The Progressive Corporation NYSE:PGR

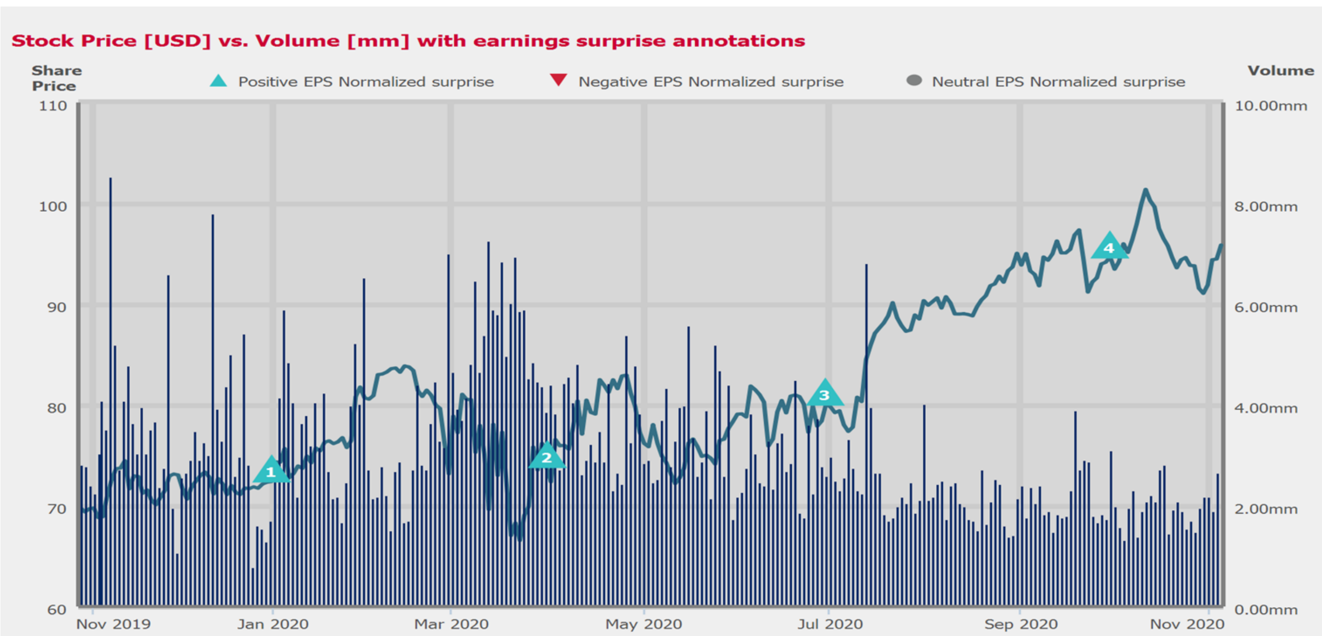
FQ3 2020 Earnings Call Transcripts

Wednesday, November 04, 2020 2:30 PM GMT

S&P Global Market Intelligence Estimates

	-FQ3 2020-			-FQ4 2020-	-FY 2020-	-FY 2021-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	1.69	1.88	▲11.24	1.48	7.11	NA
Revenue (mm)	10911.26	11015.10	▲0.95	10482.28	41425.51	NA

Currency: USD
Consensus as of Nov-04-2020 10:36 PM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ4 2019	1.13	1.29	▲1 14.16 %
FQ1 2020	1.46	1.93	▲2 32.19 %
FQ2 2020	1.73	1.85	▲3 6.94 %
FQ3 2020	1.69	1.88	▲4 11.24 %

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EXECUTIVES

Douglas S. Constantine
Director of Investor Relations

John Peter Sauerland
VP & CFO

Susan Patricia Griffith
President, CEO & Director

ANALYSTS

Brian Robert Meredith
UBS Investment Bank, Research Division

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

David Kenneth Motemaden
Evercore ISI Institutional Equities, Research Division

Elyse Beth Greenspan
Wells Fargo Securities, LLC, Research Division

Gary Kent Ransom
Dowling & Partners Securities, LLC

Jamminder Singh Bhullar
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Joshua David Shanker
BofA Merrill Lynch, Research Division

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Michael David Zaremski
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Michael Wayne Phillips
Morgan Stanley, Research Division

Suneet Laxman L. Kamath
Citigroup Inc., Research Division

Yaron Joseph Kinar
Goldman Sachs Group, Inc., Research Division

Presentation

Operator

Welcome to the Progressive Corporation's third quarter investor event.

The company will not make detailed comments related to quarterly results in addition to those provided in its quarterly report on Form 10-Q and the letter to shareholders, which have been posted to the company's website, and we'll use this event to respond to questions.

Acting as moderator for the event will be Progressive's Director of Investor Relations, Doug Constantine. At this time, I'll turn the event over to Mr. Constantine.

Douglas S. Constantine
Director of Investor Relations

Thank you, James, and good morning.

Although our quarterly Investor Relations events typically include the presentation on a specific portion of our business, we will instead use the 60 minutes scheduled for today's event for introductory comments by our CEO and a question-and-answer session with members of our leadership team. Questions can only be asked by telephone dial-in participants. The dial-in instructions may be found at investors.progressive.com/events.

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 today's event. Additional information concerning those risks and uncertainties is available in our 2019 annual report on Form 10-K and our first, second and third quarter's quarterly report on Form 10-Q where you will find discussions of the risk factors affecting our businesses, safe harbor statements related to forward-looking statements and other discussions of the challenges we face. In particular, note that our quarterly report on Form 10-Q for the first quarter includes discussions of the risks and uncertainties that we face, including specific risk factors arising directly and indirectly from the COVID-19 pandemic, and these risks are further referenced in our third quarter 10-Q.

Before going to our first question from the conference call line, our CEO, Tricia Griffith, will make some introductory comments. Tricia?

Susan Patricia Griffith
President, CEO & Director

Thanks, Doug, and good morning, everyone.

It was an extremely close and not yet decided election. I thought I'd open with a few words before we get to your questions. I know that the election has been on everyone's mind, including those at Progressive. I think it's important that our shareholders know that we live our core values, specifically the golden rule, regardless of the candidate we support. I'm very proud that in the end, we're all united in our commitment to caring for our customers, our communities, our shareholders and most importantly, for each other. As you know, we feel strongly that our people and our culture are a significant competitive advantage for us. They are 1 of our 4 strategic pillars, and we rely on our incredible culture to get us through challenging times and come out more focused and united than ever. This year has been no different as we move forward together.

I thought I'd share a note that I received on Monday from our IT Group Manager, Scott, regarding a video I did on unity last week. This really exemplifies who we are as a company and why we win in the marketplace. He said, Tricia, I have so much to be thankful for in this year and month, and there is a literal pile of things which I'm deeply appreciative for you and your team, truly. And I know I speak for so many others, I am grateful. Then he went on to share the communication that he sent to his team. And these are words that are echoed by so many leaders of Progressive.

His note said, it's the last Tuesday in October, which means that next week marks the national election and another end to political yard signs season. Here's the sign we placed in our own yard. And the sign started with love your neighbor and then talked about loving your neighbor regardless of race, who you love, et cetera. Conveying what we hope for our neighborhood that regardless of next week's outcome, we hope that our common bond as neighbors can prevail over the differences, really an extension of the golden rule. That's not to say that it's not easy or that we're not strong in our political convictions, but it's also to say that we strive to respect, care for and even love our neighbors regardless of their vote or other differences.

The same applies here at work with Progressive culture rooted in our core values. My DRG is committed -- that's direct reporting group, is committed to support the diversity of our people. Please work to grow and sustain that spirit of collegiality and friendship with each other through and beyond the election. And his words really truly reflects who we are as a company. And being up late in the middle of the night and this morning, I will end up after this posting another video today to ensure that Progressive people, who can be so stressed, remain calm and focused even though there'll be delayed results.

Also, tomorrow marks our eighth annual key to progress where we give away cars to deserving veterans. Due to restrictions on business operations for the program participants and social distancing requirements, our giveaway events will be small, but still very meaningful. All in all, this is another great example of giving back to our communities where we've donated over 750 vehicles in the past 8 years.

Being a successful business starts with our people. And this quarter continues to exemplify what you can do with the right team and the right culture. As I stated in my letter, we're extremely pleased with our Q3 results. We're also acutely aware that these times are tumultuous and that we have to remain nimble as events unfold. That's really always been our strong suits. Thank you.
And with that, James, we'll take the first question.

Question and Answer

Operator

[Operator Instructions] Our first question comes from the line of Mike Zaremski from Crédit Suisse.

Michael David Zaremski
Crédit Suisse AG, Research Division

I guess first question, I'd love to learn more about the automobile severity trends. They seem to have kind of -- be kind of staying higher for longer. But I know there's a lot of -- there's been some noise and distortions during COVID. You called some out in the Q. And I know last quarter, you called some out too about subrogation. I'm trying to just learn more so we can kind of understand whether the underlying trend might be a little bit lower or if this is kind of the new normal, especially in the bodily injury and PIP sides.

Susan Patricia Griffith
President, CEO & Director

Thanks, Mike. Yes, let me give you some insight. And it's a little bit difficult to compare with PCI because they haven't reported Q2 yet. They're not as volatile as you -- but let me let me go through a couple. So when you think of PD, it's sort of the opposite of what happened in Q2 in terms of inbound subrogation. Our supplement payments, which is inbound sub, are coming from a period of lower volume applied to a period of increased incurred volume. So we report 3.9% PD incurred. It's a little bit higher if you remove that inbound sub, about 4 points higher. So right around 8.5 points. So it's a little bit higher, but clearly less than Q2 when we were at 12.7%.

On collision, again, the outbound sub mix is no longer driving trends. And that's, of course, the money we receive in. And if you remove that sub percentage, this 6.2% goes up a little bit. That was negative in Q2. So that was very different. And it's all really about the numerator and denominator when you're having frequency changes quarter-to-quarter.

You talked about PI. Our incurred severity is similar to Q2. So we have some aging, which we believe accounts for about 2 points, and then we have another 1 to 2 points that relates to facts of loss shift. So what we did was we took a look at quarter 2 of 2019 facts of loss. And then we compared that to quarter 2 of 2020 facts of loss. And what we're seeing, we think this is likely because of less morning congestion commute that there are less rear-end accidents. So think of kind of a fender bender that wouldn't cause much damage from a severity perspective or an injury perspective. There are more intersection accidents, which are always more severe. So our estimate, taking -- take into account the aging inflation and the facts of loss mix shift, we believe, is around 7% to 8%. So while we are reporting the 11.6%, we believe it's a little bit lower based on those 2 issues.

Pip, so difficult because there's so many different state mix changes. And in the severity -- the higher severity space account for about 2 points of -- with those mix shifts. So we think that aside from New York, most of the PIP states are around 6% to 7% severity. So it's not as volatile. It's still different just because of the situation with COVID and vehicle miles traveled and different loss patterns. But hopefully, that will give you some insight into our severity trends.

Michael David Zaremski
Crédit Suisse AG, Research Division

Okay. Yes. That's very helpful. I guess lastly, I'll move just more broadly to the direct-to-consumer segment of auto. It feels like there's been an acceleration of PIF. And I think the main question we get, whether -- is whether this is kind of the new normal or if there's kind of been a temporary bump during COVID. I'm trying to -- I know it's a high-level question. Just trying to better understand is, do you feel that there's something helping you guys that's kind of one-off that could kind of kind of taper off a little bit? Or is there third-party marketing technologies you guys are using and just will continue to help you? Just anything to kind of get us better. I think we understand from your letter, Tricia, you guys feel great about growth. Just trying to get a sense of whether the double-digit growth in direct-to-consumers is sustainable?

Susan Patricia Griffith
President, CEO & Director

Yes. I mean on the auto side, in the private passenger auto side, when we market, we're marketing for the direct side, but we believe that our agents are recipient to that. So when the stay-at-home orders happened, a lot of our agents weren't able to actually work or open their branches. Some of them obviously were able to do it from their home, but we saw applications go down. And now we're seeing them increase a little bit as things start to open. So that could be volatile for a while, depending on what happens with rates of infection.

What I will say is that the direct-to-consumer side really has increased on the commercial side. So our commercial business has always been majority from the agents. It's a more complicated product, and we are seeing more direct-to-consumer on the commercial side. That trend likely would have been happening over time as people felt comfortable with the products they're buying, it really depends on complexity. But I will say that on our -- in our for-hire transportation, it's the strongest in our direct channel where those new ventures are coming in directly to Progressive.

So it's hard to say if it will continue. It could be what's happening with the pandemic, it could be what's happening with younger truckers, for example, starting new ventures, and they're more comfortable going direct. But what I would say is, we're glad that we've invested in the direct side of the business. We continue to feel like we want to have broad coverage for where, when and how customers want to buy and just be available for everyone depending on that need.

John Peter Sauerland
VP & CFO

I just might add, Mike, you used the term new normal in both the severity and the direct questions. And we aren't thinking there's any new normal to point out right now. It's a very dynamic environment, obviously, but we think we're playing it well. So in the direct space, as you noted in the Q, advertising is up a 29% for the quarter.

So when you see us spending more in advertising, you should know that we are seeing opportunities to spend efficiently to bring in business. That is what we call the prospects side of the equation, and prospects are up, as we noted in the Q, about 8% for the quarter, but conversion is up as well. And that was a quarter where some of our competitors had lower pricing in effect because of their approach to COVID rebates or credits and some of those have come off now. So from a competitiveness standpoint, all else equal, we think we're in a pretty good place. Conversion is up 5% for the quarter. We may even be getting more competitive. So again, all else equal, our advertising spend should be even more effective.

Operator

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

Elyse Beth Greenspan
Wells Fargo Securities, LLC, Research Division

My first question was just in the Q, you guys had pointed out that miles driven went up in the first half of the third quarter, but then back down in the second half. So I was just wondering if we could get some color on what you think might have driven that. I'm not sure if it was pickup in COVID cases or partial lockdowns in certain states or anything -- any other color that you think would apply to that dynamics within the third quarter?

Susan Patricia Griffith
President, CEO & Director

Yes. Elyse, we do think that's what happened. We think that is reflected pretty quickly when something changes in a given state. We look at this from state to state. There's really a variety of vehicle miles traveled and ranges. It's still now much obviously higher than the trough of 40%, it's right around 10-ish, 10% to 15% across the country. We're really digging in to kind of understand it. We do see the congestion is still very different in the morning commute where there's less congestion. We're starting to dig into how we look at the types of job you have, so we can try to understand people that might work from home for a longer period of time versus people that have jobs where you need to be out and about.

And in fact, we're really looking through our UBI data that our Robinsons or people that are 65 and older, their features fell in line with their vehicle miles traveled. And we just think they're driving less during rush hour or they're working from or they have roles that can work from home, they might be retired. And the younger demographics, what we would call the Sams and Dianes and Wrights, their features fell more than the VNC, although the gap is narrowing. And they had a small drop in mileage. We believe that these are jobs that can't be done from home. So we're watching that closely. I think a lot depends on what happens in the next several weeks with infection rates and what specific states do.

So again, what we'll do is we continue through our product group watching those states and those areas very closely to understand those frequency trends and using data, both on -- they use the Snapshot side and the Smart Haul side in commercial where we're not seeing that change. So the truck drivers are on the road more because of moving goods back and forth. So we see a little bit different on the commercial side. And even though the congestion has decreased, we know that they're on the road more.

So hopefully, that gives you a little bit of color. It's sort of changing always, and we're thankful that we have a lot of data in our usage-based insurance across many of our products, and we'll keep watching that and react as necessary.

Elyse Beth Greenspan
Wells Fargo Securities, LLC, Research Division

That's helpful. And then my second question is on Snapshot. So I was hoping that you could give us an update on kind of the take-up rates within both the agency and the direct side, just where we sit today. And then have you guys noticed a greater take-up rate for your Snapshot devices during this kind of COVID slowdown? I guess as folks are potentially driving less, right, or would potentially want to use a device that could potentially lead to some savings for them.

Susan Patricia Griffith
President, CEO & Director

Yes. So immediately, we've always had a pretty good high take rate on the direct side. So immediately, when we had the shutdown, we saw an uptick in that. And that sort of leveled off. On the agency side where we haven't had historically a great of a take rate, we saw that go up, and it continued. So I think agents -- and I've been -- I probably talked, one of the great things about COVID is that I've been able to get out and talk to literally thousands of agents in the last couple of months virtually, of course. And they understand that they need to be competitive, and they've been talking and selling Snapshot to their clients, to our mutual clients. And so that has increased and that has continued to kind of maybe level out, but it's increased much more than before COVID.

On the commercial side, September was the biggest Smart Haul enrollment ever, and the monthly take rate climbed to about 24%. So we're seeing that definitely on the commercial side.

John, do you want to add anything?

John Peter Sauerland
VP & CFO

So that's -- definitely seeing that take rates will go higher, especially in the for-hire transportation segment that Tricia was noting earlier. So that is you can think of sort of delivery trucks as well as interstate trucking. And we are very excited to see, especially the take rate of what we call new ventures. So a lot of truckers are going out on their own these days. And truck insurance premiums are pretty high. So they're very open to offers that might lower that premium. And it's great that the take rate there is even higher than the overall. And we feel that segment is very well priced, especially when we had the Smart Haul insights that we have really from day 1.

So the other thing I would mention on Snapshot more generally is that we are -- while we haven't marketed it a lot, we have something called Snapshot Road Test in market now, and the take rate there is encouraging. And this is mobile devices whereby you can do what we used to call test drives. So if you drive for a while, we get your driving behavior. We deploy that at your initial quote today in Snapshot, we give you a discount for participating and then give you the fully developed discount at the renewal with Road Test, you get that upfront. So we're excited by the early take rates there. Again, we haven't marketed it, but we think where we're ready to do so, consumers will be very interested.

Elyse Beth Greenspan
Wells Fargo Securities, LLC, Research Division

That's helpful. And will Road Test -- sorry, just to quickly follow up, will Road Test be available in all states where you have the traditional Snapshot product?

John Peter Sauerland
VP & CFO

Yes. So it's available today. We just haven't marketed it.

Operator

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

Jamminder Singh Bhullar
JPMorgan Chase & Co, Research Division

I just had a question on like the competitive environment. And if you can just discuss sort of pricing conditions in the personal auto business and your outlook for margin because it does seem like more and more companies are trying to be more proactive in trying to either gain share or recover the share that they've lost over the last few years?

Susan Patricia Griffith
President, CEO & Director

Yes. I mean we feel really great. We've added 2.4 million policies compared to last September. So we feel like we were well positioned coming into the pandemic. And then we reacted very quickly. So we knew that vehicle miles travel has been down. We immediately gave 20% credits for 2 months to our auto customers. We feel that, that -- it could change, but that helped us with retention because those customers were able to stay. Obviously, there were some moratoriums as well and we'll -- that we'll have to play out depending on what happens if there's stimulus, et cetera.

And then we started to do what we do best and surgically look at state by state, channel by channel, product by product because we want to balance that growth and profitability. And we've really enjoyed gaining share across the board, and we want to continue that. So what we're doing now is what we call taking small bites to the apple in terms of rate decreases. If we see conversions going down or we're less competitive and we get a lot of intel from other companies and our agents, we will take rates down slightly.

So we talked about taking it down about 1 percentage for the quarter and 3% April through September. We did that in about 37 states. And when I say 37 states, there might have been 2 rate decreases, maybe 0.5%, maybe 1%. We really watch this, and we're able to react so quickly, which keeps us really competitive when people are shopping. And then April through December, we'll have taken some form of rate decrease in about 42 states. And that is about 84% of our country-wide net written premium.

So again, surgically being able to react to rate, be competitive. And we do that going both ways depending on the product. But we feel like we're positioned well, like John said, and everybody had -- whether they took credits or discount, everyone's trying to make sure that we are competitive. This is a very competitive industry, and we feel like we're in a really good position, which is why I started the letter off the way I did. I'm very pleased with our results and our reaction to COVID and what we've been able to do for our customers when they need us most.

Jamminder Singh Bhullar
JPMorgan Chase & Co, Research Division

And when you think about this balancing growth and profitability, is there a level on either the loss ratio or the combined ratio to where you're comfortable taking it up and continuing to push for growth? Like I think in the past, you've talked about mid- 90s would be a level where you've sort of slowed down your growth and focused more on margins instead.

Susan Patricia Griffith
President, CEO & Director

Yes. So we've had the same objective in the company since we went public in 1971, that's grow as fast as we can and make at least $0.04 of underwriting profit. And so we always try to balance that. That said, we have 5 core values and 1 of them is profit. So if we don't believe we can be profitable, then we'll start growing. Profit comes first.

And so here's the deal. We don't want to give away margin. So if we believe that we can grow and still grow at that 96 or less than the combined ratio, we'll do so. If we don't, we'll keep the margin and understand that, again, that is such -- we do it at such a surgical level. We -- that the 96 grow as fast as you can is our job objective for the overall company, but we look at it very different across our portfolio. So yes, we're going to continue to try to aggressively grow, gain market share all while making sure that we achieve our profitability goal.

Operator

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

Charles Gregory Peters

Raymond James & Associates, Inc., Research Division

So the first question will be around retention. As you know, there was another insurtech company that went public groups, which is also an Ohio-based company. They've disclosed their retention rates. All state discloses their retention rates. And I'm just curious if you could give us some color about how your retention has been this year relative to last year.

Susan Patricia Griffith
President, CEO & Director

Yes. So retention for us is really the holy grail. You want -- you spend the money to acquire customers. They come in, you want to make sure we give great service and they reward us with their retention. So we look at retention from what we call policy life expectancy. On the trailing 12 months, it's up 9%, up 10% in agency, 7% in indirect. Now the caveat is we're getting a benefit of the billing leniencies and moratoriums. And so we would say that those are the numbers, but they may be conserved, depending on what happens with people and jobs and unemployment, et cetera. Our trailing 3 is a little bit lower and a little bit more volatile. Trailing 3 is 7% up, 6% in agency, 8% in direct. And on the Commercial Lines side, of course, we look at a 12-month basis because those are annual policies. PLE is up about 4%.

So we're very pleased with that, but we also know that there's a lot of volatility going on right now. And we'll do our best to keep our customers and to work with them. Our CRM, our customer relationship management, group on both the direct side auto and the Commercial Lines auto work very closely with customers if they need to make changes to their policy in order to keep their coverage available. So I would say the PLE numbers that we stated in the Q are very positive, but we also know a part of that is because of the leniency and moratorium based on COVID.

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

Got it. The second question is around the expense ratio. A number of your competitors are laser focused on reducing their expense ratios to bring them down closer to your level. And I'm curious about the initiatives that you have ongoing within your company to keep your expense ratios low and possibly to get them lower.

Susan Patricia Griffith
President, CEO & Director

Yes. We talk about expense ratios all the time, and we're pretty proud of our results. And it's a balance, of course, of making sure that we're investing in things like digital that our customers need. I think that the -- one of the silver linings of the pandemic is that we learned that we can write really good estimates from photos and videos. And we were working on that prior to the pandemic. But obviously, it was exacerbated based on the fact that we all kind of went into our homes to do the work.

So we continue to experiment and see what type of vehicles that we can look at and not beside of car and understand, is that -- is it a quality estimate because you don't want to have such -- as an example, such a low loss expense ratio or loss expense adjustment ratio if your accuracy is not good because that indemnity is the biggest part of what we pay out. And we continue to work in our CRM organization to understand how customers can get things they need without human intervention. John Sauerland's group is working on some RPA processing.

So there's -- we have a lot of things going around the company where, actually, we had completed a 5-year plan for our Board of Directors last year. And obviously, we're redoing it this year because a lot of the changes. And that's actually been a topic of what we try to achieve. We have internal goals that we work on together, and we balance that with investments of, like John said, advertising, digital. But we constantly try to look at how can we do more with less and not affect our customers. And we know that this is a competitive industry. And that competitive prices are really important. So that expense ratio is a big part of it, whether it's on the overall side or the claim side.

John, you're the first string holder. You want to add any color?

John Peter Sauerland
VP & CFO

Yes. I'm certain many competitors are aspiring to our level of cost structure, but there are some competitors who have better cost structures than Progressive. So we've been focused on continuing to get more competitive in terms of cost structure for years, as Tricia noted. We think of it in 2 buckets. So we think of what we call non-acquisition expense ratio and acquisition expense ratio.

In the acquisition, we put advertising as well as agent's commission. So I just mentioned earlier, advertising for the quarter was up 29%. It was up 20% year-to-date. We think that's good growth in expenses because we're acquiring customers we're going to have for a long time. Similarly, on the agent side, we have to pay competitive commission in order to continue to grow there. So we think growth in expenses in that portion of the expense ratio is good. We focus on the non-acquisition expense ratio where we are trying to drive what we think of as our infrastructure costs lower.

And if you go back around 5 years, as Tricia noted, I think we've taken out maybe close to 3 or 4 points on our non-acquisition expense ratio, and we -- our sight set on reducing that further is, as Tricia noted, price competitiveness is not the only thing that matters in the marketplace, but it is a very big part of the consideration set for our -- for auto and home insurance as well as Commercial Lines especially.

Operator

Our next question comes from the line of Michael Phillips from Morgan Stanley.

Michael Wayne Phillips
Morgan Stanley, Research Division

First, so we've all heard Elon at Tesla talk about being aggressive with hiring actuaries and certain on insurance company to use his proprietary real-time data and -- well, maybe that's only for is captive fleet, I guess. Just your thoughts on how you view the competition from connected car companies like that, that do have really access to rich data from their own fleet to offer insurance to their own fleets?

Susan Patricia Griffith
President, CEO & Director

Yes. I mean I think that we -- from a talent perspective, we feel really positive where we're at. We do -- we have been investing in understanding how to have functionality to gather data from third parties, whether it be OEs, and we call it express data quote. So that will be something that we're working on now.

I mean I think the question is -- or the answer is that yes, the talent is important. We believe that at some point, we'll have to answer who owns the data, but we've been working on this with a lot of partners over time to understand how to get quotes our way and understand that data to better understand trends. Does that answer your question?

Michael Wayne Phillips
Morgan Stanley, Research Division

I guess. I guess I was looking more towards your view of just the competitive landscape from companies like that, that have access to their own data from fleets and are trying to offer insurance and even there, aggressively offer their insurance. I know how he speaks. But just -- that was really what I was trying to get at.

Susan Patricia Griffith
President, CEO & Director

Got it. Yes. I wasn't sure if I answered that. Yes. It's great competition. We have had -- we have shot in data for a long, long time. And so we feel very comfortable. The fact that I could be able to tell you today, I think when Elyse answered the question that our Robinson cohort, the features fell in line with vehicle miles traveled, et cetera, we're able to watch that real time. And especially now, I'm very excited about what we're doing now on the commercial side, and I talked about that with -- before higher transportation to be able to give these discounts to those delivery trucks, to those truck drivers, interstate and understand the best drivers are really important. That will help with retention. That will help with loss cost. So the competition is great because it allows us to never stop evolving.

So years ago, we only had the dongle and you had to plug it in and then you could do a wireless. Now we have the mobile device. John talked about our Road Test. We have Snapshot ProView. So it forces us in a really good way to continue to invest in data -- in collecting data on our 24-plus million policyholders. So we feel like we're in a really great position and competition only makes us better.

Michael Wayne Phillips

Morgan Stanley, Research Division

Okay. I guess Part 2 then is you kind of alluded to it here and we talked a lot about UBI and telematics now. I guess what's the lifeline of credit score, specifically, as a rating variable on personal auto? Are we looking at a couple of years? Do you think that thing dries up or decades or how long does that thing have left in -- runway left at the pricing level?

Susan Patricia Griffith
President, CEO & Director

You know what? That's -- I'm glad you brought that up because I -- we've been thinking about that a lot. And I know there's been -- there will be challenges because of the pandemic on regulatory issues. So Michael, this would be a lot longer answer than you probably want. But I think it's really important for me to make a couple of points basically on risk-based pricing and then on kind of what's happening in the world.

So first and foremost, we've been getting questions on the usage of credit specifically, does it affect race? And race is never used in pricing insurance projects. In fact, it's illegal. A few people have the exact, same risk profile. If there's a person that's just like me, same driving, same credit. And we happen to be different races, we get the same rates. Basically, we're risk-based and race lined.

And I also want to make sure that it's clear that Progressive supports legislative regulation that enables insurers to leverage all the available data technology and advanced analytics to price insurance risks when it reflects the insurance cost. And that's really key. We want to have rates -- a rate for the specific risk. And for me, it's -- for us, it's about accuracy. And it allows people and consumers and small business owners to fulfill their American dream and achieve their economic opportunities that they desire.

We've talked a lot in the past about the virtuous cycle. If you've got rating accuracy, at least a broader consumer availability and affordability, which leads to growth and financial success not just for our shareholders, but for the company and for job creation. We've been able to create so many jobs in the last several years that leads to innovation and segmentation and then goes back to rating accuracy. So we've had that virtuous cycle that we've been very proud of. And in the past, we've talked about, it's the regulator's role to work with us closely in industry to ensure solvency, ensure compliance and facilitate healthy and competitive markets that provide a wide variety of options for consumers.

So key elements that I've mentioned before, the focus on is ensuring that prices for insurance are not inadequate, excessive or unfairly discriminatory. So we're advocates for healthy, competitive, voluntary insurance and broad distribution. And for the U.S. insurance industry, we want to be able to continue to facilitate the risk-taking and transfer that drive economic growth through delivering products that are both available and affordable. So for us, we -- and the industry, we believe, we want to preserve the sanctity of contract and the continued support for risk-based pricing.

Now all that said, we do recognize that for some individuals, mandatory insurance protection can be a significant financial burden. We're very open to collaborating with regulatories and other regulators and other industry leaders on solutions for those individuals versus creating massive and unnecessary market disruption that will likely have a negative outcome for certain segments. So that's sort of my feel on why we've continued to support risk-based pricing which credit is one variable of many.

I think how we think about affordability challenges, we just have to think about where we're at in the time of history and decisions that we make that affect the future for consumers. So if you go back to our roots in 1937, I'm very proud of Progressive. We started out as a nonstandard insurer, allowing people in Cleveland, Ohio, who couldn't get insurance to be able to do that. And then, of course, you know the rest. Eventually countrywide, and we're able to have access to affordable protection across many segments.

We have a critical role, I believe, in inviting innovation, segmentation and the use of technology and data to provide greater access to competitively priced insurance for all. We shouldn't confuse affordability challenges that many face during this unprecedented pandemic with our long standing and solvent model of providing affordable and widely available protection. I think the issues that have arisen regarding social injustice didn't stem from the insurance industry, they've been looming for decades and the events this year brought them to the surface. And now I think we need to really get together and ultimately solve the root problem of opportunity and equality for all not just during the pandemic, but ongoing.

So from my perspective and this list could go on and I'll shut up. But very short term, after the election's decided, we need some form of stimulus to get us through this next wave of infections. And my hope is that we're able to distribute it more surgically this time to those that need it most. I believe that we need to raise the minimum wage over time to $15 per hour. I will note that all active Progressive employees already make over $15 an hour, and we're proud of that. And as a country, our focus should really be on additional funding, so the schools can safely reopen and deliver effective online communication. You can't get ahead if you don't have the ability to learn online, which requires infrastructure investments like access to broadband coverage.

So I could go on and on, but the message here is that we, as a country, are facing a really great opportunity to make substantive changes. And as an insurance company, we'll continue to play a role in focusing on rational and risk-based solutions so that everyone is able to achieve the economic opportunities they desire. I've been obviously thinking about that a lot, Michael. So I'm glad you brought it up. I think that credit is a powerful variable. It is not race related. We do not believe it's race related, and we'll continue to hold firm on that.

Operator

Our next question comes from the line of Gary Ransom with Dowling & Partners.

Gary Kent Ransom
Dowling & Partners Securities, LLC

Tricia, you mentioned in your letter the creative ways of treating customers. And we also saw how ad spend is up and direct quotes were up. And I just wondered, in looking at the success of all that's going in and getting customers into the funnel and successfully getting a new customer, what are the actual key elements of success in attracting those customers either today in this covered -- COVID environment or what you're seeing over the longer term?

Susan Patricia Griffith
President, CEO & Director

Well, I think our ultimate success, Gary, is to be able to acquire customers at or below our targeted acquisition cost. But more importantly, as we look at and expand our product line, we're able to do so with our creative. So for years, we had Flo inside the superstore. The whole message was savings, savings, savings. And now we have obviously an entire network of characters that talk about savings, but also talk about protection, protection for your home. And we're seeing that work.

An example is we -- I don't know if you've seen it or not, we have had this campaign for a few years, and we've settled it on a character called Dr. Rick, which is a parent-a-morphosis, you become your parents when you buy your first home. I think that a lot of people can relate to that. We're seeing the results of that do really well.

We've done a couple of good campaigns with the Cleveland Browns' quarterback and Mark and Marcus, two guys that do the 10-yard line chain that we were able to play during the live sports, which is what everyone's watching now until we go back to regular television. So we look at what we call new prospects that haven't shopped yet in the last 6 months. And then we look -- from that, we look at do they convert and at what cost. And all those things lead us to understand when the creative works, when it doesn't. When it does, we double down and get deeper in the campaign. When it doesn't, we move on and get more creative.

So we -- during COVID, I'm really proud of our marketing department because everything is shutdown. And initially, we did some nice campaign stories that were softer because everyone was sort of just nervous about what's happening because it was so new. And now we're really doing a lot that we're kind of moving forward. But even in the meantime, we did really creative opportunities where we had Flo and her whole squad that we call it on a Zoom call, et cetera. We really got creative to make sure that we didn't miss a step. We know this is a competitive environment, and we wanted to continue to be on consumer shortlist out and available, thinking of Progressive when they go to shop.

Gary Kent Ransom
Dowling & Partners Securities, LLC

Maybe extending that into the agency channel also where I think your conversion rates were up as well. Usually, that just means your price is lowest on the comparative raters there. But is there more to it than that as well? Are they -- are you seeing more coming into the agents? Is there -- are there agents incentives or other things going on there?

Susan Patricia Griffith
President, CEO & Director

Yes. We occasionally do agent incentives. It may be based on things like UBI and if we see something that we want them to do more. We, over the years, have changed some of the agency commission structures depending on if you're selling preferred Robinsons auto home bundled, those agents to platinum agents get more commission. They're allowed to have 12-month policies on the auto side. So we're giving them that. And we've done a lot on our -- in our platinum agency to have incentives based on loss ratio and other things.

So we didn't always do those in the past. Our relationship with our agents has really changed in a very positive way. Like I said at the beginning, I've been able to talk to a lot of agency agents. Just not long ago, I had our top 25 platinum agents, usually, do something with them. We obviously couldn't this year. So while we'll keep our overall commission level about the same rate, we have bifurcated, and we'll give you a different commission based on the incoming type of customer, which we believe is the long-term value of that customer.

So obviously, cost matters a lot, brand matters a lot, commission matters a lot. And probably the last thing I would say and coming from the claims organization, agents are always so happy to not have to deal with any complaints because our claims organization is so stellar. So there's a lot that goes into it. Clearly, cost is one of them. They benefit from our brand. But yes, we have -- we do incentives, and we have different commissions based on the type of customer that we get in, namely preferred.

John Peter Sauerland
VP & CFO

And just to elaborate on Tricia's last point, Gary, to say, ease of use. So price competitiveness is extremely important. Ease of use is almost as important in my perspective. So as Tricia noted, not having to deal with hassles on the back end with a claim, for sure, but front end as well. So we've invested heavily in technology to make quoting and now quoting the household in our agents easier. And that will definitely help drive business to Progressive as well.

Susan Patricia Griffith
President, CEO & Director

Yes. I think this month or last month, we finished a full rollout of portfolio quoting. So they -- the agent feedback is extraordinary. Just you got to make it easy.

Operator

Our next question comes from Yaron Kinar with Goldman Sachs.

Yaron Joseph Kinar
Goldman Sachs Group, Inc., Research Division

I actually want to continue on this last line of questions. With regards to the kind of creative ways to reach out to consumers, beyond the ease of use and in quotes and the innovative ad spend in the traditional channels, are there any new ways to get to market? Any ways that you're exploring maybe Internet, social media and then the like to get our customers?

Susan Patricia Griffith
President, CEO & Director

Yes. When I usually speak about marketing, I go to sort of the mass media, and that's one portion of how we market to customers. We're on streaming. So we advertise on Hulu. We advertise on most of the social network channels and affiliates on Internet. So we -- and we have generic search. So there's -- we have a variety of ways to make sure we get our message to you and do everything we can to get our message to you the right number of times, not too much, not too little because we don't want to bog you down.

So yes, there's -- besides the creative, there's also many different ways. And there's sometimes on a digital platform that will have characters that we don't even have on mass media. And it usually serves the specific demographic that we're looking for in that channel. So yes, we have a variety of ways. And as things change with how people watch TV or watch streaming, we'll continue to play a part of that. And the great part is, we have access to so much data to understand pretty quickly if it's working, so we can remove it or double down.

Yaron Joseph Kinar
Goldman Sachs Group, Inc., Research Division

And are there any metrics you can share on that in terms of -- are you increasing your spend in those kind of non-mass media channels? Is the take-up rate greater or improving there?

Susan Patricia Griffith
President, CEO & Director

I think John wanted to say something, too. But yes, we're increasing the spend in those channels for sure because many people have cut the cord and don't watch any TV. So we need to have access to them through those different channels.

Did you want to add something?

John Peter Sauerland
VP & CFO

Yes. The growth in spend in nontraditional media has outpaced traditional for years now, and we're constantly testing into new media where we can. We have a group that entirely focuses on new ways to reach people. And the overarching philosophy is where, when and how consumers want to buy. So we are definitely investing. And normally, I think relatively speaking, on the forefront of trying new channels and ensuring that we can actually measure the success of those new channels. So we are very disciplined that when we're out spending new money that we find ways to measure its effectiveness. And I think that differentiates us relative to a lot of other marketers.

Yaron Joseph Kinar
Goldman Sachs Group, Inc., Research Division

Okay. And then my second question, it goes to one of the arguments that we hear from insurtechs, which is that traditional insurers, even innovative and successful ones like Progressive ultimately face an innovator's dilemma in the form of how much you push telematics-based scoring and pricing because of the legacy blocks. And that these insurtechs, as a result, could have an advantage over the incumbents over time because they're not encumbered by legacy blocks. So I'd love to maybe hear a little more about how Progressive looks at the innovators' dilemma and how it handles the right balance between pushing these creative and innovative ways to price and then score versus maintaining the legacy block?

Susan Patricia Griffith
President, CEO & Director

Yes. I talked a little bit about that when I talked about the virtuous cycle in terms of when you have a segment, you innovate, et cetera, and you do that. I think that insurtechs are serving a great purpose in terms of ease of use. And it would be I think easy to be able to or nice to be able to, I should say, start without having legacy systems. That said, we have them, we work around them, but we don't say, okay, we're just going to be here in time and try to work around. We're constantly innovative -- innovating from a technology perspective, ease of use perspective. And we believe that part of our DNA is really innovation. We've been first in a lot. I won't go into naming that, and we don't intend to change that. And the great benefit that we have that the insurtechs don't is the cost of acquisition.

And for us, we're going to continue to hone on in -- hone in on that. And that's why we were able to increase our policies, 2.5 million in 1 year. That's the reason we're able to do so and make our target profit margins, which are also very important. We have shareholders that are -- that own us because they know we're committed to our 96th grow as fast as you can. We don't have the availability to say we're going to test things regardless if we make money or not. So we're very innovative. We're always going to do everything we can to make a profit, is one of our core values, and we're able to leverage our size to have lower acquisition costs.

Yaron Joseph Kinar
Goldman Sachs Group, Inc., Research Division

Got it. Congrats on a good quarter.

Susan Patricia Griffith
President, CEO & Director

Thank you.

Operator

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

David Kenneth Motemaden
Evercore ISI Institutional Equities, Research Division

Just sort of following on along the lines of this -- the unique ways of -- or new ways to acquire customers. I was hoping maybe you could expand a bit on any distribution partnerships for the personal auto business that you may have with the OEMs or online car sites like vroom.com that you have or that you might be exploring. I know that Ford has just entered an agreement with Verisk Data Exchange to help offer insurance.

So I'm wondering, do you have any of these relationships? Is this something that you're exploring as a new way to acquire customers? And just sort of how you view that I guess subchannel of the DTC model?

Susan Patricia Griffith
President, CEO & Director

Thanks, David. Yes. We've worked with many different OEs over the years, and I talked a little bit about that express data quote that will give us the functionality to work with OEs and other aggregators. We do -- we have many relationships, and we have some in the works that I'm not liberty to talk about right now.

Do you want to?

John Peter Sauerland
VP & CFO

Yes. So we've worked directly with OEs over the years. We started a relationship with GM, I can't remember how many years ago now, probably 4 years ago, as you know, to get the data directly from vehicles and offer rates that are reflective of driving behavior at the point of quote and the point of sale. We have also worked with aggregators of that data or third-party gatherers of that data. So there are apps on your phone that are tracking where you're going and how you're driving. And we've worked with those entities as well. It is a funnel as we think of it. When we talk about funnel economics, the number of people that come in the top there versus the number that come out of the bottom, meaning actually buy a policy, has been challenging.

That is not to say we won't continue and are continuing to test in that space. And in any new media, we normally see funnel challenges at the outset, and we work through the experience to continue to refine it and continue to make it better and to get to the point where the funnel economics work for us. So we've been testing into the data direct from OEs in numerous manners for a number of years now and have shown some success, but not to the point that it will be a considerable portion of our media spend anytime soon, frankly.

David Kenneth Motemaden
Evercore ISI Institutional Equities, Research Division

Got it. And so it sounds like those are interesting, but the conversion rates are still below your other direct channels. Is that a correct characterization?

John Peter Sauerland
VP & CFO

That's a fair way to think about it. And think of conversion not only as you got a quote and you then bought the policy, but getting folks from interested in the whole process even to get to the quote process. So it's a longer funnel than just got the quote, bought the policy. That when we talk about in conversion percentage, that's what we're talking about there. This is we think of the entire funnel efficiency.

David Kenneth Motemaden
Evercore ISI Institutional Equities, Research Division

Got it. Okay. That's helpful. That makes sense. And then just switching gears, just more broadly, it's obviously been a profitable year for you guys, notwithstanding the credit and other actions that you've taken. Just wondering how we should think about the variable dividend. And I guess how you guys are thinking about that as we approach the end of the year.

Susan Patricia Griffith
President, CEO & Director

Yes. So we meet with the Investment Committee, John and I and Jon Bauer, our Head of Progressive Capital Management, throughout the year, understanding our capital strength, which is very strong, and always thinking about leaving some dry powder for anything that might come up. So we've had a couple of sessions that we have a range that we're thinking about. Obviously, the Board will be the one that decides that. We meet with them at the beginning of December, and we'll talk through something and get more in line with what we believe the dividend will be payable next year.

So obviously, that's an unknown because it will be a Board's decision. We feel really great about our capital position. We feel great about our growth and our profit. And we -- in the past, we've been able to share that with our shareholders. Again, we don't have any specific amount I can share with you, but we feel really great about our year. Anything can happen. There's still a few months left, but we feel good.

Douglas S. Constantine
Director of Investor Relations

We have approximately 5 minutes left in the call and still have a handful of people in the queue. We will go through the last handful here and go a little bit long. [Operator Instructions]

With that, I'll hand it back over to James.

Operator

Our next question comes from the line of Meyer Shields with KBW.

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

I was hoping that either yourself or John could talk us through sort of the monthly volatility in the Commercial Lines expense ratio and what's been going on there.

John Peter Sauerland
VP & CFO

So whenever we're looking at results monthly, you should expect volatility. Let me start there in terms of loss ratio as well as the expense ratio. In our Commercial Lines business, we talked about non-acquisition expense ratio previously. We have actually been growing our expense ratio in our commercial business, and that's been intentional and planned for because we're investing for our future growth. Specifically, our business owners program.

We're now in 13 states and are feeling great about our progress there so far. We would like to get basically to the entire country with that program because we think it effectively triples our addressable market in our Commercial Lines business. We've also invested heavily in what we call our small business insurance initiative, which is essentially the direct platform for our Commercial Lines business. And our BusinessQuote Explorer, which, similar to our HomeQuote Explorer, makes it very easy to get quotes from a variety of carriers through our direct platform there.

So we have long-term plans to bring that expense ratio on our Commercial Lines business back down. But in the near term, it's going to be slightly elevated from where we've been. That said, on a relative basis, relative to our competitors, meaning we have a very competitive cost structure in our Commercial Lines business. But if you're looking for commentary specifically on an expense ratio, loss ratio for the month, we encourage you to look a little longer term at least to the quarter.

Susan Patricia Griffith
President, CEO & Director

And what I would say, Meyer, is that this was very specifically planned several years ago when we set forth the 3 horizon concept. We saw some opportunities in horizon to mostly around Commercial Auto and BOP and TNC and small business and fleet. And so we knew that in order to invest there, that we had to have some money -- put some money into it. And now we're seeing the fruition of that investment.

So we believe it will come down over time as we have more broad coverage with these products, but we feel very good about that spend because we felt like there was an opportunity in that addressable market for us to do many new and different things to solidify, again, our Commercial Auto customer with even more products. And this -- the pandemic's been a little bit odd for small businesses, but we feel positive about that going forward in our ability to win in -- with that BOP product on both the agency and direct side.

Operator

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

Brian Robert Meredith
UBS Investment Bank, Research Division

Tricia, if I look at average written premium per policy for your personal auto business, it went from plus 1 in 2Q to minus 2 in 3Q. Just curious, is that all due to the rate actions you've been taking? Or are you seeing any changes in customer buying habits, i.e., higher deductibles, lower limits, those types of things that may be having an impact on that as well?

Susan Patricia Griffith
President, CEO & Director

I would say the majority of that is our reduction in premiums. I haven't seen too much of a change in our business mix profile.

Operator

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

Joshua David Shanker
BofA Merrill Lynch, Research Division

I'm just wondering if we can compare shopping behavior right now compared to where it was 3 years ago. I've tended to believe that when prices are going up, Progressive's seasonal shopping may drop because people are unsatisfied. But now that prices are going down, maybe people widely know that there's bargains to be had in auto insurance. And so it might stimulate a decent amount of buying. And if you can add, is there a difference between the shopping behavior, people seeking just in auto policy and people seeking in auto and home policy?

Susan Patricia Griffith
President, CEO & Director

Yes. That's so hard, Josh, to look at and compare it 3 years ago. I do think that even when prices are going down in this environment, it might be different. And this is -- I hate to use the word, it's so unprecedented. It really depends on the situation with the consumer and what they're looking for in terms of did somebody get furloughed or laid off, et cetera. So I think it's hard to know.

And what we really focus on is making sure that we have the message out there, that we have that broad coverage, that we have the ability to measure our acquisition costs to know that they're under our targeted amount to get the customer in there. So it's really hard for me to say. I think what we've tried to do is just when they are shopping, regardless of the reason, we're available, we're easy and we're competitively priced.

Do you want to add anything?

John Peter Sauerland
VP & CFO

Yes. So I agree with Tricia. It's -- there are many different metrics around shopping behavior and they don't always agree. As Tricia noted, we're most concerned with is that we are spending efficiently to get the prospects we are getting. As we know, prospects are up. In terms of prospects, we are getting and -- their behavior in terms of auto or auto home. We are increasingly being positioned as the bundle provider, for certain. And we do measure consumers' perception on that. And certainly, our quotes for bundles, both in the direct channel as well as the agency channel, have been growing faster than in the monoline.

Operator

Our next question comes from the line of Suneet Kamath with Citi Research.

Suneet Laxman L. Kamath

Citigroup Inc., Research Division

I wanted to circle back to road test. It sounds like you have had the technology for a while, but maybe haven't focused on it or market it -- marketed it. So just curious, why the decision to make a push now? And are you planning on rolling that out to existing policyholders as well as new customers or just new customers?

Susan Patricia Griffith
President, CEO & Director

Yes. We had something called Test Drive years ago. I want to say 5 or 6 years ago maybe. And at the time, there were some complications because the way it was set up, they needed to put in some data. So we think that, that was probably one of the reasons we did a little bit of advertising, not a lot. So we've been working on road tests just to give people the ability to still have their own coverage and test what it would be with Progressive. And again, we're -- we've been working on this for a while. We wanted to make it very worthy of our customers.

So I'd say we've been working on this for over a year, rolled it out a couple of months ago. Data is really early because we want to continue to learn as we spread -- as we broaden that coverage. But yes, so you wouldn't do it if you're a customer for us. You'd probably have Snapshot already. These are for customers that have other coverage. Again, we're going to work through the funnel economics on that, and then likely roll it out more broadly in the very near future.

Douglas S. Constantine
Director of Investor Relations

That appears to have been our final question. So that concludes our event. James, I'll hand the call back over to you for the closing scripts.

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