The Progressive Corporation NYSE:PGR

Earnings Call

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CALL PARTICIPANTS 2

PRESENTATION 3

QUESTION AND ANSWER 6

Call Participants

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Presentation

Douglas S. Constantine
Director of Investor Relations

Good morning, and thank you for joining us today for Progressive's First Quarter Investor Event. I'm Doug Constantine, Director of Investor Relations, and I will be a 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 a letter to shareholders, which have been posted to the company website. Although our quarterly Investor Relations events often include a presentation on a specific portion of our business, we will instead use the 60-minute schedule for today's event for introductory comments by our CEO and a question-and-answer session with members of our leadership team.

The introductory comments by our CEO were previously recorded. Upon completion of the previously recorded remarks, we will use the balance of the 60-minute 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 report for the first quarter 2023, where you will find discussions of the risk factors affecting our businesses, 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. One of the enduring lessons since the onset of the pandemic is the uncertainty of the future. Since March 2020, the world and our business have been pummeled by unforeseen events. In that vein is perhaps poetic that 3 years post pandemic, we continue to have to manage through the unexpected in our business. In the end, I'm confident that our resilience will see us through.

Through the first quarter, we're not on track to achieve our calendar year goal of a 96 combined ratio. Given our extensive history of meeting our stated goals, this has prompted many questions about how we got here and where we're going. As such, in lieu of a more traditional opening statement, I'll instead provide answers to some questions that have been asked by the investment analysts. My hope is that you will gain a clear understanding of how we are addressing the challenges as well as the urgency with which we are acting.

The first question is, how are you reacting to being above your target of a 96 calendar year combined ratio. The answer to that is we will react to the same way we always have with speed and decisiveness. The 3 largest levers we have to manage our margin are to decrease our expense ratio, tighten our verification and underwriting scrutiny of new business and increased rates. I'll address these in that order.

Our largest controllable variable expense is advertising spend, and we are taking action to reduce these costs, which we expect could both slow growth and help to reduce our expense ratio. Once we are confident that we can deliver our target calendar year profitability, we will consider resuming our spend. While we won't provide details on which segments of media we are reducing or how this may affect growth going forward, I will tell you that we've invested in bringing the same industry-leading science from the pricing side of our business to the acquisition side, and we'll continue to spend in the places that we believe have the greatest benefit to the business. Using non-rate actions such as tighter verification and underwriting standards and limiting bill plan options, will reduce our growth in the segments we believe we can't currently write at our target margins.

Finally, our largest and slowest moving lever is rates. In quarter 1, we took 4 points of rate in Personal Auto on an aggregate country-wide basis, and we are still earning in some of the prior year rate increases. We plan to take aggressive rate increases where needed across all lines through the balance of 2023 to ensure we're pricing to deliver our target profit margin.

The next question, given the actions we will take to meet our profit target is, what will this do to growth? First and foremost, keep in mind that growth in the first quarter of 2023 was an all-time high for the company, and we are very proud of that. Secondly, we are still in a very hard market with lots of consumers quoting their insurance. We also continue to see ambient shopping. While policy growth may be slowed by our actions, we still anticipate there will continue to be robust demand for our products. Of course, the actions of our competitors also play a role in what growth will be. So I won't speculate on specific growth predictions. However, you can rest assured that we are focused on growing policies that we believe will meet or exceed our target margins.

Lastly, we've received many questions like this one. Do you now believe your reserving is adequate? Or said another way, you said that you were confident that the biggest rate increases were behind you, what changed? The answer is fairly basic. We started seeing data come in over the last few months that was not in line with what we were anticipating, which caused us to increase reserves and react with rate increases.

In Personal Lines, our reserve strengthening happened largely in the short-tailed fixing vehicle coverages. In these coverages, we can recognize and react to new trends relatively quickly, and we feel good about our reserve levels today. That being said, reserves are estimates and change over time based on evolving trends.

As for the effects of Florida House Bill 837. In March, we estimated the reserve changes we believe we needed to capture the effect of the legislation, including the flood of lawsuits triggered by the law change. The reserve increases we took in March represented our best estimate of what we believe would be the full effect of the lawsuits on loss costs for prebill accident periods. Going forward, we believe the legislation takes positive steps to help manage the cost of auto insurance for Florida consumers. However, the situation is evolving, and we will continue to assess and react to information as it develops.

In Commercial Lines, again, we believe we are adequately reserved today and are monitoring trends in frequency and severity to ensure we remain adequately reserved. Of course, any assumption on reserve adequacy comes with a caveat that trends can change. If they do, we will react to them as appropriate.

The follow-up to the reserving adequacy question is, how did you miss reserving trends in the recent past? And given that, how can you be confident in your current reserve adequacy? I'll address these questions individually. The business of insurance is predicting the future. We never know our full cost of goods sold until years after premiums are collected. As such, our reserves are, by nature, estimates of our exposures based on assumptions. We use historical data, extensive knowledge about our business and customers and advanced analytics to predict ultimate loss costs usually with an extremely high degree of accuracy.

Predicting the future is hard, however, and we didn't fully predict trends that developed during the quarter. We saw higher-than-expected severity trends in previously closed claims in Personal Auto, primarily in fixing vehicle coverages. While I won't speculate on why these trends change, I can tell you that we reacted quickly and decisively to adjust our reserves for these short-tail coverages. I'm confident in the people and processes we have in place to ensure we're adequately reserved.

For the 5 years ending 2022, prior year reserve development averaged about 0.25 points unfavorable on our year-end combined ratio, which I believe supports the statement that we always strive to set reserves adequately. Hopefully, these questions and answers address some of the most sought-after explanations of the first quarter. Rest assured that no one is more acutely aware of the results of the first quarter than myself, my team and all the people at Progressive. I continue to be confident in the long-term direction we're headed, and I a little doubt will continue to do everything we can to achieve our goals.

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

Question and Answer

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] We will now take our first question.

Operator

Our first question comes from the line of Mike Zaremski with BMO.

Michael David Zaremski
BMO Capital Markets Equity Research

Thanks for the helpful prepared remarks. As a follow-up to the Florida comments, can you elaborate on the legislation? You said the situation is evolving. But you said -- you also said you feel that the legislation is positive. So now ultimately, sometimes past, has there been less claims in Florida in April due to the legislation. Do you feel like it has teeth and there could be kind of a payback for the charges that were taken to the influx of claims?

Susan Patricia Griffith
President, CEO & Director

Good question, Mike, thanks. So we think the long-term effects of the legislation as it's written today would be very positive for the consumers of Florida. In the meantime, we're very familiar with the plaintiff bar, and we don't know that they will not try to challenge those. So what we did in March was we took a look at the fact that more lawsuits were being filed. And every time we consider our cost we look at, is it estimable and probable. And that's why we strengthened the reserve for possible and likely lawsuits that are going to occur between the time that the governor talked about the legislative bill and the time that he signed it.

In fact, in March, there were 280,000 lawsuits filed in Florida, not ours, overall in Florida, civil lawsuits, which is up nearly 130%, the all-time high of May 2021. So significant lawsuits. So short term, we are going to prepare to obviously get through those long term, this will be good. So a couple of good things that came out of the House Bill 837. Comparative laws changed from pure to modify comparatives. So if you're greater than 50%, you don't collect. The statute limitations is from 4 years to 2 years. There's a safe harbor for bad faith, which is really important to us because it takes some time when you get into claim to actually gather the information to make to actually start to negotiate if there's a demand and probably most importantly, repealing one way attorney fees. There's a little bit more than that, but we think those are really good.

In the short term, though, we -- this could evolve, and we don't know if it will be challenged. And so we will just react accordingly as we have more information. But overall, we feel very good about the law changes, and we think it's really good more importantly for the consumers of Florida.

Michael David Zaremski
BMO Capital Markets Equity Research

Got it. That's helpful. And my final follow-up, I know you touched on this in your prepared remarks, but pivoting to Personal Lines growth, which has been excellent. I'm trying to juxtapose the comments you made -- what we're seeing is the new applications that appear to be record levels with kind of your comments about needing to take maybe some corrective actions. It sounds like you still feel like Progressive will be a meaningful market share CAGR. I don't want to put words in your mouth. Would that be ultimately, there's more shopping and on average, Progressive's rates are lower than most of your customers. So as long as the industry is taking a lot of rate, you still feel good about the absolute level of growth.

Susan Patricia Griffith
President, CEO & Director

Yes. I mean I think at any time you reduce advertising, the likelihood of growth on subsiding a little bit is going to happen. We see that in our data. And we have seen our competitors take rate compared to us and even more so -- even more than us. So the hard market really has to do with our people shopping, and they are. So we do feel still bullish on our growth. Let me give you a couple of key stats because I didn't talk about those. I talked a little bit about the new apps, which were tremendous in the all-time history of the company. But let me give you a couple of other interesting stats that we feel really incredible about.

So this quarter, we grew policies in force $1.4 million. We grew premium $2.6 billion, which is approximately like 1 point of market share. If you look at even like a 12-month span, we've grown more than $5 billion. And if you think about that, that's the size of a top 10 carrier. So those are a couple I think, interesting an extraordinary tidbits that we feel good about.

Also, when you look at growth, you're going to look at both unit growth and premium growth. So maybe unit growth subsides a little bit, we really don't know. We just know that sometimes when you reduce advertising, when you increase advertising, there's the inverse relationship. But there's also premium growth. So as we take more rate to get to our target profit margin, you're going to see some premium growth. And ultimately, our goal is that you'll also see our margins widen.

John Peter Sauerland
VP & CFO

Mike, the one point I'd add on that is, we don't live in a vacuum, obviously. And our actions I would say, all else equal, will certainly adversely affect growth, less advertising dollars, higher rates for sure. But as we saw last year, as the competitive marketplace was in a bit of disarray even with our aggressive actions, we saw growth. So it will remain to be seen what our competitors do in this environment that we are currently experiencing and if they react aggressively as well, then obviously, our growth won't be as adversely affected.

Operator

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

Elyse Beth Greenspan
Wells Fargo Securities, LLC, Research Division

My first question, I wanted to get some additional color on the magnitude of additional rates you guys are looking to take from here. In the 10-Q and in your comments, you mentioned being aggressive with rates, raising rates over the remainder of the year. So more specifically, like within Personal Auto, when you say aggressive rates, is that in the low single digits, in the high single digits? Can you just give us a sense of the magnitude of rate increases you're now expecting to take?

Susan Patricia Griffith
President, CEO & Director

Sure. I assume that would come up when I didn't give a number. we're going to take as much rate as we need to try to get to our target profit margin. I believe what we've shown, not just over this inflationary period, but over decades with Progressive, that we execute on our ability to do that. We have a great pricing group, a great rate revision group. So we know we can do that.

Now there's all the caveats of regulatory approval, what can happen with weather, which could increase or decrease our desire to have more rates. And of course, it's very specific state, channel product, et cetera. What I would say at this point in time, and again, all the caveats that this is really quite a dynamic time. We think we'll take in the neighborhood of around 10 more points this year to catch up and stay ahead of trend in private passenger auto. So low single digits. But again, that could be 8% to 12%. We don't know. Right now, that's our plan as of today. We're watching as things unfold.

Elyse Beth Greenspan
Wells Fargo Securities, LLC, Research Division

Okay. And then could you maybe break down your business for us, the portion you just said, right, 8% to 12% price needed, but the portion of the book that needs rate versus perhaps the portion that you're still looking to grow in? Is there a way to kind of give us a sense of which percentage, and I'm really concerned in talking about Personal Auto, would still perhaps be where you might be looking to grow versus the portion where you just think you need these aggressive level of rate?

Susan Patricia Griffith
President, CEO & Director

Yes. From an auto perspective, we always want to grow as fast as we can, but we are limited sometimes with the regulatory approvals. So obviously, there are places where we haven't got as much rate as we've needed, think the Coast, which we've talked about before, going to need more on those because we've been waiting for some rate increases in some of those states. Some are less where we feel like we're ahead of it. We don't really want to go into details, but suffice it to say, on a country-wide average, we think in the neighborhood about 10% additional this year.

Operator

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

Brian Robert Meredith
UBS Investment Bank, Research Division

A couple of them here for you, Tricia. The first one, Tricia, I remember back to 2016 and all of the discussion about new business penalty as you're growing pretty rapidly. What's the impact of that new business penalty on your Personal Auto results today or in this quarter?

Susan Patricia Griffith
President, CEO & Director

Well, I think in this quarter, our media expense was up, so you're going to feel that especially on the direct side since we front-load those costs. So I think I said this in the last call. I sort of look at new business penalty as an investment in our future and having our future policyholders. But you did see a higher expense ratio, and we were -- we still had our pedal on for media spend in that first -- in the first quarter this year. So yes, expenses were higher.

Brian Robert Meredith
UBS Investment Bank, Research Division

I was thinking more on loss ratio side actually, just because new business typically carries a higher loss ratio.

Susan Patricia Griffith
President, CEO & Director

Yes, yes, new business does carry a higher loss ratio. That was part of it as well, including a lot of things that happened in the first quarter, record level compared to the last 5 years with weather losses, et cetera. But yes, there is a penalty there as well anytime we have new business.

Brian Robert Meredith
UBS Investment Bank, Research Division

Okay. And then my second question, I'm just curious, if I adjust for the reserving actions taken in Personal Auto in the first quarter, I come up that you're kind of like a 94 combined ratio, ex those reserving actions still below the 96. I guess my question is, is it why are you having to tap the brakes right now given that you're kind of at a 94 ex those [PYD], which I'm assuming you're expecting not to happen here going forward?

Susan Patricia Griffith
President, CEO & Director

Yes, it's that balance, Brian, of our calendar year commitment and our lifetime cohort commitment. And so we're always thinking about the future, we're always trying to balance it. And I would say we're not putting on the brakes. We're definitely going to reduce our media spend, but our intentions are that we still want to grow. I just wanted to say that normally, when we reduce media, it could have anticipated slow growth.

Now John just mentioned, too, a lot of it depends on what's happening with competitors. We're still seeing a lot of ambient shopping. We're seeing -- we still see a very hard market. So our intentions are to get to our calendar year 96 and literally, as soon as we can, if we get to that, depending again on weather, regulatory things, et cetera, we can very easily ramp up our media spend to grow. So it's really that balance of accident year, calendar year commitments.

Operator

Our next question comes from the line of Andrew Kligerman with Credit Suisse.

Andrew Scott Kligerman
Crédit Suisse AG, Research Division

Tricia, you cited overall severity up about 10%. So I'm trying to unpack the pieces. You cited the repair category being the most severe. Could you specify a number around that? And the second part of it is, I noticed the Manheim Index sequentially up 8.6% in the first quarter. So that was a big move. How are you thinking about used car prices as the year moves forward?

Susan Patricia Griffith
President, CEO & Director

Yes, a really good question. There's a lot that goes into the severity of fixing cars. And so a couple of things. We have really -- and I think as an industry, struggled with shop capacity. So our ability to get cars in the throughput to get them out, which could, of course, have effect on length of time, rental, et cetera. Parts prices are up, just a little bit under 3%, and labor rates. So think of the unemployment rate and how there's a problem kind of hiring everywhere. Same thing with mechanical techs in the body shops. But those repair rates are up between 4.5% and 5%. So that's some contributions.

And then really, the parts prices, the cost of those haven't really abated either. So what we're really working to do our President of Claims is working with our body shop partners to open up capacity and get those cars in and out. And of course, weather exacerbates that as well. So we still haven't seen -- the Manheim went down a little bit. But again, it pops up and the high over the last several years is extraordinary. So that's kind of the trends we're reacting to. Again, the good part about this is these are short tailed. So we can react to them really quickly, which we have. And then we can continue to watch trends to determine have we taken enough rates for what we need now, in the future.

Andrew Scott Kligerman
Crédit Suisse AG, Research Division

I see. And you've mentioned non-rate actions, particularly for Commercial. And I think you may have touched on it in Personal. But given the non-rate actions have kind of been a part of the practice for the last couple of years. Is there really much leverage there non-rate actions?

Susan Patricia Griffith
President, CEO & Director

Yes. Yes. I would say there's a lot of leverage, especially on the Commercial side. And I won't go into all of what we're working on with restrictions on new business, et cetera. But yes, we're able to pretty quickly put those into play to make sure that the new business we're bringing on reach our target profit margins.

Operator

Our 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 advertising. And if you can talk about or quantify how much you're pulling back on advertising? And is it in specific regions? Or are you doing it throughout the country?

Susan Patricia Griffith
President, CEO & Director

Yes. We won't share exactly where we're pulling back, just like we don't share our budget and actually where our budget goes to whether it's mass media or digital. But I will say when we pull back on advertising, we have an incredible media book, and they will -- media group, and they will look at the most inefficient media and pull back accordingly. So that's something that we can dial up or down depending on what's happening with our profit margins. So -- but we won't share that. We can more easily turn local off if we need to, if we can't get right, et cetera. So that's kind of the approach we take to our media. We're really flexible and nimble as we've shown in the past.

Jamminder Singh Bhullar
JPMorgan Chase & Co, Research Division

Okay. And then on the -- can you talk about the pricing environment and how conducive is the regulatory environment for adjusting prices? Because I think as companies are raising in the 2021 period, there was a lot of pushback from regulators. Is that -- is the price -- the regulatory environment better for price increases now than it was before? Or do you still expect pushback from regulators and delays in the process of raising prices?

Susan Patricia Griffith
President, CEO & Director

I think most of the regulators really do see and are watching these trends and it's not Progressive alone. It's definitely the industry seeing these inflationary trends continue. And so for the majority, as we show the data, they understand what we need for prospective rates. There's always going to be some challenges and we continue to have challenges. Like I said, if you take the 2 states on each coast that we always have a challenge with. But you know what, we're working with the departments of insurance to show and share our data and the need for it because in the long run, what we want to have is competitive prices. That's what makes our industry great, and we want to have available and affordable coverage for people in every state. So availability is really important. We know that. And so we're going to continue to work with the regulators to get that, but there's always a couple of states that could be challenging.

Operator

Our next question comes from the line of Alex Scott with Goldman Sachs.

Alexander Scott
Goldman Sachs Group, Inc., Research Division

First one I had is just on frequency trends. And I think they've run reasonably favorable for you all over the last 12 months and just how they've contributed to loss trend. So I just wanted to see if there was any sort of evolving view there and how that will play out and what you saw in 1Q, if you have any update?

Susan Patricia Griffith
President, CEO & Director

Yes. I mean frequency in Q1 was relatively flat. We haven't quite seen it come back necessarily to solidly pre-COVID. It's really hard to flesh out frequency trends because there's still so many macroeconomic things that go into, we kind of just try to react to it. And there's always a little bit of noise in one quarter. So we'll continue to watch how frequency goes. Obviously, we have a lot of data from miles driven, vehicle miles traveled from our UBI data, so we watch for that. But that's something that we watch and react to, and there's a lot of inputs and a lot that we don't control.

Alexander Scott
Goldman Sachs Group, Inc., Research Division

Understood. Okay. And as a follow-up, I just wanted to ask on bodily injury severity. If you have any update, if you learned anything through 1Q on that front. It sounds like the decisions you're making in terms of the ad spend and growth and so forth in rate or more property damage severity driven, but I just wanted to make sure that there wasn't more of a bodily injury component to this.

Susan Patricia Griffith
President, CEO & Director

Yes. Bodily injury has started to be relatively stable over the last several quarters. Some of the severity increases we saw in Q1 had to do with our large losses, what we call [Stanley], which is soft tissue, attorney rep, non-lit and some closing of soft tissue. So we're able to discern that pretty deeply and watch for that. And of course, obviously, those trends can change as well. But it's been fairly stable. And I think attorney rep levels are being -- are stabilized a little bit more too. And of course, I'll go to Florida because that could -- Florida is a big state, one of our biggest states, so that could change as well depending on how many losses we ultimately get based on House Bill 837.

Operator

Our next question comes from the line of Paul Newsome with Piper Sandler.

Jon Paul Newsome
Piper Sandler & Co., Research Division

A little bit of a follow-up. I was a little surprised not to hear commentary on distracted driving and faster driving being kind of an issue with the reserve issues. And it seems like it's all sort of pieces actually fixing things and the process of the shopping. Is that part of the equation as well? Or has that sort of stabilizes well?

Susan Patricia Griffith
President, CEO & Director

Well, it's hard to discern distracted driving solely on its own because we look at so many different variables. And obviously, we have a lot of data from our usage-based insurance from our snapshot to kind of understand the different variables. And there's a relatedness to that. So if you think about distracted driving and how it could relate to hard break. So it's not -- so we don't look at distracted driving only. So we were just talking before the call on how many more accidents we see. What we can react to, though, is the data where we -- is exactly what we're seeing in terms of accidents, frequency, vehicle mile travel, the congestion. So we look at all of that to understand what's happening and react to that. But I wouldn't say I would have any really further commentary specifically on distracted driving.

Jon Paul Newsome
Piper Sandler & Co., Research Division

And then quite separately, can you talk a little bit about the Commercial business. It looked like the big picture that maybe it was all the same trends affecting private passenger auto, but that necessarily hasn't been in the past. So is that the case or all these kind of comments about where the reserve issues are and where the severity is happening in the Commercial business as well? Or is there a difference that's notable between the 2 businesses from a trend perspective?

Susan Patricia Griffith
President, CEO & Director

Yes. So our Commercial Lines, especially when you look at the reserving, is mostly in our core auto and very -- they're seeing very similar trends. And the trucking segment, those are expensive to fix as well.

And from the perspective of reserving, we're seeing a little bit more late reports in our reps. Our case reserves are just strengthening from the rep perspective, but pretty similar trends.

Operator

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

David Kenneth Motemaden
Evercore ISI Institutional Equities, Research Division

Tricia, just on roughly 10 points of rate that you need to take, I think that's in addition to the 4 points that you already took this year, but correct me if I'm wrong on that. Could you just talk about how much of that is -- you had mentioned a catch up versus just what's needed to keep pace with trend?

Susan Patricia Griffith
President, CEO & Director

Yes. It was additional to the rate that we took in quarter 1. I won't go into actually talking exactly about what's catched up, et cetera, because we also look at rates perspectively, but we believe at this point with what we're seeing that, that will get us both of those. It will get us to the point where we are at our target profit margin eventually, hopefully, and rate to come to stay ahead of trend specifically.

David Kenneth Motemaden
Evercore ISI Institutional Equities, Research Division

Got it. And then just it sounds like you guys are still intending to grow and still feel pretty good about growth despite the lower ad spend. Am I right to interpret that when you think about how the rate adequacy you're not that far off on your existing -- on the existing prices out there and so you feel good about that dynamic?

Susan Patricia Griffith
President, CEO & Director

Yes, I do feel good about growth. And someone asked a question about underwriting scrutiny, and that's where you can really make sure that you gather more data to be more confident that the new business you're bringing on reaches your target profit margin. So we do feel comfortable with the growth, with the caveats of making sure that we do some extra scrutiny just to make sure that new business for the future is profitable.

Pat, do you have anything to add?

Patrick K. Callahan
President of Personal Lines

Yes, just a little other color commentary on Q1's growth. So half of the incredible new business growth we had was from conversion improvements. And in the agency channel, it's more like 3/4. So when you talk about how competitive our prices are on the street, that's a pretty good indication that even with some media pullback, we will continue to have strong competitive rates and with higher levels of ambient shopping, feel pretty good about continuing to grow the business.

Susan Patricia Griffith
President, CEO & Director

Yes. What I always love to, and we've talked about this the other day in one of my meetings, is every time a situation like this happened and this has been such an incredibly volatile 3 years. When you pull back on advertising or expenses, you always learn something. So we try to take advantage of these times as well to learn something about our advertising and efficiency, et cetera. So we continue to do that as well, just as another comment.

John Peter Sauerland
VP & CFO

David, on your question on catch-up versus forward looking. Our pricing is always forward-looking. And as we mentioned and Tricia's introductory comments, we clearly were a little off in terms of severities for fixing cars coming into the year. And that obviously was dialed into our indications. We've seen additional data points, as she mentioned, and we are dialing that into our future trend selects.

There was also a discussion around Manheim. Our projections around Manheim, if you look back, for it to come down more aggressively than it has. It has been -- car pricing, in general, has stayed higher than we had anticipated a while back. That all goes into our future trend selects when we are doing our pricing indications. We've obviously dialed those up recently, and that's where we've arrived at the conclusion that we need to get more aggressive on rate.

Operator

Our next question comes from the line of Tracy Benguigui with Barclays.

Tracy Dolin-Benguigui
Barclays Bank PLC, Research Division

Since higher severity and auto physical damage was a key driver behind adverse development in the quarter, can you reconcile how you got comfortable lowering your view of auto physical damage loss trend this quarter to 15% versus 20% last year?

Susan Patricia Griffith
President, CEO & Director

Well, I can give you a color of why we believe there's higher severity this quarter. And there's always a lot of noise in the quarter, but much of what you're seeing with the higher versus collision has to do with some older claims that are now working its way through our inbound subrogation. So if you think about claims at the height of ACV, et cetera, we're working through those. So that would be my point about the property damage severity trend. I'm not sure if I answered your question or...

Tracy Dolin-Benguigui
Barclays Bank PLC, Research Division

Yes. In your Q or your K, you break out all the components, the loss trend. So within severity, I just noticed in the Q, auto physical damage was up 15%. I look at the 10-K, it was 20% last year, but directionally, it looks like it's down, doesn't seem to reconcile with the comments made earlier on the call and adverse development taken in the quarter. So I just wanted to understand why you took down your view of loss trend within auto physical damage?

John Peter Sauerland
VP & CFO

Maybe a clarification. It's not our view of loss trend there. That is a retrospective looking number. So that is simply saying physical damage severity this quarter versus last year first quarter, similarly, when you looked at last year's numbers. So it is a consecutive retrospective metric. Does that help?

Tracy Dolin-Benguigui
Barclays Bank PLC, Research Division

Okay. And so would 20% even be the right number to think about for last year, given all the adverse development you've taken in that accident year or it's not correlated to given what you just said?

John Peter Sauerland
VP & CFO

So each quarter we're providing you versus the previous period change in severity there. So we normally provide you the quarter and the year-to-date. And so right now, we're up 15% versus previous quarter for property damage. So you mentioned physical damage. Property damages the third-party coverage for fixing cars.

Operator

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

Joshua David Shanker
BofA Securities, Research Division

If we go back 2 years ago to this conference call after the 1Q '21 10-Q, you announced that you were taking rate. And when we saw May 2021 results, growth had just ground to a halt. You had very little regulatory approval at that point, very little premium written or earned at the new rates. And you were able to stop the growth almost immediately. What were some of the skills that you had that you were able to do that before you had even taken the rate? And what aren't you going to do this time compared to the urgency that you were able to stop the growth in 2021?

Susan Patricia Griffith
President, CEO & Director

Yes. We're going to use the similar levers, and that's why I tried to answer in my opening question-and-answer session. At that point, regulators -- we were ahead of the curve, ahead of the competition. So regulators were still, I think, worried about the effects of the people giving us back with the COVID, et cetera, which I'm very proud of all that we did with that, but very similar levers that we used last time. I think also what we're seeing now, though, is that it's a very hard market. So I think both Pat and John talked about the rate increases that our competitors are taking, which is still causing some shopping.

So even though we'll use similar levers, we've been able to grow, like I gave you some of the stats first quarter. And so we believe that, that may continue depending again on what competition does. I think regulators started seeing way more companies come in with very similar data, and they know that if they want to have available coverage for their constituents that we have to put this through the system. It's just -- it's the bottom line, what we're seeing from an inflationary trend.

Joshua David Shanker
BofA Securities, Research Division

All right. And then in the 10-Q, you mentioned that the current year impact of HB 837 was less than 100 basis points on the quarter. Can I extrapolate that it was 200 or 300 basis points for the month of March?

Susan Patricia Griffith
President, CEO & Director

Yes, you probably could. I haven't really done the math on that. But what we did is we looked at -- we looked at what we thought would be probable and estimable based on the thought of lawsuits that happened in a short period of time before the bill was signed. And again, that could evolve because some of those things may or may not actually happen. But yes, that math is probably pretty accurate. And again, that's something that will continue to evolve.

Operator

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

Yaron Joseph Kinar
Jefferies LLC, Research Division

My first question, looking at just the tremendous growth we've seen quarter-to-date, can you maybe talk about the weighting of Sam's, Diane's, Wrights, Robinsons among those customers that were added? And even among new applications, like are those roughly -- is that distribution roughly in line with what you have in the in-force book?

Susan Patricia Griffith
President, CEO & Director

Yes. I think we're out in the queue. Pat or John can weigh in on this. I think we grew in all segments. I think we've -- I think we've increased in Robinsons from an auto home bundle. Sam's are going to be more likely to continue to shop. So there's always the PLE part of that. But I think we grew against all segments.

Patrick K. Callahan
President of Personal Lines

Yes, that's right. From an app perspective, we saw positive growth in the quarter for new apps across all segments. And our fastest growth was really in the Wright and Robinsons and Diane's also grew. So Sam's grew just a little slower, but they grew as well. From a PIF perspective, we also saw positive growth across all segments during the quarter. So faster in the segments that are not Sam's, but...

John Peter Sauerland
VP & CFO

And just for those unfamiliar with our nomenclature, Wrights are homeowners who don't bundle with us. So Robinsons as well known, I think, by this audience. Wrights are homeowners who have their auto insurance, perhaps some other products with this as well. And that's where we've actually grown the fastest. And in the agency channel, especially where we are limited to our -- what we think of as our manufacturer or underwritten property product, Progressive Home, we have been pulling back in a number of markets to revise our geographic footprint. And it's encouraging to see that we are still growing with home-owning households, even though in a lot of markets where we're restricting the property piece of that portfolio.

So we're still growing in Robinsons as well as Pat pointed out. And Diane's are what we think of as renters who are stable in their insuring habits. So growing more in the more stable sectors and growing homeowners considerably even without the bundle, which is also encouraging to see.

Yaron Joseph Kinar
Jefferies LLC, Research Division

And then my next question, I guess, goes back to I think several other versions of this question that were asked on the call already. And I'm just looking at comments coming into my e-mail over the course of this call. It seems like there is still some lingering investor confusion around what I would say maybe is the sense of urgency and aggressiveness coming from you talking about kind of the need to take some corrective actions. And the year-to-date data that we're seeing, mainly 95-ish combined ratio when we take out some of the reserve adjustments that we assume will not go forward. So I was hoping to maybe take another stab at that will give you another opportunity to maybe clarify some of that confusion.

Susan Patricia Griffith
President, CEO & Director

Yes. It's really all about our calendar year goal. So -- we appreciate the fact that we will look at our long-term growth as long as well as our short-term growth. But we've had a very long stated goal for long-term holders, for our investment community that we will do everything we can to treat our calendar year 96. And we're not there. We're at 99. And so that's why we're taking aggressive actions.

The great part is we have lots of levers that we can quickly move. And our nimbleness, specifically here Progressive will be the benefit. So if things turn around dramatically in the next 4 months, again, the caveats are regulatory approval, weather, inflationary trends, we'll be able to put on growth. But also -- and that's why I gave those stats at the beginning. The growth has been unbelievable, and we don't think it's going to come to a screeching halt. We know that there's a relationship between advertising and new business apps we're still feeling positive.

So I hope my letter, the queue and my comments didn't say this growth is going to come to a screeching halt. What I wanted to do is just say, hey, that can very well happen when we reduce advertising and always has in the past. To what degree is very dependent on all those things, including competition.

Operator

Our next question comes from the line of Michael Ward with Citi.

Michael Augustus Ward
Citigroup Inc., Research Division

I noticed policy life expectancies trended positively in the quarter. Just hoping you could help us understand what goes into that metric? And how should we think about that trending now that you're raising prices again and have added a lot of new customers?

Susan Patricia Griffith
President, CEO & Director

Well, it traded positive on a trailing 3. It's still down on a trailing 12. We think trailing 3 is more indicative of what's happening. Again, that may and could change depending on the rate increases. That's usually what we see happen. The PLE is just our likelihood for our customer, the length of time our customers are likely to stay. So the trailing 3 is pretty -- is more recent activity. We'll have to continue to watch that trend to see if any of our rate actions affect that negatively.

Michael Augustus Ward
Citigroup Inc., Research Division

And then on the investment portfolio. I was just hoping you could provide some color on the strategy in CMBS. I know there's new disclosure in the queue. Just specifically curious why you guys favor single properties, CMBS, especially office. I'm wondering if you could sort of comment on the sales that you mentioned in the Q thus far?

Susan Patricia Griffith
President, CEO & Director

Absolutely. I'll have Jon Bauer weigh in. But I will say from -- we added the chart in on the Q for CMBS this year. And I'll say that Jon was ahead of the curve in terms of starting to reduce our risk in CMBS over a year ago. But I'll let him walk through why he did that and where we're headed from here. Jon?

Jonathan S. Bauer
Chief Investment Officer

Yes. Thanks so much for the question, Michael. So just to take a step back, and then I'll try to hit it as specifically as possible. About first quarter 2022, when we looked at the portfolio, and we looked at the overall macro environment, we saw that the portfolio we came into early 2022, which didn't match our macro views going forward. So several actions that we look to take at that point.

So first of all, on the interest rate side, we sort of ended January around 3 and then 8s on our interest rate duration. We thought that was too high given the environment. So we allowed that to shift down throughout the year to about the $275 million by October and then look to move that back up again to 3. On the equity side, we thought, overall, given what the actions were likely to be that equities were likely to see more volatility than we have seen in the past and therefore, look to reduce our equity exposure pretty much cut in half to what we are right now.

And then we looked across our non-sort of cash and treasury fixed income portfolio and said, if we hit a recession, where is it that we think that we would be most uncomfortable. And the 3 areas that we sort of identified to watch and that we wanted to hold taking any further credit risk was residential mortgage-backed securities, CLOs and commercial mortgage-backed securities. I would say, in the 12 months since then, as many of you witnessed, the housing market has probably performed better than many thought. And the same has been true within our residential mortgage-backed securities. So we even though that shrunk as a portion of our portfolio, we think the housing market is better than we thought.

In terms of CLOs, I would say it's still to be determined what the corporate default rate looks like going forward, but feel very comfortable with our position there, even though it's smaller versus last year. And then that takes us to commercial mortgage-backed securities. In that portfolio as opposed to just not adding and allowing the runoff to happen, we prospectively looked at the portfolio and said, if we were to hit a recession, which are the securities in here that we think in a severe recession could get hit. And with that, we looked over the last year to reduce out of those securities. And as you can see, year-on-year, CMBS represented about 13% of the portfolio at the end of the first quarter 2022, it represents less than 8% of the portfolio right now. So what encompasses that we felt like we wanted to give the disclosure.

On the office side, 2 major drivers of that portfolio. The first thing is trophy office. So these are offices that were built in the last 10 years or so, that our view was -- would have significant demand, especially as different companies look to shrink their footprint, but look to be in the best quality buildings. And then the second part of the portfolio is if it's not trophy office, we would want it at least 4 to 5 years past maturity to an incredibly strong investment-grade tenant.

And so that makes up the core of the portfolio with a single asset portfolio, it allows us to look and pick individual buildings that we would underwrite as opposed to a conduit type thing, where you have a lot of different type of quality of buildings that we think are a lot lesser than they are on the single asset side.

So with that, and as we mentioned, the disclosure, we have no delinquencies in the portfolio. We have about $350 million of maturities over the next year in the overall CMBS portfolio, and we expect them, even in this type of environment, all to be refinanced without a problem. I don't know if that answers your question, but please let me know if I could give you any more specifics.

Michael Augustus Ward
Citigroup Inc., Research Division

Yes. No, that was tremendously helpful. Maybe just on what you shedded recently, recent quarters, did you trim California, Seattle?

Jonathan S. Bauer
Chief Investment Officer

Yes. So I would take it a lot more broadly than that. Again, for us, and I would -- since we have the opportunity to talk here, I would say this across our portfolio, not just in commercial real estate. What we are constantly doing is looking and saying, are we getting paid for the risk that we're taking in the security or that one? For CMBS in particular, it was the first thing going back to February, March of last year, is there any tenant rollover where we think this building could be vacant coming into their maturities. So get rid of that one. Is there any buildings where we don't think the owners are going to put the money into the building in order to get it to the quality, to lease up, get rid of that one. And so what that left us with broadly across the portfolio was trophy real estate and then ones that have really strong tenancy, 5 years or longer past the maturity.

So I wouldn't focus geography. By geography necessarily, I'm more on what's the quality of the building, what's the quality of the tenancy. And I think that's what left us with the portfolio with no delinquencies where we feel confident in the next 12 months of maturities.

Operator

Our next question comes from the line of Ryan Tunis with Autonomous Research.

Ryan James Tunis
Autonomous Research US LP

Yes. Just a couple here. So I guess the first question, on the 10 points of rate. So when we go back like a year ago, I think it was on this call, where you guys said you were done taking outsized rate increases. I guess since then, you guys never stopped taking rate increases. I think since then, you've gotten like 9 points in the aggregate, so I guess when I think about like this extra 10 points that you're saying you need over the next 3 quarters and thinking about the fact that you've actually taken almost that much like in the trailing 4 quarters, it really just doesn't seem like that much of a step-up versus what we're seeing. But yes, just your comments on whether or not I'm thinking about that correctly.

Susan Patricia Griffith
President, CEO & Director

Yes. I mean what we prefer to do is, obviously, we want to be ahead of the rates to achieve our target profit margins. We prefer to take small bites to the apple, which we did in first quarter, but then we saw the data change dramatically. And so for our future rate need, we believe at this point that around 10 rates is sort of the neighborhood of what we'll need on the private passenger auto side. So I think you're thinking about it. Okay. I mean what we said in the quarter is that we thought the largest rate increases were behind us, but this has been a really volatile time. And so we're just reacting to what we're seeing right now.

John Peter Sauerland
VP & CFO

Right. I would just add that over...

Susan Patricia Griffith
President, CEO & Director

John wanted to add a comment.

John Peter Sauerland
VP & CFO

I was just going to say, over time, we have been very well served, analyzing the data very expeditiously and taking action as we see changes. So as Tricia mentioned, if things don't play out in terms of loss trend as we are expecting, we can always pull back. We can always even take rates down. I would be surprised if we do that, but we can certainly pull back. But continually, we find we are way better off looking at the data every single month. And to the extent we think things have changed taking action expeditiously.

Ryan James Tunis
Autonomous Research US LP

Got it. And then I've got a couple of questions on just whether or not there might be like some adverse selection going on. If you could just comment on like where you're seeing the loss trend, the issues in the book? Is it -- would you say it's disproportionately toward the new business that you put on? Or are you kind of talking about that broadly across the book?

Susan Patricia Griffith
President, CEO & Director

No. I mean I think where adverse selection comes into place specifically is for those companies that have industry-leading segmentation. And we believe we have that. We believe we have that with our variables, with our UBI, et cetera. So we actually feel good that we talked a little bit about the underlying loss cost. We feel pretty good about that. There's just some trends that we're seeing that we need to get ahead of. So our goal, of course, is to rate accurately and be aggressive in getting the right rate at the right time on the street. And if you do that and you have segmentation like we do, adverse selection should happen, but not to us.

Patrick K. Callahan
President of Personal Lines

Yes. The only thing I would add is -- the only thing I would add on the mix of business that we're getting in the quality is to the contrary, we feel very good about the quality of business we put on during fourth quarter and first quarter. We're constantly paranoid. We always watch and we look closely to ensure that the mix that's being shed by our competitors as they transfer market share to us, we watch closely, and we are seeing clean business. We're seeing homeowner business, as John mentioned, long prior insurance periods, multi-car. So it's exactly the business that we intend to grow with, and we're pretty happy with what we're seeing contrary to any adverse selection.

Douglas S. Constantine
Director of Investor Relations

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

Operator

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