S&P Capital IQ

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The Progressive Corporation NYSE:PGR

FQ2 2017 Earnings Call Transcripts

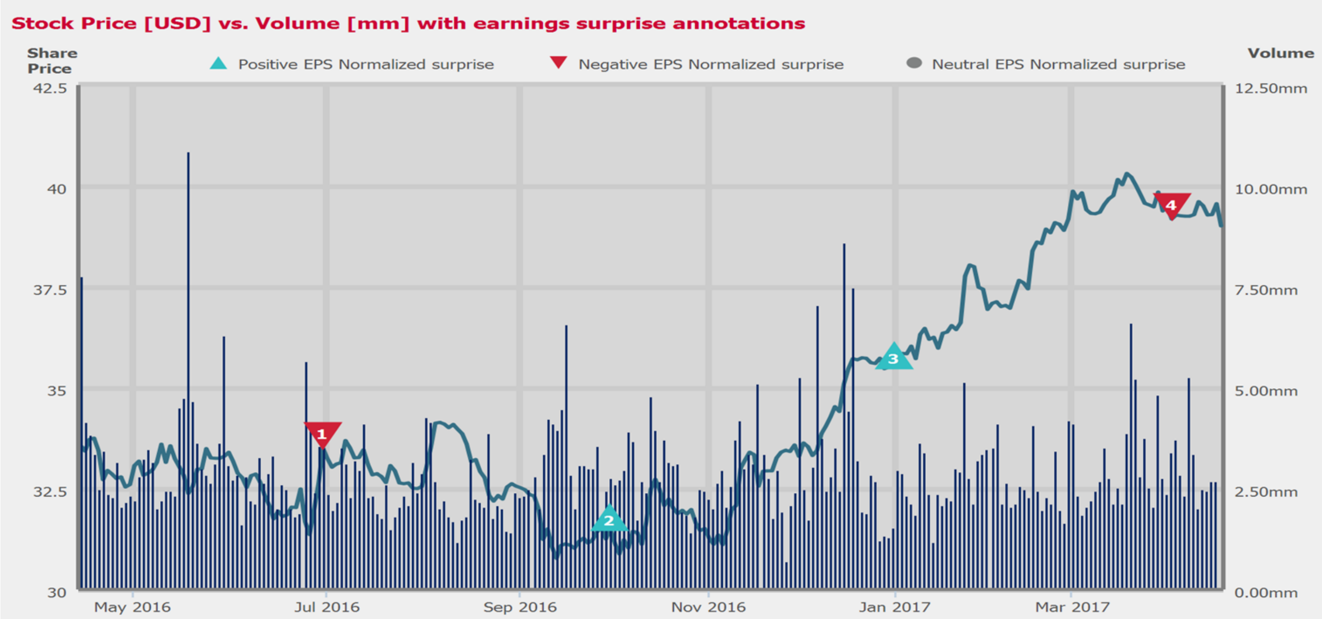
Thursday, August 03, 2017 2:00 PM GMT

S&P Capital IQ Estimates

	-FQ2 2017-			-FQ3 2017-	-FY 2017-	-FY 2018-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	0.59	0.59	0.00	0.53	2.43	2.65
Revenue (mm)	6778.40	6746.10	(0.48 %)	6838.70	26343.97	29163.45

Currency: USD

Consensus as of Aug-01-2017 8:02 AM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ2 2016	0.32	0.29	1 (9.38 %)
FQ3 2016	0.33	0.37	2 12.12 %
FQ4 2016	0.51	0.62	3 21.57 %
FQ1 2017	0.69	0.67	4 (2.90 %)

Call Participants

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Julia Hornack

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Presentation

Operator

Welcome to the Progressive Corporation second quarter investor event. The company will not make detailed comments related to quarterly results in addition to those provided in the quarterly report on Form 10-Q and a letter to shareholders, which has been posted to the company's website and we'll use this event to respond to questions after a prepared presentation by the company.

This event is available via a moderated conference call line and a live webcast with a brief delay. Webcast participants will be able to view the presentation slides live or download them from the webcast site. Participants on the phone can access the slides from the Events pages at investors.progressive.com. In the event we encounter any technical difficulty with the webcast transmission, webcast participants can connect to the conference call line. The dial in information and passcode are available on the Events page at investors.progressive.com. [Operator Instructions] In addition this conference is being recorded at the request of Progressive. If you have any objections, you may disconnect at this time. Acting as moderator for the event will be Julia Hornack.

At this time, I will turn the event over to Ms. Hornack.

Julia Hornack

Thank you, Leanne, and welcome all to our second quarter remote investor event. As we announced in May, our quarterly investor events will now begin with a 30-minute presentation and be broadcast via live webcast.

Today's presentation topic is vehicle technology and shared mobility's influence on the auto insurance industry. The presentation will last approximately 30 minutes and be followed by Q&A with our CEO, Tricia Griffith; our CFO, John Sauerland; our guest speaker today, John Curtiss, our Personal Auto Product Development Leader; and Bill Cody, our Chief Investment Officer will also be joining us by phone. The event is scheduled to last 90 minutes.

As always discussions in this event may include forward-looking statements. These statements are based on management's current expectations and are subject to many risks and uncertainties that could cause actual events and results to differ materially from those discussed during the event. Additional information concerning those risks and uncertainties is available in our 2016 annual report on Form 10-K, 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 risks, uncertainties and other challenges we face. These documents can be found via the investor page of our website, progressive.com.

It is now my pleasure to introduce to you all our CEO, Tricia Griffith.

Susan Patricia Griffith
Chief Executive Officer, President and Director

Good morning and welcome again. We made the changes to this quarterly webcast for a couple of reasons. One, to give you some deeper insights into topics that we think are of interest to you, and two, to highlight talent within Progressive that you'll get to see more often, on a more frequent occasion than once a year as prior. We welcome feedback and we hope you enjoy the webcast.

Let me set the stage a little bit. 4 years ago in 2013, John Curtiss gave a deep dive into what was going on in the industry, from a trend perspective, a vehicle technology perspective, and we believe now is the right time to do another deep dive, and more importantly how we think about our opportunities as this dynamic environment continues to change. So John is going to give a deep dive into that. We will focus today primarily on auto.

And the question that we ask at Progressive, really almost on a daily basis, is are we able to profitably grow in the industry? What does the market look like? And what is our opportunity? And we believe the answer to all of those are yes, and great, we feel very comfortable and excited about our opportunities to grow within this industry.

On the charts today that you see, the trend line shows a 30-year trend for the long-term view. And with inside each of the charts, you'll see the short-term view, which will be based on the last time we spoke, so the last 4 years. So you'll see the difference in the long term and short term trend in all 4 of the charts.

Let's start with the top left-hand chart, and that's really the revenue opportunity in the private passenger auto market. And as you can see from both a long-term trend and a short-term trend, there continues to be opportunities. Specifically in the short term trend, you'll see that there's been an increase in the private passenger auto market of over 4% in the last 4 years. So that acceleration has really allowed us to continue and accelerate our growth at Progressive.

Of course there's a lot of inputs to why the market grows. So if you go to the top right hand chart, you'll see the number of vehicles in the United States. And as you can see, on both the short and long term, that trend continues to go up. And of course, it fluctuates based on what's happening in the economy and took a little bit of a dive after the financial crisis, but then has continued to increase. And we follow those trends but clearly it continues to go up, a little bit over 1%, both long and short term.

The charts below are what we think about every day, and that is severity and frequency. The severity has continued to go up again, both long term and short term. You'll see in the short-term box in the last 4 years, severity has gone up about 0.5 points higher than the long-term. And we see that based on cars having more technology and the cost of repairs and also medical costs are growing at a rate much higher than inflation. So we're able to price those severity trends into our indication.

Frequency, on a 30-year basis, has gradually declined. And you can see that continues about 0.7% per year in the last 30 years. If I took that chart back another 20 years, you would see the same thing, frequency just gradually declining. Oddly enough, in the last 4 years, frequency has popped up. And those trends are largely based on macroeconomic information, and we don't usually price those into our indications but we watch those and react to those. So that's sort of setting the stage of where we're at. We believe that at Progressive we have a huge opportunity for more growth, and the fact that the market has continued to grow is even better in terms of our ability to grow.

What you see here is our combined ratio compared to the industries in our market share. Let's start with the orange line, which is our statutory combined ratio for the last 20 years. As you know, one of our objective is to make sure that we make at least $0.04 of underwriting profit of every dollar that comes in. As you can see, we take that very seriously. So over the last 20 years, only 1 year, the year 2000 did we go over 100. There was a few years we went over 96, but we take it very seriously, our commitment to try to make at least $0.04. So the majority of those 20 years, we have been under 96 combined ratio.

The dotted line is the industry, and you can see the industry tracks our results, but in every year there has been a gap. And in fact, in the last several years, the gap has widened. So we're excited about that. The blue line is our market share. That's the other half of the formula, grow as fast as you can at a 96 calendar year combined ratio. As you can see, we've taken advantage of our position in the market in the last several years and have continued to increase our market share. So we're very pleased with our discipline around our #1 objective to grow as fast as we can at a 96 combined ratio.

This chart gives you an overview of the entire property casualty industry. So the pies, the white pies are the revenue opportunities within each one of those segments. And the blue is the Progressive sliver of market share. For today, like I said, we're going to focus the majority of our time on private passenger auto. So if you follow the pie out to personal lines and then to auto, you'll see we'll talk about that $250 billion opportunity, of which we have less than 10%. So again our position is great but we have so much more runway.

And we feel that way for a couple of reasons. One, the fact that we are able to now bundle our auto with home, which we know and has been proven, that extends our auto PLE. We have a great brand, a great product on the street. So we feel very positive in our ability to continue to gain more pieces of each of those pies. I'll come back to this chart at the end and talk a little bit about the other areas, specifically home and commercial.

During the quarterly conference call, the last quarterly conference call, I talked very briefly about how me and my team look at investing over the short and long term. And I referred to those as Horizons. And it's a construct that McKinsey developed many years ago, and we're using that to figure out and place bets on investments, short, medium and long term.

So let's start with the here and now, and that is what we call our Execute Horizon. This is really about surgically executing on the plan we've put into place in the last couple of years. You've heard us talk about it with the Destination Era, with bundling auto and home. And it really aligns with our vision to become consumers' #1 choice and destination for auto and other insurance. So when we think about big investments we've made to make sure that we continue to grow, on the agency side, clearly the acquisition of ASI was huge. It gave us access to those agency customers that we did not have access to before.

Also we're investing in agents, not just on the technology side, but also on the commission side. So we've just rolled out a new commission structure we call Paths to Partnership. And we are giving agents that give us more of their preferred business, their longer retaining business more compensation. So we're excited about that, and the agents are excited about that as well.

On the direct side, I stood here probably 4 years ago and talked about our in-house agency. We call it the Progressive Advantage Agency. At that time, we had 25 consultants in the agency and they would help our current auto customers with home products, whether it was ASI or one of our many other unaffiliated partners. Well, we had to invest more in that area. Now we sit at almost 400 consultants, and we are so glad that we invested in that in-house agency because we believe there's a lot more opportunities to sell even more products and to be able to service those customers.

As I wrote about in the annual -- in the letter to shareholders, we just invested in what we called HomeQuote Explorer. And this really aligns with our ability to provide service and coverage where, when and how our customers need. Many customers want to be able to shop for home online or on their mobile device, and we make this easy. And if you go through the process, it can be really clunky and there's a lot of data that people might not know, we are able to purchase publicly verified data, put it into the system, have a really slick quoting machine. So really, we are able to invest across the board on how customers want to shop for home and then of course, align that with bundling with the auto. So we're excited about where we are with the Execute plan. We believe that we have a lot of runway for the next many years, 5, 10 years. But with that, we need to continue to invest in the future.

The second horizon we call Expand. And that is really focusing on our core competencies. So think of segmentation, of service, our brand, our cost structure. And we'll start to invest in adjacent products. So think of what John Barbagallo talked about in the October Investor Relations conference with our business owner's policy. So that bought coverage for that small business commercial person. So we plan to invest on that on both the agency and the direct side. But we're going to be looking at this horizon to -- much more deeply to see what are other areas where we can use our core skills and really leverage them.

And the last horizon is Explore, and that is really longer term, but we know we need to invest now because we'll have learnings and technology will evolve, and needs of our customers will evolve. So that to us is a really important place that a lot of times, people don't take or companies don't take the time to invest and we're going to do that. These will be based on increasing the products and services that we have, maybe in a slightly different way, or possibly having products and services that don't even exist today. And to me this is really an important part of our investing strategy. We need to invest in all 3 Horizons concurrently. And that's how you continue to have an enduring business. And we're excited about our plans in each one of these Horizons.

The best way to show you how we think about it is through one of our own products, and that is Snapshot. I'm going to talk through the evolution of Snapshot and I'll be using different nomenclature because as Snapshot evolved and technology evolved, how we branded evolved as well.

So 20 years ago in 1997, we rolled out Autograph to 600 customers in Houston. As you can see, this is in the trunk of a car; it was clunky, it was big, it was expensive. Whenever I look at this photo, I think of my 8-track cassette player in my AMC Pacer, which was my car when I was 16, and I was actually way before '97. But what we learned here, even though it wasn't a commercially viable product, we learned that individuals' driving behavior varies significantly.

So we saw something on usage-based insurance 20 years ago, way before the technology was there. Tested a lot more and fast-forward to 2004. We rolled out TripSense, a much better solution. So we had the dongle that you would plug into your on-board diagnostic port. What we would do is we would send you the dongle in a box with the cord. And we'd ask you to plug that in, in your OBD port, and then 6 months later, try to find the box, hopefully you found the cord, plug it in and upload that data to Progressive. While that was much better than Autograph, it still wasn't easy for customers. Sometimes they lost the box, sometimes they forgot to plug it in, sometimes they lost the cord. But again, we didn't want to kill this idea because we knew there was something in this. So we continued to learn.

In 2008 we rolled out something we called MyRate. And this was so much easier, because you can plug the device into the OBD port and we can wirelessly transmit the data to Progressive to learn about your individual driving behavior. So we knew we had something here. During this stage, we continued to test things like do we give a discount or a surcharge? And we learned a lot more. And in 2010, we felt great about having a commercially viable product. And so we repackaged it, renamed it to Snapshot and in 2011, we were able to advertise and market our Snapshot model. And over 20 billion miles later, we're very happy that we invested all along the way.

In December of last year, and I've talked about this a lot of recently, we rolled out what we call our mobile as a device unit. So you have the option to have the Snapshot dongle or have the mobile app on your phone. We have a mobile app in 26 states on the direct side and 5 states in the agency side, with many more planned actually during August. Again, we continue to learn as we evolve and technology evolves, and we're excited about what we're learning from the mobile app. And there will be more to come on that, but I can tell you it varies wildly, depending on how people use their phone from no usage at all to great usage. And we're learning about how people use their phones, handheld apps, handheld phone, hands-free. So all of that will again further our expertise in our segmentation.

As of June month end, we had nearly 30 million miles of data and nearly 3 million trips. So we're learning a lot and learning it quickly. Ultimately, you want to be able to have the cars talk to us directly. And we've talked about this in the past and we have a relationship with GM and their OnStar program to be able to acquire customers directly from GM based on their experience and the OnStar app uploading it to us and being able to provide them a quote. So we're excited about that continued relationship and we continue to learn.

This is a great example of us investing a long time ago and continuing to iterate because we saw something in it. Will everything work that we now are thinking about investing and are investing in horizon 3? No, but we knew then we have something special. And that is really the point about making sure you can currently invest in every horizon because our goal is to make sure Progressive is an enduring business for 20, 40, 80 years to come. And so we're excited about that.

But now to the main part of the show, and I want John Curtiss to come up here and give you some deeper insights into what's going on in the industry since we last met. John?

John Curtiss

Thank you. Thank you for having me today. So I plan to share our point of view on the growth outlook for the private passenger auto insurance market over the next 10 to 15 years.

As you may recall, we stated back in 2015 that we fully expect to see real modest growth over the longer term in what was then approaching a $200 billion marketplace. In 2016, the industry was up to $215 billion in terms of direct written premium and we're off to a good start in terms of growth this year. So the question is what do we think that the next 10 to 15 years has in store for our business. And when we look at our models and when we have internal conversations, we continue to forecast modest levels of growth in real terms for the industry over this time period. So today I'm going to share a little bit more about the 3 growth factors that Tricia discussed earlier, the fleet size, frequency and severity, and also how we're thinking about key trends such as vehicle technology and shared mobility.

But before I talk about the future, I want to talk a little bit about the past and take a quick trip down memory lane. Because as Tricia pointed out, I presented on a similar topic back in 2013. And at that point in time, I shared our framework for how we were thinking about the effect that vehicle technology could have on accident frequency. And at that time and what you can see on the screen is headlines were full of pretty aggressive claims around the timing of self-driving cars. Google was predicting them within 5 years for ordinary consumers, and some auto manufacturers were making similar claims. So while these predictions have not yet come into fruition, our goal was to take really an analytical approach to the problem and try to figure out how to best respond.

As Tricia pointed out, when you look at frequency, there is a long history of negative trend, and this is likely driven by factors such as having safer cars, you think about the introduction of the seatbelt, antilock brakes, electronic stability control, safer roads, safer infrastructure, tighter enforcement of drunk driving, graduated licensing programs and likely many others. So based on what at that time, what we were seeing in history as well as our understanding of these new technologies, their effectiveness and the fleet penetration rates, we were actually forecasting a continued decline in frequency in the future.

But reality has been really different, and our models at that point were too conservative. Whether it's been from consumers driving more due to lower gas prices or an improved economy, or increases in distracted driving, frequency is actually increased over the last few years. So our models certainly aren't perfect, and I guarantee you the next time we give the update, they'll have changed again. But they are really helpful in that they guide our thinking.

And I think what's really important is that we continue to take a very disciplined view of the key trends that will shape our industry going forward. The growth and the increased investment in vehicle technology and shared mobility models, personal transportation could evolve in a variety of directions. And we are thinking about the opportunities and considerations these various segments will create for Progressive.

So let's talk about a few of the segments and I'm sure they'll expand over time with future updates. But we continue to focus pretty heavily on the lower left-hand quadrant, those are personally owned driver driven vehicles. So all of the cars that we own today. It's the majority of the fleet and as Tricia pointed out, our personal auto business is growing quickly and with less than 10% market share we feel really good about our growth prospects.

We're also starting to make investments in the lower right-hand quadrant, we're referring to this as shared usage or shared ownership and driver driven. So the primary example here would be ride share. And while we estimate that this is still a pretty small segment of the overall vehicle mix, we do believe that it will continue to grow. And as you know, on the commercial line side, we do have a relationship with Uber and a pilot underway in the state of Texas, and on the personal line side, we're modifying our policy contract to include an endorsement to be able to insure the drivers of those vehicles.

The autonomous segments you see in the upper row are currently a Horizon 3 focus for us. And we will continue to think about how to best attack these opportunities as we learn more.

So next, let me talk about these key trends from a personal auto perspective in a little bit more detail and the impact that we think it will have on the fleet size, our frequency and our severity trends. Let's talk about the fleet size first. As Tricia pointed out, it's been growing at about 1.3% per year over the long-term and actually a little bit more quickly in recent years. If we break that down, we do see a steady increase in the number of licensed drivers in the United States and we believe that this will continue to grow as our population expands.

We're also seeing a gradual increase in the number of registered vehicles per driver. And this is good news, not only in terms of growing the fleet size, but it also gives us indication that consumers are not giving up vehicle ownership. When we look at this from a generational perspective, there's been a lot of discussion around whether Millennials and future generations will have a different attitude towards car ownership. But a recent report by J.D. Power indicated that Millennials are now one of the fastest growing car buying segments in the United States, and a second report by Kelly Blue Book and Auto Trader indicated that within Generation Z, the future drivers of America, 92% indicated that they plan to own a vehicle.

So as a result, we generally feel good that the vehicle fleet will continue to grow at a similar rate to historical levels. But we also acknowledge that some suggest that people will forgo vehicle ownership and move more toward shared mobility models. So we are tracking some indicators to see what changes are emerging.

The first metric we've been looking at is household vehicle ownership rate. This represents the percentage of households in the United States that indicate that they own at least 1 vehicle. This data comes from the U.S. Census Bureau's American Community Survey. And what it shows when we compare 2009 to 2015, which is the most recent year that we have data, that ownership -- that the ownership rate at the national level is unchanged at 91.1%.

We also looked at the statistic for major metropolitan areas, because this is where we believe shared mobility is most viable. And what we do see is that in some metro areas, the ownership rate is higher, while in other metropolitan areas, it's slightly down. At this point, we're not seeing a consistent pattern and we're not seeing any dramatic decreases. If we do see an impact, we think it will be in the most urban areas of the United States, where the cost of vehicle ownership tends to be higher. But also keep in mind that in these areas, the aggregate vehicle ownership rate tends to be a little bit lower. So the overall impact to the entire fleet should be relatively small.

We're also looking to see if there are changes in how consumers use their vehicles. The Census Bureau also tracks how people commute. And what the graph shows is that commuting patterns are largely unchanged during this time period. And in fact, the percentage of commuters driving alone in their own vehicles has actually slightly increased across all age groups. So our general view on shared mobility at this time is that the majority of consumers will use ride share and other types of services as a supplement to owning a vehicle but not necessarily as a substitute.

But we do think that ride share and these new services will continue to grow and they will continue to compete with taxis, car rentals and other forms of public transportation. Taxi medallion prices have decreased by as much as 50% in certain cities. And in others, there's more Uber and Lyft drivers today than taxi drivers. Recent articles have also suggested that the growth in ride share is making it harder for some of the traditional car rental companies to grow.

So who will ultimately win? We don't know. But for now, these vehicles will need to be insured and therefore do create new opportunities for us, primarily in the commercial side but also in our private passenger auto business. And as I mentioned earlier, we do have a relationship with Uber and a pilot underway in Texas, and we are making some changes to our product to be able to insure these drivers.

So next, let me give a quick update on vehicle technology and the potential impact on claims frequency and severity. Probably similar to all of you, I receive many alerts on this topic every day, and the headlines have a wide range of predictions on how the future could unfold. I think some believe that with the continued advancement in technology, self-driving cars are right around the corner. While others believe it's going to be a long time to program a car to effectively drive in all the conditions and all the situations that are a reality on our roadways today.

But one thing we know for certain is that investment levels are significantly growing, and whether or not we get to full autonomy, we will see more vehicles equipped with these safety technologies and it is really important for us to understand the implications on our business. From a product design perspective, from a pricing perspective and from a claims handling perspective. So let me give a quick update on what we're seeing in terms of the evolution of these technologies, their effectiveness and fleet penetration.

I'll start with the evolution. So the chart on the screen represents the standard format for how we think about levels of automation. They range from Level 0, which is no automation, all the way up to Level 5, and that would be your fully self-driving car.

So let me touch briefly on what we're seeing at each level. Today we estimate that the vast majority, more than 95% of cars on our roads, are still at level 0. And what we are beginning to see is a gradual shift to Levels 1 and 2. Level 1 are your Driver Assist technologies. Examples of this would be auto braking or lane keeping technologies. These were first introduced back in 2006, and we estimate currently represent less than 5% of the fleet, probably closer to 1% to 2%. We do expect the mix of these vehicles to increase as auto manufacturers have agreed to make technologies like auto braking standard on new vehicles by 2022, and we'll talk a little bit about that in the coming slides.

In terms of Level 2, this is Partial Automation, and this is also beginning to emerge. This was first introduced back in 2014, with Tesla and their Autopilot. And currently represents just a really small mix of the fleet, but we're paying close attention. We do know that General Motors is planning to introduce Super Cruise, which is a similar technology and that will be available likely later this fall on the Prestige package of their Cadillac CT6.

What's common at these levels is the driver is always responsible for operating the vehicle and monitoring the environment, so really the key requirements for success are to have really good technology, and consumer demand or consumer willingness to pay. And what research does show is that consumers are getting more comfortable with these technologies, but they will turn them off if they find them distracting. So we're learning a lot more or want to learn a lot more around how consumers do interact with these technologies.

But as you move to Level 3, Level 4, Level 5, the equation gets a lot more complex, as the driving system itself becomes responsible for monitoring the environment and operating the car. So with these levels, the deployment or the availability of these vehicles is going to be more than just about technology or consumer demand. It's also going to require changes to our regulations, our legal code and even how we think about insurance. As algorithms become more responsible for the operation of the vehicle, need to ensure that there's mechanisms in place to ensure data privacy and security. And some of these levels could require capabilities, like vehicle to vehicle or vehicle to infrastructure, which would be a significant investment. So today, what we're primarily seeing here is the testing of these vehicles. And I think we'll continue to see more testing over time, but they are not yet available for commercial sale.

So just quickly at Level 3, this is Conditional Automation. Audi has recently announced plans on their A8 model to introduce a product called Traffic Jam Assist (sic) [Traffic Jam Pilot]. And the way a technology like this would work is under 60 kilometers per hour on a divided highway, the vehicle could operate in autonomous mode. But outside of that mode, the driver has to be ready to take over and ensure the safe operation of the vehicle. So really the challenge at this level is how do we keep the driver engaged and how do auto manufacturers make sure that there's an effective handoff between driver and vehicle. And I think what we'll see at this level from what we've been reading about is that some auto manufacturers will pursue this level, while others might get straight to Level 4 because of some of the risks inherent with that driver vehicle handoff.

So Level 4, this is High Automation. So an example of this would be the ability to drive autonomously in highway mode. And what we do here is that auto manufacturers like Honda, Toyota, Volvo, are working to be able to introduce this type of technology in the early 2020s, maybe even earlier according to Tesla.

And then Level 5 finally, is the Fully Autonomous vehicle, and I don't have specific dates on this level. Given the cost and the complexity of the technology, our current point of view is that the first applications of these types of vehicles might be in commercial settings, or maybe in ride share or self-driving taxis where the vehicles are confined to specific geofenced locations.

So next, let me turn to effectiveness, and I'll talk a little bit about frequency first. The information on this chart is from the Highway Loss Data Institute, also known as HLDI. And basically what it shows is the change in frequency for 4 of these new technologies. And what we're seeing and this is very similar to our last update is that certain technologies such as auto braking and even blind spot warning do show really good evidence for reducing frequency. But one of the things that you'll notice is that the impact does vary by coverage.

For example, the decrease in frequency is more significant in property damage than a coverage like collision. And I'm showing these 2 coverages because this is where the industry tends to have the most credible information. But I do think you could also argue that we're going to see a more significant reduction in an injury coverage, like bodily injury than a coverage like comprehensive. So still a lot to learn about the effect these technologies will have on the coverages that we write for insurers.

Why is that? And why do we think that it could be different? And let me take auto brake as an example. This technology was designed to prevent largely rear-end accidents. And so when you look at a coverage like property damage, so this would be the vehicle that would actually be hit in an accident, a high percentage of the claims involve damage to the rear end or the side of the vehicle. And these are the exact type of accidents that this technology was designed to prevent.

When you look at a coverage like collision, which would be the vehicle causing the accident, while a good percentage of the damage to those vehicles involves the front of the vehicle, it also includes scenarios such as backing into a pole or sliding off the road because of ice. And in these types of situations, the technology will not be as effective in preventing the accident. So therefore the impact might be lower.

The other thing that I would just highlight is these technologies are often sold in packages. And so one of the challenges is to understand the effectiveness of each individual technology. And they might not be additive because they might be helping to avoid the same types of accidents. So we're working really hard not only with our own data, information from HLDI, but we're also working with third-party data to really try to understand the specific technologies that are on vehicles and which ones show the most promise in reducing frequency so we can incorporate them into our pricing.

So next, let me talk a little bit about severity. And before I get into the details, I do want to highlight that some of this data is not credible and those cells have been marked with an asterisk. But where the data is credible, what we generally see is that severity is slightly higher on the damage coverages. And I think that makes sense. We would expect a higher cost to repair due to the additional technologies placed on the vehicle. When we look at some of the claims data, we are starting to observe above average inflation rates for replacement cameras, sensors and headlights. And we do think that more OEMs may actually begin to start to require scans to certify that these replacement parts are working properly. And that can add $200 to $300 for a claim.

The other question that's out there is whether accidents will be less severe with vehicles equipped with these technologies, both on the damage side and on the injury side. And to be honest we don't have a good answer to that yet, and it's something that we're going to have to further understand as we get more experience with writing and handling claims for these types of vehicles.

So what are we doing? So today, we're making some pricing adjustments for certain technologies, like auto braking where we can confirm that the technology is on the vehicle. And we do have plans to implement a new product feature in future model releases that will allow us to expand our ability to segment for more technologies over time, as we get more data and we get more comfortable with the results of the data.

So last, let me talk a little bit about penetration. And similar to our last update, we continue to see slower penetration for technologies such as Ford Collision Avoidance. When we compare them to prior technologies like electronic stability control or antilock brakes or even side impact airbags. I think when you compare these new technologies to the prior ones, they tend to be more complex because you're actually trying to design something that is going to steer a vehicle or potentially stop or accelerate a vehicle, therefore they are a little bit higher risk and more expensive.

So therefore, they typically start out as optional features on luxury models or higher end trims. And it's actually taken well over 10 years for auto manufacturers to agree to make a technology like auto braking standard on new vehicles. And so as a result, the penetration curve starts out slowly, but in this case, will start to increase pretty rapidly as the technology does become standard on more cars. But it will still be quite some time until we get to a point where the fleet penetration rate is at 50%, much less full penetration.

So how does that affect our frequency trend, because that's really the key input that goes into how we think about pricing. And so if these technologies continue to penetrate at historic rates, the impact on our annual frequency trend will be relatively gradual. And so let me give you a hypothetical example. Let's assume there's a technology that can ultimately reduce frequency by 15% when fully deployed. And based on our experience with prior technologies, it might penetrate the fleet by less than 5% in the first 10 years. Then ramp up close to 50% within 20 years, and ultimately approach 100%, let's say in 35, 40 or 45 years. So based on these assumptions, the impact to our annual trend would be relatively small, maybe 0.5% per year. And it would clearly vary based on where we are in the curve. So we spend a lot of time trying to understand not only the effectiveness of the technology but also the penetration rates.

So a big question is, is what's going to happen in the future? And will future technologies penetrate the fleet more or less quickly? And there are really many considerations here. The first thing we have to look at is the fleet turnover rate in general. So the average age of the vehicle on the roads today is up to 11.6 years. And this is 2 years higher than the average back in 2002. So that will be one force at play, another one would be the pace of technological advancement, how quickly can auto manufacturers get either new technologies on cars, or find better ways to use the existing technologies in their fleet.

Also the cost of the technology and consumer demand will continue to be very critical. I was reading an article the other day from a CEO for one of the auto manufacturers, that indicated that autonomous highway mode might initially start out as like a $10,000 enhancement. And so that could be a really good solution in the luxury car market. As an auto insurer, what we really track is how quickly will these types of technologies not only be available on these luxury models but also start to be available on the models where there's kind of the highest demand or represents the largest percentage of the fleet. So monitoring how quickly these technologies go from optional to standard is also a really significant consideration.

And then lastly, as we talked about before is, as we move to Level 3 and Levels 4 and Levels 5, and the driving system starts to take over, there are all the issues around legal, regulations, how we approach insurance, data security and privacy, which will all be also considerations that we'll need to think about in terms of how quickly these technologies penetrate the fleet. So as we pull all this together, there are clearly many possible scenarios, and the level of certainty around our forecast decreases as we look farther into the future.

And I also want to acknowledge that there have been periods of time, such as after 2006 when we went through the recession, where the industry did not grow in real terms. And this could happen again. Our models don't necessarily take into account hard markets and soft markets and changes in macroeconomic conditions. But based on the information that we discuss today and our internal discussions, we do see modest growth potential in real terms for the industry over the next 10 to 15 years.

In terms of the fleet, our guess right now is we expect to continue to see slow growth with minimal impact from shared mobility except for maybe in the most urban areas of the United States. In terms of frequency, even though my predictions last time were off, I do think that these technologies will continue to gradually penetrate the fleet and put downward pressure on frequency trend over time. And generally with respect to severity, our current thinking is that trends will continue to outpace inflation. So the graph represents the range of outcomes as we look at scenarios, and we feel more comfortable with the dark shaded area than the light shaded area on the cone that you see in that graph.

So in summary, I'd also like to re-highlight some of the actions that we're taking in our personal auto business to address these trends. And in terms of pricing, we do continue to roll out our product and underwriting models and we're seeing good results. We've begun taking some pricing actions for certain safety technologies. And as I mentioned earlier, we plan to introduce new product features that will allow us to expand our segmentation over time. We're also working a lot with external data, so we can try to collect more detailed information on vehicles, so we can better identify the specific technologies that are the most effective in terms of affecting our loss costs.

We want to continue to lead in the UBI space. As Tricia mentioned, we're in the process of expanding our mobile product to more states. We are doing some work on distracted driving to see if there are new variables that we can include in our scoring algorithm. We're also testing ways to potentially provide better feedback to consumers, to help them become safer drivers. And we're evaluating ways to identify more third-party data opportunities so we can expand the footprint of our Snapshot product, because we understand how important that segmentation is to our results. We continue to roll out our endorsement to support the drivers who work for transportation network companies and perhaps most importantly, we want to be able to continue to stay nimble and agile so we can respond to opportunities as they arise.

So that's all that I have for today. Thank you very much for your time. And now I will hand it back over to Tricia.

Susan Patricia Griffith
Chief Executive Officer, President and Director

I'm going to bring you back to this slide that we started with and that is really the opportunities in the overall P&C market. If you go to the pie underneath the $215 billion auto opportunity, we have about a $91 billion home opportunity, which of course is where we've made a lot of our investments. And that auto home bundle is really important to our customers and the retention of those customers. So we're excited about the homeowners opportunity. It's $91 billion, as I said. From the captive agency, independent agency and direct, if you go just primarily to the areas where we have the most access, the independent agent and the direct channel, that's a $63 billion opportunity. So a lot of opportunity, we only have 1% of the property market. So together with that over $300 billion opportunity in the personal lines, we believe that we are very well situated to continue to grow.

During the November session, the deep dive, we will talk to you about all things property so look forward to that.

Underneath the Personal Lines, you see there's a lot of opportunity, actually another $300 billion opportunity on the commercial side. We are already the #1 writer of commercial auto and that we have less than 8%. So again, we still have a lot of room for growth in that area. And as I talked about before, there are other opportunities on the commercial side that we will be investing in and talking about at a future date that we are really excited about for that small business commercial owner.

So overall, when you step back and you look at the entire P&C industry, it's over a $0.5 trillion opportunity and we believe that we have the ability to really increase our share of the pie in every single one of those pie charts. And what we know from today and from what John talked about is that our industry is dynamic, it is going to continue to change. And that excites us. We love change and I think the companies that win are the companies that are nimble, that continue to tweak their models as things change and the companies that skate to where the puck is going.
So we're excited about what we can bring to the growth and what we can bring to the long-term growth and enduring business of Progressive. So thank you for today. And we're going to set up for Q&A, so just give us a few minutes.

Question and Answer

Operator

[Operator Instructions]

Susan Patricia Griffith
Chief Executive Officer, President and Director

Thank you Leanne. We will begin with the questions submitted by webcast participants to give folks on the phone the opportunity to dial in and talk to the operator.

The first question from the webcast is can you help us understand what's driving growth in the agency channel? Is it Platinum and The Robinsons? Or something else?

Platinum is definitely a part of it. So we continue to increase our mix of preferred business. And Platinum although still a small part of it, but growing as I outlined in my letter is becoming a bigger part of it and we believe will continue to become a bigger part of it. And that's the short answer. Really the longer answer when you step back is, during 2016 when rates were increasing and we had to increase rates as well. We didn't have to as much as our competition. So there was a lot of shopping in the agency channel. And so we saw stronger quoting and conversion from our agents. We also have a preferred product that we put on the street several years ago, we called it 8.3, we're now into our 8.4 model and we're seeing even better results from that. So continuing to understand that preferred customer and making sure we have the right rates for that customer. In addition, and we don't talk about this as often and I do with agents, agents really appreciate our ability to service our customers, both on the policy side and the claims side. And having that local presence is important to our agents. And they often refer to that when they talk to me about, well, when we think about the ultimate product, which of course is a claim, Progressive really has our mutual customers covered. So it's really a whole package of all of the things that kind of came together at one time to really position ourselves so well in the agency channel. And again if you want to, John, you are the king of 8.4 in the products, you want to kind of tell us a little bit about 8.4, which is on the street today?

John Curtiss

Yes, we're feeling really good about our model results in both 8.3 and 8.4. In terms -- our loss ratios are looking really good. We're happy with the mix of business we're writing, and we are finding ways to develop our models quickly and get them deployed more quickly. So getting new segmentation to market has been a big initiative for us. And I think it's something that we're doing really well today.

Susan Patricia Griffith
Chief Executive Officer, President and Director

Leanne, can you please introduce our first participant from the conference call line?

Operator

Your first question is from Elyse Greenspan with Wells Fargo.

Elyse Beth Greenspan
Wells Fargo Securities, LLC, Research Division

My first question was just looking at your recent margins, so in June was the first time that you saw sequential improvement, meaning June versus May, in over 10 years and also the year-over-year improvement in your underlying loss.

[Technical Difficulty]

Susan Patricia Griffith
Chief Executive Officer, President and Director

Elyse, we lost you after the year-over-year improvement.

Elyse Beth Greenspan
Wells Fargo Securities, LLC, Research Division

I'm sorry. Yes, so the question was just tying back, you saw pretty strong year-over-year improvement in the underlying loss ratio, strongest of any month this year in June. Just about to get a little bit more color there, is it favorable loss trends, and how's the seasoning of the business that you wrote last year coming on?

Susan Patricia Griffith
Chief Executive Officer, President and Director

It's definitely we're changing our mix. So that is something that we've noticed and will continue, we believe as we write more and more preferred business. We also have some underwriting in terms of making sure that we get the right rate for each of our customers. Frequency, I talked about frequency during my presentation and that it has actually risen in the most recent timeframe. We've actually seen a little bit of a decrease in frequency in the last couple of quarters. And so we believe that is part of the reason for our expanded margins as well.

Elyse Beth Greenspan
Wells Fargo Securities, LLC, Research Division

Okay. And then in terms of a couple questions on the homeowner's side. You provided on the slide that obviously shows, you guys have pretty low share at this time. Is there a market share goal as you expand on the homeowner side that you guys have in mind? And just secondly, tied to the homeowner side, if you can just give us an update on your property catastrophe reinsurance coverage and if there were any significant changes made this year versus last year?

Susan Patricia Griffith
Chief Executive Officer, President and Director

Yes, and I'll ask Trevor to come up a little bit to talk more deeply about the reinsurance side. So we want to do the same thing in home as we do in auto, grow as fast as we can with our target margin. So the first thing we had to do was get our sales force intact. So I talked about that about a year ago that we were aligning our sales force from ASI and Progressive to make sure we service those agents that have both home and auto, or monoline auto. And that has been resolved, it's really got a great momentum so we're excited about that. The other part was really expanding into many states. So we're in 41 states now with ASI or Progressive Home, and we'll continue obviously to have more offering in that -- in many states and with many more agents. So our goal is to again, grow as fast as we can on the home side, as long as we make our target margins. We obviously want to have that bundle customer because we know they last longer. And that's really important to us. And we're excited and we work hand-in-glove with the product folks at ASI to make sure that we have the right products on the street as well as the right rate for the individual risks that we see. In terms of reinsurance, we did change – or added to, I should say, our reinsurance plan in 2017 with our aggregate stop-loss agreement. And that is really $200 million worth of coverage, when our loss plus LE on a accident year ratio goes over 63 and that doesn't include liability or name storm. So that is something that is working as planned this year so far with our CATs. Trevor, you want to come up and talk a little bit more about the reinsurance plan?

Trevor Hillier
Vice President of Finance

Yes. So catastrophe program that we have outside of the aggregate stop-loss is very similar to previous years. We've always liked to buy a program that can protect us for at least 2 one-in-a-hundred-year events in a given year, and this year is no different. We have multi-event structure, providing the coverage isn't exhausted in the first couple of events. We actually have coverage beyond just the first 2. So our property CAT coverage is very similar to how it's been in years past.

Julia Hornack

Thanks, Trevor. Leanne, I'm going to take a question now from the webcast. Given the continued contribution growth from homeowners, which presumably operates with a lower target combined ratio, will the company gradually move towards accepting a higher level of target combined ratio within the residual personal auto book?

Susan Patricia Griffith
Chief Executive Officer, President and Director

We've been very clear about both our calendar year combined ratio goals as well as our lifetime combined ratio goals of 96. So we look at all of our products as an amalgam of how we want to be priced. So we will try to write as much business as we can. And we will write at -- not one is necessarily 96, we'll write at different coverages as long as we are writing at or below our targets that we know to reach our goals. So obviously, we don't make those public, but we will try to get the more preferred bundle long-term customers. But again, we won't do that if we compromise our target margins.

Leanne, can we take the next caller from the conference line please.

Operator

Your next question is from Brian Meredith with UBS.

Brian Robert Meredith
UBS Investment Bank, Research Division

A couple of questions here. First, just quickly on the commercial auto side. What is loss trend looking like there? You mentioned that you still have about 9% rate to come through. Is that well in excess of where trend is going right now?

Susan Patricia Griffith
Chief Executive Officer, President and Director

Loss rate has been favorable. Again that's a much more volatile coverage. And so as we saw last year, especially in the summer, that can be more volatile. So we believe we have the right amount of rates still to earn in, but we're feeling good about the margins that we have now. And again, we like that because it really is more of a volatile business. But we feel good about our position right now.

Brian Robert Meredith
UBS Investment Bank, Research Division

Right. So does that mean that there could be more margin expansion to come?

Susan Patricia Griffith
Chief Executive Officer, President and Director

I can't predict the future. And again it's a volatile business. We think we have the right rates earning in and of course that earns in a little bit slower than our auto book because it's a yearly basis. But we feel good. Again, we're always cautious because it is more of a volatile business.

Brian Robert Meredith
UBS Investment Bank, Research Division

Got you. And then wondering if you can just explain a little bit the severity that you're seeing on the auto property damage. And I know you mentioned it's because of claims [clovers] in the inventory and the pace. What's happening there that causes that increased severity? And does it also have an impact on your loss ratios? Or is it just a paid number?

Susan Patricia Griffith
Chief Executive Officer, President and Director

It has an impact, we're just seeing severity go up. And we believe overall, and then Gary I can have you come up and give some deeper insights because you study this on a daily basis. But yes, we're seeing severity on the property damage side. And we do believe it is because of higher cost in terms of the technology in vehicles. And we continue to watch that. And especially as -- the fleet is different than our average fleet has been historically as well. Do you want to mention anything on severity, specifically?

Brian Robert Meredith
UBS Investment Bank, Research Division

[indiscernible] but it popped up in the second, in the first half it's popped up a fair amount. So that's why I'm asking.

Gary Traicoff

This is Gary Traicoff, Chief Actuary. To your point, in the first half of the year, PD severity is up about 6% to 6.5%, and on a trailing 12-month basis, were more around a 5%. To Tricia's point, we are seeing an increase with the technology, and on an accident year basis, we're probably closer to that 4% to 5%. The reason it booked up a little bit more, is we had a little bit of backlog on some closures related to what we would call inbound segregation. And those claims tend to settle at a little bit higher amount. So probably 1 point to 1.5 points is because of that closure catch-up. And we would say the long term rate is probably more around a 4% to 5%.

Susan Patricia Griffith
Chief Executive Officer, President and Director

Leanne, can we take another call from the conference call line please?

Operator

Your next question is from Meyer Shields with KBW.

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

I have one big question and one small one. I guess, Tricia, when we look at the market share numbers that you have, and here I'm thinking mostly of the non-auto lines, is the target there for Progressive to be the underwriter of the complement of your market share? Or would you be comfortable serving that through Progressive's Agency -- I'm sorry, the Progressive Advantage Agency?

Susan Patricia Griffith
Chief Executive Officer, President and Director

We're -- it depends, is the answer. So there is a big opportunity in those charts I showed in the Commercial Lines area. So John Barbagallo and I talk frequently about what's the right thing to do for Progressive and our customers. And the odds are we'll do a little bit of both. But when we feel like it can benefit and help with retention for our commercial auto customers, we won't necessarily have to underwrite it. So we might do things differently, maybe not unlike we did on the auto side. So on the auto side, we have ASI and our agency brand and it's the only home product we write and we underwrite that. And on our Direct Side we have 9 or 10 brands that we work with. The majority of them are unaffiliated and then we have under -- ASI as one of them. We will likely do the same and have been doing a little bit of that on the commercial side. So think of it almost as the commercial destination. So what makes most sense for us on the long term and when we feel like it's more important for us to underwrite it, we absolutely will. But we also are very intrigued with working with more and more partners.

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

Okay, that's helpful. And then a question for John if I can. I'm just curious about whether the people that are likely to be the earliest adopters of more capable cars, is their current accident propensity different from the driving population at large?

John Curtiss

That's a really good question. And at this point we don't have enough data to distill what's being driven by the technology versus the people that are electing to drive those cars. So I think as we get more data and we try to control for all the various variables that we have in our products, we'll have a good insight into that. But I think it's a great question. But we have not been able to fully answer that, but it's something that we need to continue to think about.

Julia Hornack

All right. We're going to take another question from the webcast.

This next one is, year-to-date results have been very favorable relative to the 96 target and growth has been great. Do you have any desire to lower pricing and/or increase marketing spend dramatically to get back to a 96?

Susan Patricia Griffith
Chief Executive Officer, President and Director

We have been increasing our marketing spend. We want to do that carefully because we want to make sure a couple of things. One, is it incremental? So when you increase marketing, you don't want to just increase it to increase, you want to have incremental sales. So we look very closely at that when we increase our marketing spend. We have -- we did that in first quarter, we continue to increase our marketing spend in the second quarter. And we will continue that if we believe that it will produce incremental sales. And we look at that from, we have an acquisition cost we want for each customer, and as long as that cost per sale is lower than acquisition cost, and it's incremental, we will increase our marketing, again as long as we're under that 96. And we look for prices, we look at pricing across states, across DMA, et cetera and we lower prices when we believe it will bring in business and it follows the trend.

Julia Hornack

[Operator Instructions] Speaking of which, Leanne, can you take the next caller please?

Operator

Your next question is from Kai Pan with Morgan Stanley.

Kai Pan
Morgan Stanley, Research Division

First question is when you're talking about these trends, do you see a difference between the 2 main channel, like independent agency as well as through your direct channel?

Susan Patricia Griffith
Chief Executive Officer, President and Director

Yes, Kai, we see -- it would be in the aggregate level, we see differences between state mix, channel mix, customer mix. And that's how we really figure out how to set our targets for both new and renewal. So yes, we see differences.

John Curtiss

Was the question around technology trends or...

Kai Pan
Morgan Stanley, Research Division

Yes, more on the technology side.

Susan Patricia Griffith
Chief Executive Officer, President and Director

Okay, got it. You know how to answer that?

John Curtiss

I do not. I would say that the mix of the vehicles equipped with these technologies, as I said, is relatively small and it's starting to ramp up. So I do not know off the top of my head whether what we see in terms of differences between underwriting these vehicles by channel, that is not something we have spent a lot of time with yet.

Susan Patricia Griffith
Chief Executive Officer, President and Director

Well, remember and John said this, the amount of vehicles with this technology in the fleet is a very, very small percentage. So we watch this closely but you want to have enough data to be able to really understand it. And so we follow that data all the time. And as soon as we can correlate that with loss costs, we'll be able to do that in both the channels and really every segment. But it's still a pretty small part of the fleet.

Kai Pan
Morgan Stanley, Research Division

Great. And my follow-up question is about your sort of relationship with some of your partners, in terms of technology companies, or rather sort of like a shared mobility companies, do you feel them as long-term as a partner or as a competitor? Because some of them, especially car manufacturers as you said they might be collecting data themselves. I don't know in the future how do you see Progressive positioned?

Susan Patricia Griffith
Chief Executive Officer, President and Director

I'll let you add to that with what – with the relationships you have, but I'll start with the answer. Kai, we see these as partnerships. And some might be long term, some might be short term. But we're working really well with a lot of the OEMs. And obviously the shared mobility. Just to understand the loss behavior, and it's very different from an Uber driver to getting the data from OnStar. So that to us is just something that we'll continue to invest in. We know insurance and we know segmentation and we know pricing. And that is really something that we've had as part of our signature talent for 80 years. And so we really bring a lot to the table for all the partners as they do with us. So we see that we'll continue to form more partnerships and more relationships as the technology continues to evolve.

Unknown Executive

I think that's a good answer. John, do you have anything else to add?

John Curtiss

I think that's good.

Julia Hornack

Leanne, we'll take the next caller from the conference line please.

Operator

Your next question is from Josh Smith with TIAA.

Josh Smith

My question is in regards to the long-standing 96 goal. Over the years you've had many changes, you've gone through an industry period where investment returns have gone down. You've had talk of tax reform, which can move taxes. You've had a massive product shift moving into more commercial lines and homeowners. And yet still we're with the 96. I'm just wondering why are we still beholden to that number, what's the magic in the 96? Because where I look at it, you've had tremendous growth this year coming in -- growth in EPS per share, earnings per share, and the stock has reacted very favorably. And it's just more bang for the buck from having a lower combined versus higher growth. So I was just wondering if you could talk a little bit to that.

Susan Patricia Griffith
Chief Executive Officer, President and Director

You'd have the perfect formula if you knew exactly where things would fall. If you had a crystal ball it might be differently. This is really something that is part of Progressive's culture. And so where there's no specific magic to a 96, it has been part of our objective for as long as I can remember from when Peter was CEO all the way through Glenn, and I don't intend to change it. Partly it's a discipline that we have to make sure that we stay true to our commitment to our owners, so we're going to make at least $0.04 of underwriting profit. And if we want to make more that's great, if we can make more where it's in the system. But we also want to grow, so it's always that balance. So for me if we wrote at a 94, but weren't able to grow as much or vice versa, that would be different. That's kind of the constant that we use to sort of anchor all of the other things that we do. And it really is something that everyone here understands and we're committed to. And it's part of really how we think about the opportunity. Obviously during times now where frequency is lower and/or changing mix, we were able to make at least $0.04 or more. I remember that is the actual objective is to make at least $0.04. So we're okay with making more but we don't want to limit our growth. Did you want to add anything on that?

John Peter Sauerland
Chief Financial Officer and Vice President

I'd just offer that it is about that discipline, for sure, but it has also resulted in really impressive ROEs over a really long time period. And yes, certainly interest rate environments change over time, and we haven't changed that underwriting margin. But I think the formula's worked really well in terms of pretty consistent performance in terms of ROE, and also ensured that we have had adequate capital to continue to grow. When you're growing at a $3 billion clip and you're pricing leased auto to sort of a 3:1 premium to surplus rate, then you need pretty adequate incremental capital for subsequent years, so it's been a formula that's worked really, really well. And as Tricia said, there's no intent to change it.

Josh Smith

I'll just say as an investor, what works really well for me is the stock price going up, and that seems to be more moved by earnings growth than anything else.

Susan Patricia Griffith
Chief Executive Officer, President and Director

Thanks, Josh.

Julia Hornack

We'll take the next call from the conference call line please.

Operator

Your next question is from Connie DeBoever with Boston Company.

Connie DeBoever
The Boston Company Asset Management, LLC

Just going back to one of the slides where you pointed out the combined ratio gap continued to widen between you and your industry peers, how much of that is driven by the fact that you were ahead in terms of your pricing expectations versus peers versus the management actions, whether it be on the underwriting/pricing side or points.

Susan Patricia Griffith
Chief Executive Officer, President and Director

Great question, I think it's a little bit of everything. But we have talked for years about always trying to get ahead of trend. And we refer to it as small bites of the apple, just making sure we have the right increase on the streets because we know when you have to raise rates quickly to get profitable, that causes shopping, and it's happened to us. But last year was a perfect example of us getting ahead of it. We raised rates because we had to, but we didn't have to raise them at the same rate that our competition. And that's where you start to get a lot of shopping behavior and if you're positioned well, you're able to grow and grow profitably. We also do have a different model and going back to Josh's question in terms of that 96, we do want to make a bottom line underwriting profit and that's important to us as part of our objectives. And if you look across the industry, even with 2016 statutory results, you'll see that companies were able to grow, some companies were able to make money, but very few, Progressive being one of them, were able to grow and grow profitably. And so that part I think is really important because we always intend to be able to have that combined ratio under 96. So I think we look at our expense ratio, our cost structure's really important both on the expense ratio side as well as the loss adjustment side. So we want to continue to look at ways to be more efficient to be able to keep our rates competitive and grow.

Connie DeBoever
The Boston Company Asset Management, LLC

Okay, great. And then my second question is if you can just remind me, excuse my ignorance. When you talk about the target margin for the homeowner side, what is the target?

Susan Patricia Griffith
Chief Executive Officer, President and Director

We actually don't publicize our specific target margins per product. So like we said, it's an amalgam, our 96 is an amalgam of every product, every state, every mix and then of course we have different targets for new and renewal business, based on the fact that we have acquisition costs that are different in each channel.

John Peter Sauerland
Chief Financial Officer and Vice President

And we will vary those targets by product set over time, given what we think the market opportunity is. But again going into every year, we're projecting our growth formula renewal by product and ensuring that, we believe at least, we'll be hitting that calendar year 96 in the coming year.

Julia Hornack

I'm going to take another question from the webcast. When you say the severity of claims has gone up long-term, how does that break out in terms of injury, medical versus the auto repair? Could we get more color on how these subcomponents drive severity? And I have a feeling I'm going to be stepping aside for Gary.

Susan Patricia Griffith
Chief Executive Officer, President and Director

That's a complicated question. Gary, if you want to talk about long-term trends you've seen from severity, that would be great. So a deeper dive into what I gave in terms of medical trends.

Gary Traicoff

Sure. So Gary Traicoff again. In terms of, let's say short-term, like in the last year or so, both injury and property severity have been very similar, both around that 4% to 5% range. Medical, depending on the state, some have been a little bit more than that and some a little bit less. Over the long term, if we're talking more over 10, 20, 30 years, I think some of the stuff John showed, where trends are going up around there. Property for the most part has been more consistent. You'll generally see a little bit more volatility on the injury side. I think part of that comes into play when we have claims handling situations, et cetera. We know that medical costs are going up. But we don't necessarily see our trends mirror exactly where we see medical inflation at the same level.

Susan Patricia Griffith
Chief Executive Officer, President and Director

And in this year and this quarter and year-to-date, one of the drivers of our severity has also been Michigan [Peb].

Gary Traicoff

That's correct.

Susan Patricia Griffith
Chief Executive Officer, President and Director

That's been a bigger driver on that. Which is -- there's a lot of volatility in there just because of the nuances of Michigan.

Julia Hornack

Leanne, we'll take a caller from the conference call line please.

Operator

Your next question is from Bob Glasspiegel with Janney.

Robert Ray Glasspiegel
Janney Montgomery Scott LLC, Research Division

I got a capital question here, debt to capital is at 27.3. It went up with the bond issue and so then came down with the retirement. And remind me where you want to be there, and where you want to be on a premiums to surplus basis and what your sort of excess capital position is today?

Susan Patricia Griffith
Chief Executive Officer, President and Director

So we want to be less than 30% debt to capital, so we knew that would go up when we issued the $850 million bond, but we also knew the timing of -- to pay off the 6.7% bond that we had, the hybrid bond, so we knew that would pop up, we wanted to be less than 30%. From a capital perspective -- or you said premium surplus, premium surplus, 3:1 on Auto and about half of that amount for Home. On a capital basis, John alluded to this a little bit, but we have been really trying to use our capital to make sure that we continue to capitalize on our ability to grow in this environment. So the last 3 years, we've really focused on making sure that we grow the business and that's our usage of capital. As we've stated in the past, any under leverage capital we would use buy back shares or have a special dividend. Right now, we feel that we're putting our shareholders' money to the best use and that is growing the long-term business. So we're excited about that.

Robert Ray Glasspiegel
Janney Montgomery Scott LLC, Research Division

So I thought that a special dividend was unlikely for 2 years, post the Homeowners acquisition. We're sort of through that period. But the special dividend would not be likely just because you think there's better opportunities to grow the business, is that what you're saying?

Susan Patricia Griffith
Chief Executive Officer, President and Director

At this point in time, we are focusing on using our capital to grow the business. And obviously, you know we have a variable dividend that year-to-date is fairly robust and it syncs up with our internal gain share program. And so we believe that shareholders, if it continues, will be very happy with that variable dividend. And right now, we believe we have the ability to continue to grow properly and that's the best use of our capital.

Julia Hornack

I'm going to take another question from the webcast. Does Progressive have a view on the ability/cost of retrofitting cars for safety-enhancing technologies such as auto braking or lane departure warning? Might the growth of retrofitting cars currently on the road change the pace at which these technologies penetrate the fleet and accelerate the downward trend of claims? And finally might Progressive or insurers encourage retrofitting via premium cost reductions? So we're really talking about accelerating penetration rates potentially.

Susan Patricia Griffith
Chief Executive Officer, President and Director

I think that's really more of an answer to consumers. We have not seen many consumers take that option. And so for us, we will rate according to loss costs. We're a cost based business. And so for us that's an easy answer. We have not seen very rapid penetration for most consumers. And I think John sort of alluded to that when he talked about there's a very big difference in having a $10,000 package when you already have a luxury vehicle, versus the majority of the population who might already have a 5, 6, 7-year loan on their car are not necessarily going to purchase that. And you haven't seen much movement in that, have you?

John Curtiss

We have not seen a lot of movement in aftermarket. It's probably more viable when we're trying to give warnings to the driver. When you start trying to do an aftermarket solution where you're trying to be able to operate the vehicle, to accelerate it or brake it. I think that what we're seeing is those types of aftermarket solutions will be held to the same standards, the same safety standards that the government is going to require for newer models. So from that perspective we have not seen a lot of movement there, and that's not something we've been talking about offering to consumers.

Susan Patricia Griffith
Chief Executive Officer, President and Director

Not at this juncture.

Julia Hornack

All right. I'll take another question from the webcast. [Operator Instructions] The question is, can you give more details on Paths to Partnership commission program? How much more commissions do agents get and how is the annual bonus structured?

Susan Patricia Griffith
Chief Executive Officer, President and Director

I don't have all the specific details, but basically how we look at it is more of a zero-sum game in terms of the commission we've been paying overall. But we're giving higher commission to those agents who want to put their longer-retaining preferred business with us. And you have an option as well if you don't have a lot of customers but you want to work with Progressive, you have an option to have enough growth in those segments to get into the different levels of Paths to Partnership. We'll give you some details on that, likely in a future meeting, but it's pretty structured in terms of how much you write and the bonuses kind of fall into that, not unlike the Platinum Program.

John Peter Sauerland
Chief Financial Officer and Vice President

And if the follow-on question is about overall impact on cost structure, I would expect it to be, obviously self-fulfilling, the more successful it is the higher commissions we'll pay, but in the near term it would have a very small impact on our expense ratio. And at the same time we've been working to reduce our nonacquisition expense ratio which excludes both commission as well as advertising costs. So net, I think we would expect our expense ratio to continue to be extremely competitive in the marketplace even with this enhanced commission program.

Susan Patricia Griffith

Chief Executive Officer, President and Director

And we just started rolling this out and it'll take throughout this year to continue to roll it out to all of our agents.

Julia Hornack

Another one from the webcast. Can you please comment on competition versus mutual insurers? They have a lower profit goal, it seems, and often write at an underwriting loss. As interest rates increase and net investment income improves do you believe they'll get more competitive? And finally -- I'll let you do that first and then I'll ask the follow up.

Susan Patricia Griffith
Chief Executive Officer, President and Director

I mean I think obviously everybody has their own operating objectives. And so we really try to surgically focus on our objective to grow as fast as we can at a 96 as long as we can serve our customers. And so we're obviously a little bit more conservative on the investment side because we want to make sure that we take care of our customers on the underwriting side. And that's worked for us. It's worked for us for a long time frame. And although some of our competition fall through in the mutual company, how they decide to operate is really in a very different structure. So we tried to focus really surgically on how to best profitably grow Progressive.

Julia Hornack

I lost my question, sorry. Finally, and you may have answered that, how much of an expense ratio and pricing advantage does Progressive need to have versus mutual insurers to remain competitive?

Susan Patricia Griffith
Chief Executive Officer, President and Director

I mean for us, we always try to figure out ways to be more efficient, period. And we look at that on the expense ratio that John just talked about, less advertising costs and commission cost, and so we look at what we call non-acquisition expense ratio, so think a lot of the call centers where we sell and service, and we always try to figure out how can we be more efficient, how can we continue to serve the customers. We monitor why customers are calling in. Can we be more communicative so they get the answers they want to? On the Claims side, loss adjustment expense is hugely important and we have in the past 10 years continued to decline in LAE based on becoming more and more efficient. And Mike Sieger and his team continue to look at ways to become more efficient in the claims organization. So both of those things are really important. We believe the key to the companies that grow and grow profitably and are able to do both have a competitive cost structure, because then you can take that cost structure and have it into your competitive prices and naturally, those are really the players that win on a long-term basis.

John Peter Sauerland
Chief Financial Officer and Vice President

To that I would offer that cost structure and expected margin is one component of the whole. Certainly brand and experience, when, where and how customers want to work with their insurance company, matter a lot as well. So yes, the price which is driven by everything you mentioned is important, but that's a part of the formula and we think our brand and experience are pretty powerful in the marketplace and are a big part of the formula as well.

Susan Patricia Griffith
Chief Executive Officer, President and Director

And what I talked about during my portion of the presentation, that doesn't mean we're not going to invest. So we see those as being mutually exclusive. To not being -- so to us, it's really about you have to be making investments in the future as well, and we understand that. And we think we have a really good balance there.

Julia Hornack

I have one more question from the webcast. [Operator Instructions] The question is, I'm going to reword it a little bit because I've had a moment to think about it. So the question is, where are you in penetration of preferred agents for homeowners, number today, opportunity over the next 3 years? I think what they are really getting at is the appointment of Platinum agents, how many we've actually appointed compared to maybe the potential number of preferred agents out in the market.

Susan Patricia Griffith
Chief Executive Officer, President and Director

Great question. We have about 2,000 Platinum agents. And think of our overall independent agent channel, we have about 35,000. So we continue to grow as we broadened our coverage across the country. Remember, our Platinum agents, we want to be #1 or #2 when they think of the preferred customers that come into their shop. So not every one of our independent agents necessarily have customers that have a home to insure. So that limits it. We've also very specifically rolled out the Platinum model, more of a scarcity model to have it with fewer agents, because it is more complicated and it is something that is special to have, both those Auto and Home product. We also have what we call PHA Agents, Progressive Home Advantage agents, so they're not necessarily Platinum but they have our ASI Home product as well. It continues to grow. And I think that's the most exciting part when I think about the Destination Era and I think about that over $300 billion opportunity on the personal lines side, we've really just touched the surface with Progressive and ASI in terms of Home. And so those are where we really made the big investments that I talked about, on the commission schedule, acquisition of ASI, our in-house agency as well as our HomeQuote Explorer. So we feel like this is like the precipice of really gaining more and more market share in homeowners. And with that we will absolutely be appointing many more agents.

Julia Hornack

And along those same lines, actually from the webcast, we have a question about the Robinsons. A lot of Robinsons are with insurers in the captive agency channel, namely State Farm and Allstate. Is there a differentiated strategy to go after that sub-segment versus the independent agency channel Robinsons?

Susan Patricia Griffith
Chief Executive Officer, President and Director

I talked about the $91 billion opportunity in that home market and $63 billion of it being in places where we already have access, so direct to NAI. That's not to say we don't get plenty of people that shop from the captive agencies. And that's really one of the reasons why we did invest in this. So while we don't necessarily go out to those people particularly, we believe because of our brand and because we are available where, when and how people want to shop, we will ultimately get a lot of customers from the captive agency as well. So while it's not a strategy, we want every customer we can. And we believe they'll be shopping because we've made it easier.

John Peter Sauerland
Chief Financial Officer and Vice President

And I would add, in this environment where rates and some lines have been inadequate and preferred companies are raising rates fairly aggressively, we're seeing more preferred shoppers coming into marketplace across channels. So captive IAs as well as direct.

Julia Hornack

Great. Well, that would appear to have been our final question. So we look forward to seeing you all in November. And that includes our event -- concludes our event today. I'm going to hand it back over to Leanne for the closing scripts.

Operator

That concludes the Progressive Corporation's second quarter investor event. An instant replay of the event will be available on the Investor Relations section of Progressive's website for the next year. You may now disconnect.