stable for quite a while.

Operator

The next question comes from the line of Mike Zaremski with BMO.

Michael David Zaremski
BMO Capital Markets Equity Research

I guess a follow-up on ambient shopping. Should we be thinking about it as kind of looking at the industry's profitability and capital position? And then ultimately, as the industry heals as long as -- as well as Progressive's profit margins healed, the ambient shopping benefit, which is pretty extraordinary kind of should dissipate. How are you guys -- internally, do you guys have your own kind of view? Or has your view evolved at all on the benefit you're getting from kind of lower LTV to CAC and ambient shopping?

Susan Patricia Griffith
President, CEO & Director

How I think about that, Mike, is it's been a hard market for a while. We did get out in front of rates to begin with, and then again at the beginning of this year as we saw the trends change specifically in severity of fixing cars. So getting out in front of that, when others might be behind, we're going to get that ambient shopping.

We watch it really closely in the auction environment. And the great part about that is that you can get a really low cost per sale. So we'll watch that, but we will definitely put on the gas as needed if we feel like the market is softening at all. I can't really speak to what other competitors do, but I imagine that they're trying to get to their target profit margins, and that means they're going to put a lot of rate out there, which means shopping is going to happen, and that's how we get that business.

Unknown Executive

Mike, I'd add. Much of the ambient shopping today, we are dissuading from purchasing a policy with Progressive. So as Tricia was saying, we are going to pull back on some of the non-rate actions we've had in place that had been obviously designed to improve profitability. And as we do so, more of those ambient shoppers are going to get through to potentially buy a Progressive policy. So we have some, what I'll call, unmet demand out there that as we're more adequately priced will become growth.

Unknown Analyst

Okay. That's helpful. Lastly, I was hoping to switch gears to the TNC business on the commercial side. There's been a lot of growth there, you've taken a lot of market share to peers. I'm assuming that, that business is coming to you at hefty price increases. But it's also been a cause of reserve development. I guess any color you can offer on what's going on with that business? And just lastly, does this business come with a bigger new business penalty than other parts of personal auto or commercial non-TNC?

Susan Patricia Griffith
President, CEO & Director

Yes, I'll start with the last part. I think what it comes with is sometimes we don't necessarily know that product in the state. So just like any new business, where we're learning the cost associated with it, we've seen that in TNC. So said another way, the more mature states that we've had are performing much better.

But you're right on the rate increases. We've over doubled the rate since 2021 in the TNC business. And specifically, what we are seeing is the rate increases are driven by just a few states. And those states have some structural challenges relating to limit mixes, specifically UM/UIM. So what we've been doing with both of our customers is really gathering the data that we have. We have a treasure trove of data being the largest commercial auto writer. And then they have their own data. We obviously separate and bifurcate the two companies, but talk with them about how to get to the right rates in a more timely fashion and work with them to develop approaches just around flexibility. So think of 6-month policies or greater segmentation. And that's what we're working on right now. I can't go into a lot of specifics because it is proprietary, but we're working very closely to get the rate we need, specifically in the states I talked about with the high UM/UIM limits. And the other states, we're more comfortable with because they're performing better.

Operator

The next question comes from the line of Jimmy Bhullar with JPMorgan.

Jamminder Singh Bhullar
JPMorgan Chase & Co, Research Division

So first, I had a question on Commercial Line reserves. We had an issue for several months where you guys had consistent adverse development in the personal auto side, and I think in September, you had adverse development on the commercial side as well. So maybe discuss what the drivers of that were and what gives you the confidence that this is sort of not the beginning of a trend where adverse development might continue for a few months in Commercial Lines as well?

Susan Patricia Griffith
President, CEO & Director

Yes. So we saw some of the similar things we did in private passenger auto in Commercial Lines. Really the two factors, the one I just talked about was the TNC reserves in those specific states and the other was late reported injury claims. And I think those make up the majority of the Commercial Lines.

We'll continue to look. We obviously feel in some of the reserving that Gary and his team have looked at it pretty deeply. So think of the Florida House Bill 837, think of fixing cars. And Gary will continue to look at those high limit states throughout the year to make sure we're adequately reserved for Commercial Lines as well.

Jamminder Singh Bhullar
JPMorgan Chase & Co, Research Division

Okay. And then secondly on your expense ratio, has the decline been mostly driven by just a proactive view on your part to pull back from the market while you're seeking price hikes and not be as active on marketing? Or are there any structural changes in the and exemptions as well?

Susan Patricia Griffith
President, CEO & Director

Well, we're always looking to reduce expenses, especially on the non-acquisition expense ratio. But we've pulled back significantly in advertising, and that obviously hits the expense ratio as well as the increase in premium.

Jamminder Singh Bhullar
JPMorgan Chase & Co, Research Division

And you'll come back, I guess. What do you need to see before you start coming back into the market with more marketing spending?

Susan Patricia Griffith
President, CEO & Director

Yes. We have -- even if you look at our marketing spend and the reduction, we spend a significant amount on marketing and that will continue into the fourth quarter of pre-planned spends that we already have. But like I said, what we're going to do is be really cautious and initially start to roll back non-rate actions, and we have a robust media spend planned for 2024. Again, that's a plan. So that is one lever where we can pull forward if we think there's a lot of business we had as long as we're making our target profit margins or pull back if we find ourselves in the place that we did in the first half of 2023.

Operator

The next question comes from the line of Yaron Kinar with Jefferies.

Yaron Joseph Kinar
Jefferies LLC, Research Division

Two questions. So first, do you see any potential impact from the UAW strike which is hopefully behind us now?

Susan Patricia Griffith
President, CEO & Director

We do a little bit because even though the strike wasn't that long, I think, around 8 weeks total. There's about 12 to 18 weeks before we start to see recovery in some of the parts as well as new vehicles being made. So immediately, when we saw the strike happen, John Murphy and his group went into the sort of mode of sensitivity analysis around this. We have deployed and executed a plan on that. And our main issue for this next 12 or so weeks is really to just minimize the disruption in both our customers and the company.

Yaron Joseph Kinar
Jefferies LLC, Research Division

Got it. So near-term impact potentially, but not really beyond 12 to 16 weeks or so?

Susan Patricia Griffith
President, CEO & Director

That's what we're thinking. Of course, every now we'll watch just like all of the data and especially as we continue to earn in more rate towards the states that we're adequately priced, it may not have any impact. The thing we worry about the most is delays in fixing vehicles, which has been a concern going forward in the past, I should say, just based on talent in the body shops and having the right mechanics to do that, but we'll be able to see that really quickly and react to that should we need to.

Yaron Joseph Kinar
Jefferies LLC, Research Division

Got it. And then my second question, maybe you can help us think through this. So you've implemented a lot of rate in personal auto, still earning a good chunk of that as well. You're talking about some stabilization of the loss trends. So if and when you accelerate this growth on a much healthier rate adequacy, do you expect that to ultimately improve the loss ratio? Or is the immediate impact still an adverse impact because of the new business penalty?

Susan Patricia Griffith
President, CEO & Director

Well, if we spend more on marketing, there is a new business penalty. But if we believe we are putting new units on the book at a lifetime 96 or cohort 96 calendar year, then we feel good about it. And we'll price to that. We are very efficient in our media spend, and we'll price to that. And really, we feel better every day in all products as each day goes by as more rate earns in. But we know that's part of new business and we're happy to do it if we think we can make the target profit margin that we go to.

Operator

The next question comes from the line of Josh Shanker with Bank of America.

Joshua David Shanker
BofA Securities, Research Division

Looking at competitor behavior, I don't need to speak about individual competitors, but GEICO lost a lot of customers over the past year and I look at some other publicly traded companies. And the leakage of policies has not been so significant elsewhere where I can tell yet Progressive has grown dramatically.

And thinking about the year to come and the year that's passed, when you think about captive independent and direct channels, where has most of the market share growth that Progressive has achieved come from? And next year for a company like GEICO becomes more aggressive in its desire to add new customers, does that change the calculus on what the market share gains and the type of customers might be in the new year?

Susan Patricia Griffith
President, CEO & Director

Well, I think we're a growth company, Josh, and I think we're going to try to do anything we can to grow as long as we make our target profit margins. We understand where much of our business is coming through because we know the proof of the prior carrier. And so it's been not just GEICO, but other companies, I don't want to talk specifically about the percentage of where it's come from. But it really depends on are people priced right in the market? Do they have the right brand? Do they care about expense ratio, which keeps the prices competitive?

And so for us, it's really -- and we've talked about before, it's making sure that we have all 4 of our strategic pillars, really starting with our people and culture and then going on to our brand, competitive prices and broad coverage. And that's where I think we're able to win and continue to grow. We can react very quickly when our competitors do have actions. And really, that's our focus, is to make sure that we have those 4 strategic pillars and that we invest in all of them to continue to be a high-growth company.

Unknown Executive

The thing to consider there, Josh, is which segments we're growing in would be somewhat indicative of where they're coming from. So we are continuing to grow well in the more preferred segments of our business, the Robinsons, but also we call rights who are homeowners that do not bundle yet their home and auto with Progressive. And we have not been growing, actually this year, we've been shrinking a little bit on the standard end. So the nonstandard end of the spectrum. So that bodes really well for our future growth because, obviously, those customers stick with us longer. And I think where they come from is important, but also whom we're bringing into our customer set is a really important way to think about it.

Joshua David Shanker
BofA Securities, Research Division

And given that answer, is there a way of bifurcating or segmenting the property business such that -- I guess, the question is what percentage of the business is operating at a 96% or better and growing as fast as it can. Obviously, there are some states where you're not there yet and maybe it's segmented by state, but to what extent have you achieved the goal of the property business running the way you want it in the geographies that you operate?

Susan Patricia Griffith
President, CEO & Director

Yes. I think we start with what we started with about a year ago, and that was to derisk the book and have less new apps and policies in volatile states and more in nonvolatile. And you saw the data on that in the queue that we believe we're doing a great job. We're non-renewing about 115,000 policies in Florida, we're just over indexed in Florida. And so we love Florida. We have a lot of Robinsons. We have a lot of autos and we continue to have a lot of homes, but we were not making money and we needed to non-renew some. So that will happen over the next year or so.

We knew it would take a long time. But I think really what our strategy is on the property channel is not unlike it was years ago in the auto channel. We're investing more in segmentation, we're investing more in understanding rate to risk and the necessary need for reinsurance, but we will get there. And obviously, third quarter was a lot better than it was in the past. And there's a lot of buzz because Ian came off, and there wasn't as many storms. But we feel good about our plan, it will still take some time to execute, but we're in the heart of that.

Operator

The next question comes from the line of Greg Peters with Raymond James.

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

I want to step back to your comments about the non-rate action. And it sounds like you're getting ready to dial back some of those actions. Can you remind us exactly what some of those actions were? Did they include any things around commission or fees to lead gen companies? Do you expect those things to change over the next year?

Susan Patricia Griffith
President, CEO & Director

I'll let Pat comment on that. It was less about commissions and more on our strategy around some underwriting paid plans. But Pat, do you want to talk about that a little bit?

Patrick K. Callahan
President of Personal Lines

Yes, Greg. Tricia's comments are centered around kind of John's comments as well around how much business we let in the front door. So we have more restricted bill plans in place. We have more verification to require additional checks and make sure we get the accurate information on the risks that are coming in the door to ensure we're priced adequately.

So that's -- when we talk about non-rate actions, those are the primary things that we are leaning into lifting in some markets as we approach the end of the year. Your point about lead gen and actually spending more, that would be a 2024 thing, where once we're confident that we put the 96 in the books for calendar year '23, then we would start investing more to generate demand as needed. And we've been out of the market for a while in those markets.

So we do expect that, that will ramp back up, but it will be a ramp as we spend only what we need to, to efficiently and cost-effectively attract customers. We've seen that the hard market persists. We've seen there's a lot of competitors who still need to push rate through their systems and a lot right annual policies. So there's still a lot of rate effect to be had in the market on consumers. And we'll lean into that as we get more into the new year from a spend perspective.

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

Great. I guess the other question, pivoting to some of the previous comments around the property business. You're definitely trending in the right direction from a combined ratio perspective, but it's still running above your 96 target for corporate-wide. Is it your objective that -- or your view that you're going to get that property business to a 96 combined ratio next year? It seems like it's been a drag on your consolidated results for several years now. I just -- or maybe you're using it as a loss leader to grab share in the Robinsons cohort? Just some updated views on that would be helpful.

Susan Patricia Griffith
President, CEO & Director

Yes. We're not attempting to use it as a loss leader, I'll tell you that. It has been a drag. Overtime, when you look back, home has done pretty well. Now what we did was we should have probably seen the need to derisk a little bit in states like Florida, Texas, Louisiana and across the country. That's why we're doing that now. That's why we're investing in technology and segmentation, new product models.

So we do feel good. We have different target profit margins depending on if you're bundled or not, et cetera. But no, our desire -- I can't predict the future. I have no idea what's going to happen next year.

But our goal is to continue our plan to derisk and make the target margins that we have in property and have that be a robust part of our book because we know the Robinsons cohort is super important to our future.

Unknown Executive

And we have actually been exceeding the objectives we set out for the 2023 period in terms of growing more where we think -- historically, results are far less volatile in property and shrinking considerably in areas including Florida, as Tricia noted, that have been way more volatile from a weather perspective historically.

And just to the 96 point, as Tricia was noting, we priced to an aggregate 96 for the company. So by segment, we actually have different combined ratio targets and we think about those as all deriving a return on capital equivalent to or better than the personal auto business. So the 96 calendar year is our commitment to achieve that in aggregate. But below that, we are pricing the different targets based on the characteristics of each business.

Operator

The next question comes from the line of David Motemaden with Evercore.

David Kenneth Motemaden
Evercore ISI Institutional Equities, Research Division

So I had a -- my first question was just on the auto accident year loss ratio, excluding catastrophes, and last quarter, in the presentation, you spoke about mix shift between renewal and new business and the benefit that, that could have having less new business could have on the loss ration. I'm wondering if you can just size how much of the improvement in the loss ratio this quarter is coming from just that lower new business as opposed to improvement on the renewal book?

Susan Patricia Griffith
President, CEO & Director

That's pretty tough to size and I think when we obviously renew, we will know more about you as a customer, but when we bring new business on, our intentions are that we reach our target profit margin.

Unknown Executive

And I would offer that the rate actions we've taken have far larger influence on that accident year loss ratio than the new renewal mix. So as we noted, we had 5 points earned in just in the third quarter alone for our personal auto business. On a year-to-date basis, it's more than double that number. So when you get the denominator up significantly, that's the best way to improve. Well, that's -- obviously, there's the numerator, but that is where we have gotten most of the loss ratio improvement from. Obviously, severity moderating a bit this quarter has helped us considerably as well. But the rate that we've taken and continue to take is earning in and you're seeing that in the loss ratio.

David Kenneth Motemaden
Evercore ISI Institutional Equities, Research Division

And then just a question, I guess, just on -- it seems like -- I mean, the retention has definitely been better than I would have thought. It's obviously a hard market out there. I guess has that surprised you at all and influenced at all how you guys are thinking about growth and maybe adding a little bit more business in 2024, just given how strong the retention is on the renewal book. And Pat, as you just said, that seems to have a better or more profound impact on the loss ratio than the new business?

Susan Patricia Griffith
President, CEO & Director

I mean, I don't know if it surprised us because we watched the data. It certainly is -- delights us, I would say that. And what we want to do, really, the thing with retention is having some stable rates. And we have been increasing rates as has the competition in an extraordinary fashion based on inflation trends.

So what we'd love to do is have tremendous growth in 2024, but have some stability around the trends. And I was saying I haven't been able to say on this call for a while, small bites of the Apple where we take a really small rate and our customers feel that makes sense and they don't shop. So that's our goal. But we're very happy with the retention of both the trailing 3 and a trailing 12. We'd like to see some stability, and we will grow as fast as we can as long as we see that stability.

Unknown Executive

And I'll state the obvious, but we're coming off a fairly low point in terms of retention last year. So last year, we were ahead of the market in taking rate, and I would think of it in sort of like maybe 10 points ahead of the market in terms of taking rate that we saw the need for. And as our customers got those rate increases, they shop and they could still find a better rate.

Competitors now have caught up, and in some cases, actually surpassed us on rate take and consequently, even though our rates continue to rise as customers shop, they're less able to find a better rate. And so our year-over-year renewal rates, the changes are robust and we're getting back closer to PLEs lifetime expectancies that we've enjoyed previously. We're not yet back up to historical highs, but as Tricia noted, we're delighted with the trends we're seeing, and we think they're going to continue.

Operator

The next question comes from the line of Elyse Greenspan with Wells Fargo.

Elyse Beth Greenspan
Wells Fargo Securities, LLC, Research Division

My first question, you guys pointed out, right, that you're a little bit above the 96% year-to-date. You guys have a sense of what rate you're going to earn in, in the fourth quarter, right? And it sounds like loss trend, right, in the Q3 got better relative to the Q2. So I'm sure you have expectations there as well. So what's like the biggest swing variable as we go into the next few months of earnings with whether you ultimately get below that 96% target for the year?

Susan Patricia Griffith
President, CEO & Director

Yes. I think weather is huge. And so watching that closely. We have another 3 points to earn in on the private passenger auto side. On the Commercial Line side, we've been earning in rate from both '21 -- '22 and '23 revision. But a lot of our improvement, we believe, in Commercial Lines calendar year as been through non-rate actions. And so we're headed into '24 with a lot of rate really starting to earn on the commercial line side. But we do some analysis quite often of what we think we need to do to get there. We care deeply about expenses. So as a company, we've been trying to reduce expenses and we can continuously do that. And I think weather is going to be the big variable, Elyse.

Elyse Beth Greenspan
Wells Fargo Securities, LLC, Research Division

Okay. And then my second question, advertising has come up a bunch on this call. So it sounds like the clock, obviously, in the calendar right, resets, we get to the start of next year. So will -- is that when you expect to kind of push more advertising considering we're restarting and then you can go for the 96% next year? I'm just trying to think through the thought process around when you ultimately turn on the marketing machine. And then how do you balance not growing too fast too soon, recognizing right, that's what happened at the start of this year?

Susan Patricia Griffith
President, CEO & Director

Yes. I can let Pat comment a little bit, but our intentions are if we see -- if weather is sort of normal in the next several months. And we see some of the non-rate actions that we're pulling back on to achieve new business, then we are going to be able to likely put a lot more media spend into play in the first quarter. But a lot of that depends on what we're seeing. A lot of it depends on how much we need to. But I think that excites us because we do sort of get the start of -- the clock starts over. But Pat, do you want to add anything?

Patrick K. Callahan
President of Personal Lines

Yes. The only thing I would add is last first quarter. So first quarter of 2023, we had sort of the perfect storm of lots of ad spend in a really hard market. And what we don't yet know is how much ambient shopping remains in market and how much shopping fatigue could be in market.

So John's point about when shopping pays off because you find a lower price that reinforces or rewards that. If consumers shop in the first quarter and our rates are similar to where they are, there may not be as much ambient shopping and switching available in market. So we don't yet know. But as Tricia mentioned, there's markets where we're off most markets for local advertising today, but there were markets we were off at the start of this year too. So it's very dynamic based on our lifetime expectation of hitting our profit targets for new business that we generate during the period.

So dynamic system, and you're right that we will start spending more after the first of the year, but we will be leaning into that and ramping that up as needed depending on how much is available in the ambient market and which markets we feel we've got adequate rates to support the ad spend.

Operator

The next question comes from the line of Brian Meredith with UBS.

Brian Robert Meredith
UBS Investment Bank, Research Division

I'm just curious and kind of going maybe a little bit to Elyse's question. Given the experience we saw earlier this year where you guys are growing really quickly and then all of a sudden, you saw this pop in inflationary pressures, and given the continued uncertainty just from a macroeconomic perspective, are you probably going to -- are you going to be a little more cautious to kind of open up that growth engine this time around, maybe get a little bit more data under your belts before you're going to go after it?

Susan Patricia Griffith
President, CEO & Director

Yes, I think we will be more cautious, and that's why -- that's sort of the beauty around the 96 and the discipline around the 96, whether it's on a calendar year or a cohort year. And that's why we'll slowly pull back, watch, test, and we'll only be pulling back in the states where we feel like we've got enough rate. And so that's a little bit of a limiting factor. But we want to grow, but I do think that there's been so much uncertainty that we will watch it closely. So we aren't in the same position where we have to crank up rates like we did this year.

Brian Robert Meredith
UBS Investment Bank, Research Division

Makes sense. And then the second question, Tricia and I, we haven't talked about this topic just for a while, and I saw it in a letter to the BOP business. Maybe you could talk a little bit about how the rollout on the BOP is going. I know you're in 46 states. How is the profitability trend in that business relative to what you kind of thought it was going to be? And at some point, are we going to see that start to kind of ramp up from a growth perspective?

Susan Patricia Griffith
President, CEO & Director

Yes, we're super excited about how many states we are in BOP, it's still a relatively small part of the business. So we won't actually comment on it publicly. And it is -- we have targets, and of course, with new business, when you think about acquisition costs and understanding loss costs, it's obviously going to be higher than stable business, but it is what we expect and so we'll continue to watch that and grow the business as we get more comfortable.

Brian Robert Meredith
UBS Investment Bank, Research Division

Great. So no surprises so far?

Susan Patricia Griffith
President, CEO & Director

Exactly. Yes.

Operator

The next question comes from the line of Meyer Shields with Stifel.

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

As we get back to what should be normal, is there any way of quantifying both in terms of growth and profitability how much impact the fact that you're fully pricing to the telematics curves have had before COVID? I assume that you're probably generating excess profits for growing a little bit less quickly than you could have been?

Susan Patricia Griffith
President, CEO & Director

Well, we don't price fully to the curve. We have expanded on both the surcharge and the discount. I think it's pretty tough to quantify to that is really what I'd say.

Unknown Executive

Yes. So I think Tricia is right, we've been expanding our offering to price closer to the curve over time, and we've been expanding to continuous monitoring in the UBI world to collect more data and to be able to more continuously price policies more accurately.

As far as specific quantification of how much growth is coming from and the profit coming from it, I wouldn't comment on that at this point. And it's a meaningful piece of our business. It's our most powerful rating variable. And we continue to invest in both the technology to lower the expense of collecting data and to analyze the data more precisely to price more accurately over time on a continuous basis. So I think we're in probably 50% of our earned premium states. I think 29 states have continuous monitoring at this point in time. So we feel really good about continuing to invest to maintain or even widen that moat that we think we have in the issues-based insurance space.

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

Okay. That's very helpful. The second question, and again, this is more thematic. There are clearly a lot of smaller personal auto insurers out there that frankly probably can't compete. Does Progressive look at the option of maybe buying renewal rights as opposed to simply outcompeting in the marketplace? Is that more or less economically efficient?

Susan Patricia Griffith
President, CEO & Director

I think that depends. We always look to -- if we can do book rolls. But like you said, a smaller company is going to have a more difficult time investing in technology, segmentation, brand, distribution and so as you've seen in this last couple of years, we've gotten some of that on itself. So I wouldn't want to pay a premium to get that -- to get those policies on our book. I think we can get them regardless just based on our size and our efficiency.

Operator

[Operator Instructions] The next question comes from the line of Tracy Benguigui with Barclays.

Tracy Dolin-Benguigui
Barclays Bank PLC, Research Division

Just some quick math. You achieved 16% year-to-date rate increases in auto. And in the 10-Q, you said that you plan to take an additional 3% in 4Q, so that will get us something like 19% for the full year. I think last quarter, you penciled in 17% personal auto rate increases for the full year. So it feels like you need to take more rate now. It's not a lot, but can you share the key drivers behind this additional rate needs?

Susan Patricia Griffith
President, CEO & Director

Yes. I mean I think -- I don't know that I would read too much into a point difference. Sometimes, it could be a delay in having it approved. We have to go through each department, but the same trends that we have been seeing, that we've talked about are what the rate is about. So whether it's attorney reps or fixing cars, so [indiscernible] comment any more on that?

Unknown Executive

Our forward-looking rate action statements its dynamic, obviously, as you know, and it is down to the state and segment level. So it's important to remind how we manage the business. We have product managers who manage at the state and product level, and even in some cases, lower than that, and they are all assessing what is going on in their specific marketplaces, trends, projecting the trends, understanding as we noted, what they plan to do in terms of non-rate actions as well as ad spend. So there's a lot that goes into the aggregate rate changes we take and that we say we plan to take. And again, it's going to be dynamic.

We obviously have seen severity moderate back down to the single digits, which is fantastic. Where that goes, it's tough to know. But from what we can see, we think we're moving it to a more normal environment when it comes to change in claim severity. But in aggregate, it's very hard to dissect that 19 or 17, and it's changed today. I assure you.

Elyse Beth Greenspan
Wells Fargo Securities, LLC, Research Division

Okay. Great. It also looks like you had modest favorable personal auto prior year development this quarter. The adverse mostly came from commercial lines. Was that because you feel good about adequately reserving the Florida [indiscernible] reform? Were there other factors? And I'm curious if you're seeing reopen claims in the quarter?

Susan Patricia Griffith
President, CEO & Director

That's exactly right. We're feeling much more confident in both the House Bill and fixing cars.

Tracy Dolin-Benguigui
Barclays Bank PLC, Research Division

Okay. And I know you touched on it last quarter, but can you remind me what caused the reopen claims in the first half of the year that you haven't seen in the past? What it changed?

Susan Patricia Griffith
President, CEO & Director

Yes. I mean, there's a couple of things that happen, but you can write an estimate. And then when the person, the customer, whether it's an insurer or claimant, goes to get the car repaired, so we paid -- we've made that payment, the feature is closed. And it gets into the shop and they find more damage and it's maybe delayed repair, it increases rental. So it really was the lead time with -- to get parts. It's labor rates, it's length of time, so rentals increased. So there are a couple of different factors that have gone into fixing cars.

Unknown Executive

And on the injury side, there was a lot of Florida influence there -- I'm sorry. And so House Bill 837 drove an influx of attorney representation and lawsuits and we had to take reserve increases to reflect what we believe the future cost of setting where the claims would be.

Tracy Dolin-Benguigui
Barclays Bank PLC, Research Division

Okay. So you don't wait until an actual claim closes, you estimate what the close would look like. Was it maybe perhaps premature in calling those claims closed?

Susan Patricia Griffith
President, CEO & Director

No. It's the way our system works. So we have reserves set for different line coverages. And then if those change and they change dynamically not one file or two files, that's when we know we need to strengthen our reserves.

Unknown Executive

But yes, we are absolutely estimating the ultimate loss cost with the best information we have at this time.

Susan Patricia Griffith
President, CEO & Director

I think it's very common in our business to have supplements because you can have parts of vehicles that are -- you can't even see. So suspension and other parts. So you write what you can see, you shouldn't write more or less. And then as the claim evolves, especially with collision or property damage, you'll be able to see more. Sometimes it's nothing, but there could be supplements. But that's really common.

Operator

The next question comes from the line of Mike Zaremski with BMO.

Michael David Zaremski
BMO Capital Markets Equity Research

Just one on Florida. So I guess now that the -- I guess, the pig has made its way through the python in terms of reserving mostly. Are you seeing any positive influences from the legislation on the recently written business? I know you guys have a big pit book in Florida? Or is it just too soon to tell?

Susan Patricia Griffith
President, CEO & Director

I'd think it's too soon to tell. We anticipate that it will be positive, but we have to let this play out a bit.

Douglas S. Constantine
Director of Investor Relations

That appears to have been our last question. So that concludes our event. So I will hand the call back over to you for the closing scripts.

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