S&P Capital IQ

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The Progressive Corporation NYSE:PGR

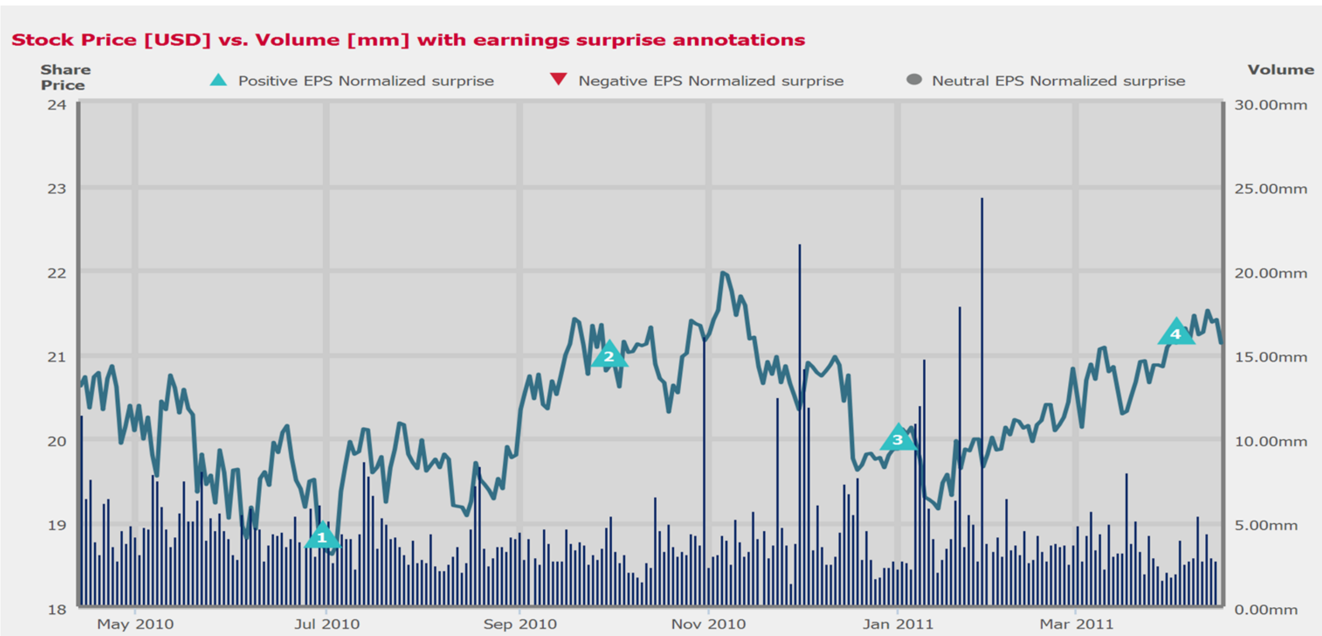
FQ2 2011 Earnings Call Transcripts

Thursday, August 11, 2011 1:00 PM GMT

S&P Capital IQ Estimates

	-FQ2 2011-			-FQ3 2011-	-FY 2011-	-FY 2012-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	0.39	0.34	▼(12.82 %)	0.35	1.55	1.66
Revenue (mm)	3836.24	3837.00	▲0.02	3873.29	15032.55	15624.34

Currency: USD
Consensus as of Jul-22-2011 10:30 AM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ2 2010	0.35	0.38	▲1 8.57 %
FQ3 2010	0.37	0.40	▲2 8.11 %
FQ4 2010	0.36	0.37	▲3 2.78 %
FQ1 2011	0.43	0.45	▲4 4.65 %

Call Participants

EXECUTIVES

Brian C. Domeck
Former Vice President

Clark Khayat

Glenn M. Renwick
Non-Executive Chairman

William M. Cody
Chief Investment Officer

ANALYSTS

Clifford Henry Gallant
Keefe, Bruyette, & Woods, Inc., Research Division

Ian Gutterman
Adage Capital

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

Joshua David Shanker
Deutsche Bank AG, Research Division

Matthew G. Heimermann
JP Morgan Chase & Co, Research Division

Meyer Shields
Stifel, Nicolaus & Company, Incorporated, Research Division

Unknown Analyst

Presentation

Operator

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

Clark Khayat

Thank you, and good morning. Welcome to Progressive's Second Quarter Conference Call. Participating on today's call are Glenn Renwick, our CEO; Brian Domeck, our CFO; and also on the line is Bill Cody, our Chief Investment Officer. This call is scheduled to last about an hour.
As always, our discussions on this call may include forward-looking statements. These forward-looking statements are based on management's current expectations and are subject to many risks and uncertainties that could cause actual events and results to differ materially from those discussed during this call. Additional information concerning those risks and uncertainties is available in our 2010 annual report on Form 10-K and our quarterly reports on forms 10-Q issued during 2011 where you will find discussions of the risk factors affecting our businesses, Safe Harbor statements relating to forward-looking statements and other discussions of the risks, uncertainties and other challenges we face. Each of these documents can be found via the Investors page on our website, progressive.com. We are now ready for our first question.

Question and Answer

Operator

[Operator Instructions] Our first question comes from Paul Newsome, Sandler O'Neill.

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

Maybe we could just start off about the most recent update with respect to just some of the more troubled states like Florida and the PIP states, and what I'm actually thinking about is whether or not you folks want to stand behind the comments that were made about optimism for accelerated PIP growth in the -- were made in the -- the comments that were made in the most recent analyst day?

Glenn M. Renwick
Non-Executive Chairman

Sure, Paul. That's a good place to start. Let me try to detail sort of 4 states that I think will give us the flavor of this, Florida, New Jersey, New York and Michigan. And I'll ask Brian to comment on things that I might miss. Absolutely stand behind the comment with regard to Florida and New Jersey. We are, again recognize that we took a significant dip. So when I talk about returns, we're not talking about it pulling away from all-time highs, we're getting back to it. But we are seeing, and I'll use the words "significant return to growth," in Florida and New Jersey, very significant return to growth there. But it's a return, and I hope, of course, we'll go on past the point that we were once at. But happy with -- very happy with the results, Florida and New Jersey. New York, also happy, but I would not use the words sort of "significant growth" there. We're sort of growing. We certainly have respect for GEICO in New York. They've got a great a position there, and we just don't have the growth that we would love to enjoy there. That doesn't mean we're not going to work at it every day. But happy with New York, less growth. And Michigan, growth really hasn't been the issue of Michigan. Michigan's getting sort of the control around profitability, and we're much happier than we were in Michigan and starting to get to a point where our growth and profitability is a lot better balanced. So the optimism that I -- I don't want to use that word per se, but I think I described some optimism for the second quarter stands and is led by New Jersey and Florida and comfort with both of the other states being able to not be a drag at all. Brian, you want to sort of add anything to that?

Brian C. Domeck
Former Vice President

Nothing significant to add. In Florida, we actually did lower our rates, I think it was early June. So after that, we have seen a pretty significant rebound in new application counts. Obviously, policies in force sort of lagged that, but the growth that I was referring to is we've seen a significant increase in new application counts, both in the agency channel and also in the direct channel. New Jersey, we're also seeing positive growth in new business applications. The Michigan story is a little bit different there. It is we had some concerns about the profitability, and over the past year, 1.5 years, we have raised rates fairly consistently and aggressively in the state of Michigan. So that wouldn't be a growth in new applications story right now, but we feel much better about our rate adequacy and overall rate level yet there. Growth there will be slower to come.

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

Terrific. My second question is a different topic. We obviously having an interesting time recently in the financial markets. Progressive has one of the highest -- higher proportion of government U.S. equity -- the government investments relative to their equity. I was thinking, do you have any views on that? Does the AAA downgrade affect how you think about your total portfolio?

William M. Cody
Chief Investment Officer

Paul, this is Bill Cody. No, it doesn't affect how we think about our total portfolio or about treasuries particularly. We still feel really confident that we'll receive all our timely interest and principal payments in the treasury portfolio. Our weighted average credit rating post the downgrade remained at AA-. But you're right, if you add up our cash and our treasury portfolio, it's roughly 30% of our total fixed income portfolio, which is substantial. And that honestly feels pretty good to us right about now, as we're seeing a little bit more turmoil. That may give us some dry powder if there are some opportunities down the road. But we've kept our duration short, which hasn't worked out as rates have fallen. But as rates get lower and lower, the math gets really tough there, in that it doesn't take much of a price move to wipe out a full year's worth of income. So we're maintaining a pretty short duration portfolio and looking for high-quality spread product in the front end when we can find it.

Operator

Next we have Cliff Gallant, KBW.

Clifford Henry Gallant
Keefe, Bruyette, & Woods, Inc., Research Division

Just wanted to ask about Snapshot, get another update on how that product rollout is going. I'm just curious as to whether or not -- or what your view will be in terms of when you might be able to give Snapshot to non-Progressive policyholders? At some point, do you think Snapshot could be a marketing tool, something that you might be able to mail out to non-Progressive policy holders to perhaps try to get them to disperse some shopping activity?

Glenn M. Renwick
Non-Executive Chairman

Yes, let me pick up a little bit. It's what, 40, 50 days since we were together in New York, so I'll hit a couple of things on Snapshot and then I will at least comment on your second question of non-customers. In general, we remain as comfortable and optimistic as we were in June. We think the branding work we've done, some since then, and a couple of new adds that have yet to air are continuing to allow us to own that space, and that was very important to us, to sort of get something where usage base is really highly associated with Progressive. And our measures tell us that we're achieving that. I would tell you, on a both personal and as best we can determine objective measure, we've yet to really describe Snapshot to the consuming public, as well as we ultimately will need to do so. My suspicion is that it will require continuous exposure and different presentations, and we're actually pretty excited about a couple more that are in the hopper. But we recognize that that's not a quick one-add, everybody gets it and gets excited and therefore, takes it up. The take rate in the direct channel, I mentioned this in my comments for the annual report letter, remains very strong. Our agency distribution is actually starting to accept the concept and get certified, and there is an online certification process for our agents before they can use that. About 50% of our agents are now certified to use it. The take rate in agency is about half to maybe a little less than half of what it is in the direct channel. I don't read too much into that at this point in time. I think it's a new concept, just as it is for consumers. But there appears to be no roadblocks there that we couldn't continually report improvement on all of those numbers. Important to us, clearly when we start to go, we've done testing for a long, long time but important when we really get to this new model is profitability. And our loss ratio and our targets seem to be in line with our expectations, and we're actually quite happy there. And thirdly, retention. And at this stage, all we can really comment on is what I'll call, early term retention of customers, since we don't have long-term customers on the product, but the early term retention is actually very encouraging for us. So good things on Snapshot. We continue to actually produce a fair percentage of our business. I'll give you sort of rough numbers though I've said I'm not going to continue to comment on numbers that are really a discount in our regular product but of the customers that will come to us on a monthly basis, think in terms of between 30,000 and 40,000 customers are taking this product. So we're starting to get a significant market -- or base on which to derive these conclusions around profitability, retention and brand acceptance as a more general concept. So really, just a continuing positive update to the June comment. Clearly, you know our overall growth numbers, so it's not something that has sort of pulled in significant numbers of customers that we weren't otherwise getting, and we continue to hope to see that those numbers can get greater over time. With regard to non-Progressive policyholders using the product, and as I was trying to be fairly direct in New York, while we have clearly thoughts on that matter, we have not disclosed and are not in a position to disclose our ultimate game plan on that one. But there are options available to us that we will intend to capitalize on.

Operator

Next, we have Meyer Shields, Stifel, Nicolaus.

Meyer Shields
Stifel, Nicolaus & Company, Incorporated, Research Division

Looking at the direct channel, obviously PIF growth is still pretty impressive, but it's been slowing down a little bit. And I'm wondering whether there is a difference in the breakdown of new direct channel customers by their previous channel of buying insurance?

Glenn M. Renwick
Non-Executive Chairman

I honestly haven't looked at that in enough detail to comment in a way that would be meaningful to your question. I don't have any reason -- I mean, we do it all the time. I think I would know, or Brian would know, if there was any marked change in that distribution of prior carrier coming to us. And I don't know of that, so rather than sort of wing an answer to that, which is not what we would do, I simply don't know if there has been a change. My suspicion is not. I'm happy to respond to that next time on a conference call and make a note to make sure that we've got that covered.

Meyer Shields
Stifel, Nicolaus & Company, Incorporated, Research Division

Okay. And a separate question, I guess. In the Q, you talked about less shopping and the lower conversion rates. And I know this is a -- it's a simplistic analysis to say that if there's less shopping, it's probably more committed shoppers out there, which might imply a higher conversion rate. And I was wondering if you could talk about why that's not translating in that way?

Glenn M. Renwick
Non-Executive Chairman

That would require a fair amount of generalization. I wouldn't disagree with your premise but in some cases, we've had to -- we've taken rate which will actually force lower conversion rates. So over the first 6 months or so, even though our average or our aggregate rate take would be about 0.6%, you have individual states that have taken more. And Brian mentioned earlier that we took rate down in Florida but to prior that, we were taking rate up a fair amount. That clearly affects conversion, and the rate decrease will do the opposite to that. So I don't have a macro response to you that sort of suggests that there are more committed shoppers. I'm not sure that that is necessarily true. I understand the logic, but we can only really report what we see. And by looking at this as many ways as we can, whether through agent production, Internet, comparative rating, so on and so forth, we do believe that shopping is down. And conversion is much more a function of just our rate level in the individual states. We are feeling good about our rate level. Our margins -- I think the margins in general for the industry are starting to approach a little bit more of the mid-90s as opposed to lower 90s. Those rate changes -- I think the industry has been at about a 1.6%, or our estimate is about a 1.6%, so a little faster than us. Again, another reason to believe that maybe conversion would be stronger for us, but it's really a state-by-state issue. We'll just keep reporting what we see. I'd love to think that some of the comments I've made with Florida and New Jersey will help us with aggregate conversion.

Brian C. Domeck
Former Vice President

This is Brian. The other thing I'd add to it, in terms of conversion, some of it – certainly, state mix is part of it, but also how and where they're coming from, the prospects are coming from matters. And I think in New York, John Sauerland clearly described taking search, paid search on the Internet as an example.

People who shop for Progressive Insurance will have a much higher close rate than people who shop just generally for auto insurance. And in terms of our mix of prospects, we are trying to get more and more just to look at us. But as we look at our prospect flow in terms of where some of the prospects are coming, particularly on the Internet, they would be coming from some of our more lower converting by varying natures of media channels.

Operator

Next, we have Vinay Misquith [ph]. Evercore Partners.

Unknown Analyst

First question on New Jersey. Was pricing taken down there? And why are you starting to see sort of a pickup in growth in that state?

Brian C. Domeck
Former Vice President

This is Brian. Last year, we actually raised our rates fairly significantly in New Jersey, which was harshly callous for new application decreasing there. And recently, we have become more comfortable in our rate level, and I believe we recently lowered rates a small amount. Because it was either recently or soon-to-be recently.

Glenn M. Renwick
Non-Executive Chairman

Soon-to-be done, yes.

Brian C. Domeck
Former Vice President

Exactly about the exact date of it. But it is -- in the summer months, we were planning to decrease rates a little bit in New Jersey. I suspect that has already happened.

Unknown Analyst

Sure, fair enough. The second question is on the expense ratio. First half of this year, the expense ratio in the direct increased versus the first half of last year. Just curious why that's happening? And how much of gained share is in that? And was this year's numbers negatively impacted by the higher growth or the Snapshot product introduction?

Brian C. Domeck
Former Vice President

Well, a part of the expense ratio being higher is we have continued to increase advertising spend. Although in aggregate, it is fairly close to earned premium growth rate. But we have increased advertising spend for certain, so that is a component piece. Gain share actually would not be a component piece because our gain share score this year is lower than it was last year, so there would be actually a little bit less of an accrual set up for gain share relative to that. And a little bit, keep in mind, average premiums for policy and direct have gone down a little bit, not markedly but a little bit. So net-net, our aggregate cost per sale, or cost per acquisition, is higher this year than versus a year ago.

Unknown Analyst

Okay, can we expect that to come down next year if growth slows a little bit?

Brian C. Domeck
Former Vice President

In terms of the amount of advertising spend? We always -- or expense ratio in general?

Unknown Analyst

The expense ratio in general.

Brian C. Domeck
Former Vice President

A major component -- I'd say there's 2 major components in our expense ratio, particularly on the direct side. The first being sort of cost of acquisition. So in terms of advertising spend, we have mentioned so far this year, it was up close to double digits through the first 6 months of the year, and we will always reevaluate that spend relative to a deal, and we've talked about that a fair amount before, relative to cost per sale, relative to our target acquisition cost. So we continue to reevaluate how much we spend, and we have meetings regularly even as to what the next quarter spend might be or the remainder of the year spend might be. So we will continue to reevaluate that based upon where we feel our yield is relative to targets. The second component piece in all of our expense ratios, a large amount of it, is sort of labor costs. And we are trying and continuing to try to increase the efficiency in everything we do. Our policies in force per FTE continued to increase but granted, at a slower pace than a couple years ago. So we continue to gain some efficiencies, but it’s at a little slower pace than it would have been in the last couple years.

Unknown Analyst

Sure, fair enough. One last question if I may, just sneak it in. On the capital front, you had about $1.6 billion at the holding company cash. How much do you think is a normalized amount that you would like to keep?

Glenn M. Renwick
Non-Executive Chairman

This is Glenn. We don't typically think in terms of what's a normalized amount at the holding company. I think we gave you a very clear direction as to what our overall capital models are and what we expect to do with capital when we are in a position of more than we can effectively put to work. But the holding company is going to vary based on time of year, based on dividend-ing up from operating companies, based on significant tax payments and other things that we might want to do, gain share, variable dividend. So that will vary throughout the course of the year, very much in anticipation of the cash flows that we expect, either from the operating companies or outflow of cash is. But we don't have a particular amount. We try to be much more normalized for the operating companies and let the holding company be the excess.

Brian C. Domeck
Former Vice President

Yes, in terms of, here are things that are paid out of that non-insurance subsidiary: interest payments, dividend payments, share repurchases and the like. And how -- keep in mind, throughout the course of the year, the insurance companies hopefully are generating capital. And so far, based upon underwriting margins and returns to date, we have generated capital in the insurance companies. And we go through a process, generally, towards the latter half of the year where those profits are dividend-ed up to the holding company. Now that -- there are state regulations as to how much and timing of when those dividends can be sent up to the holding companies. So during the course of the year, if you try to say what's the normalized amount, it actually fluctuates based upon the time of year.

Glenn M. Renwick
Non-Executive Chairman

I would add one other just comment. I mentioned it a little bit in my letter with regard to the expense. Brian went through the numerator very well and certainly, that's the one that ultimately we are accountable for controlling, and I don't think there's any lack of attention inside the company on that. But a big issue, I think, for those that are followers of the industry is really the denominator. And for some time, at least for Progressive as our mix is changing, as our acceptance of our direct channel specifically is changing, we've been on a fairly long-term decline in average written premium. There are some factors that are general to all lines of business, and there are some factors that are more specific to Progressive's

Direct business and our entry and quite successful entry into bundled products. It does appear, and I will continue to give the numbers rather than opinions, but it does appear that, that decline in average written premium has slowed somewhat, and I think that we're probably at a point where the denominator is not working against us on the ratio, the expense ratio itself. That will clearly bear out as you see the numbers coming forward in the next several quarters, but I think we're probably at a level that we can expect that the denominator will not be working against us.

Operator

[Operator Instructions] Next, we have Matthew Heimermann, JPMC.

Matthew G. Heimermann
JP Morgan Chase & Co, Research Division

Just with respect to the premium per policy, I'd be curious, you gave us a sense of what's happening with rates. But I'd just be curious, as we look at that and we look at the declines, how much of that is a function of just the customer mix shift in moving to higher average lifetime value customers, which have longer retention periods, and I would assume, have lower average premium? And then how much of that is kind of vehicle mix in terms of age of vehicle new versus used, et cetera, and whether or not there are any other factors that are playing into that?

Glenn M. Renwick
Non-Executive Chairman

Yes, that's a very fair question. We do what we call decompositions. But we do that very much at a state level. So I don't have a generic-y composition that could sort of say x percent is the long-term frequency decline, x percent is the vehicle aging effect, y percent is the mix of business in the book in general, because we really manage the business state-by-state. And state product managers would have and do have a much better handle on that on a state-by-state basis. But there's not necessarily a strong generic statement other than the ones that I've said. That overall, we've been seeing a fairly significant long-term trend in frequency decline. That's going to affect everything. Yes, Progressive is seeing, in some states more so than others, a more of a shift to a different mix of customer. And I want to reinforce every time I say that, we want -- we welcome every customer, but we are able to now have a product that attracts us classic customers that previously we didn't attract, and that is a decline on a per unit basis in average written premium. But in a lifetime premium basis, that's a very welcome situation. So those are sort of the 3 factors that I'd say are generic. Anything more than that really requires a detailed composition -- or decomp.

Brian C. Domeck
Former Vice President

Yes, and one of the reasons is it's important to decomp, particularly like at a state level is because state mix matters. Think of the high average premium states, Florida, New York, New Jersey. And certainly, last year, those were states for us where, due to profit concerns, et cetera, we were slowing our growth. And then hopefully, as they have started to return and come back, that will actually also influence aggregate average premiums. So when we talk about aggregate average premiums, also know that state mix factors into it. The average premium in New York and New Jersey is very different than what it is in Iowa.

Glenn M. Renwick
Non-Executive Chairman

And mathematically, we could have average premiums going up in 2 states but a radical change in mix between the states. And in aggregate, looking as if the average premium’s coming down.

Matthew G. Heimermann
JP Morgan Chase & Co, Research Division

No, that's helpful. Just wanted to make sure I had a handle on all of that. Guess the other question is just in -- if we look back at -- who knows what's going to happen with markets? Your guess is as good as mine. But if I look back at kind of what the balance sheet looked like 4 years ago, you had some pretty significant kind of single-shot returns of capital. The portfolio at that time, the leverage was higher, asset-to-equity, certainly the duration was longer. I think there was less cash short-term issues on the book, and there was a much bigger kind of preferred exposure on the balance sheet. Given kind of where things sit today, what would it take -- I'd just be curious whether or not kind of your -- how you're thinking about risk and vis-à-vis capital flexibility, and not kind of approaching this from a standpoint that I think there's a dramatic change to your capital flexibility coming. I guess it has more to do with how you would think about deploying that flexibility against the backdrop where perhaps things are getting a little bit more challenging?

Glenn M. Renwick
Non-Executive Chairman

Well, I'll get Brian and Bill to comment on this one, see if we can surround the question. But I would tell you, I would start with repeating something I wrote significantly during the somewhat awkward days of 2008, 2009 from a risk perspective. Our focus is always on preserving the ability to write as much insurance as we can possibly write. We think that's our value proposition to shareholders, that we do the operational part of this business exceptionally well. So post-2008, where we don't think we were necessarily way out of bounds, we've taken changes. We've addressed those changes and we've communicated them. For example, one of them would be have a lower position in preferreds. We still have a lot of the preferreds that we had at that time. They've recovered, in many cases, very nicely, but they're not at a point where they're causing us distress, and they're not necessarily so liquid that we can change the position overnight nor do we want to. But in general, you'll see that the balance sheet is strong. And this time, to the extent that I'll say this time, that we've got a significant market disruption, we've got a very strong balance sheet. We're not in any way concerned about the operating company or overall capital. We want the flexibility. There was some discussion about money at the holding company that gives us the most flexibility. We've described our capital in 3 levels, 3 tiers. It's at the holding company that we have the most flexibility. And frankly, we feel right now with our position, Bill commented, maybe being short with interest rates going lower was a strange combination, but we're still feeling very good about our overall position. We don't feel particularly threatened in any one area or a vulnerability, and a lot of flexibility at the holding company that frankly we are very happy to have at this time. And if we see opportunities that are in our best interest, the shareholders' best interests obviously, we're in position to take advantage of them. Anything you'd like to add, Brian or Bill, that tries to get at that question with more specificity?

Brian C. Domeck
Former Vice President

Not a whole lot to add from my perspective. Just in terms of capital, we've tried to articulate how we think about it and that\ which is required for, say, regulatory purposes. Plus, we always maintain some for contingent purposes. Oftentimes, we think about contingent purposes being things like hurricanes and tornadoes and the like. And certainly, investment marketplace disruptions is also another thing that we maintain for contingent purposes. But as Glenn said, we feel comfortable with our balance sheet and our capital position, but we always reevaluate where we are and what future uses may be, and we regularly discuss what capital opportunities there are, both in terms of return to shareholders, as well as what the total capital structure is and makeup is.

William M. Cody
Chief Investment Officer

This is Bill. I don't have a whole lot to add either, other than, I think, as you noted correctly, our portfolio is less exposed to some of the more volatile elements that are driving the market right now. And we have a fair amount of dry powder, and we feel like we're trying to avoid some of the risks that are front and center right now and leaving us with more flexibility and an opportunity sort of should some meaningful opportunities occur.

Operator

[Operator Instructions] Next, we have Ian Gutterman, Adage Capital.

Ian Gutterman
Adage Capital

Brian, just want to -- also a question on investments. Can you tell us where your new money yield is versus the portfolio yield?

Brian C. Domeck
Former Vice President

Bill, do you want to take that one, Bill? Where we’re expecting the new money?

William M. Cody
Chief Investment Officer

Yes, it's a little tough because we don't track that exactly. As far as showing what our new money yield is, and we certainly don't have a target there. And what we did in June, let's say is going to be very different from what's available to us right now, as rates have fallen pretty sharply. I can tell you that what we've done has been consistent of staying relatively in the front end of the curve, and some spread products will go a little bit longer but not changing the overall portfolio duration. In the second quarter, we slowed down our purchase of spread product to little bit less than half of what it was in the next quarter as spreads compress. Right now, what we're seeing is lower treasury benchmark yields but wider spreads to a significant degree, which may give us some opportunity at the same levels. I could tell you, just as a fact on an FTE basis, what we’ve bought in June had a yield of about 2.8%. But I don't think I would use that as guidance going forward.

Ian Gutterman
Adage Capital

Okay, what I was trying to get to, I could just maybe use some rough numbers. But Glenn, it goes sort of back to the: is 96 the right target if rates remain low? And I know, maybe it was a year ago, I think you were at the point of, it's still the right target. But now that we're not just seeing rates lower since then but 2 more years of rates being this low, if I, I don't know, I'm trying to do some very quick math, but if we've lost 200 basis points of pretax investment yield, that's equivalent to over 1 point on the combined ratio, maybe 1.5 points. Does that 96 need to become a 95 at some point?

Glenn M. Renwick
Non-Executive Chairman

Well, I guess if I was the only one in the marketplace, I would probably consider changing the target. But as you also know, there is very, very competitive environment out there for our product and probably an all-time high in advertising, quality players' advertising. And I am going to tell you just point blank, we're going to stay with that 96 target because it is not something we're going to change tactically for the moment in time. Our long-term goal remains even as lofty as it sounds, it is absolutely the long-term goal that drives us to be the consumers' #1 choice for auto insurance. To do that, that requires getting more customers, so our focus is getting more customers, clearly not at any cost, so therefore we define what we mean by acceptable margin. And 96 not only serves us well financially, and I understand the trade-offs there, not only serves us well financially, but culturally, it's a very, very, very strong goal. And I would say, clearly I'm biased on this one, that Progressive is the company it is, probably because it has constancy of purpose. And that constancy of purpose, while it's okay to challenge it from time to time, has to be an extraordinary challenge to change it. And I'd just tell you, I have not reached that conclusion.

Operator

Next, we have Josh Shanker, Deutsche Bank.

Joshua David Shanker
Deutsche Bank AG, Research Division

There's been a lot of attention given to New York and New Jersey, but one of the 4 states is also Massachusetts, you spoke about. I'm wondering if you can address some of the peculiarities of Massachusetts and talk about the opportunity there?

Glenn M. Renwick
Non-Executive Chairman

Yes, good. Actually, I probably should have shown Massachusetts in there, although I sort of don't think of it as one our classical PIP states. But Massachusetts, I think I've said this before as a quick recap, we went in at the wrong rate level. I can probably make a longer story out of that, but that would be the same outcome whichever way you get to it. We have very talented product management in that position now, and they have done a very, very good job of being able to get us back to a rate level and try to manage the customer set that we've had. Clearly, we've lost some of those customers that we took on at the wrong rate level as we adjust rate level. But we're at a point now, I would tell you, that we have a rate level that we can attract new customers at. Some of our renewal customers, arguably maybe still a little bit off, but not by a lot and not something that is on my top 10 list of things to worry about. And I would look forward to next year, maybe even the latter part of this year, but with starting to turn the direction on Massachusetts and increasing our customer count there at the same kind of disciplines that you would expect us to do in most other states. So a longer entry than I had expected, but I think we're back on course.

Clark Khayat

That was our final call. So operator, please close the call.

Operator
Thank you. That concludes the Progressive Corporation's Investor Relations Conference Call. An instant replay of the call will be available through Friday, August 26, by calling 1 (800) 272-5957 or can be accessed via the Investor Relations section of Progressive's website for the next year.