S&P Global
Market Intelligence

The Progressive Corporation NYSE:PGR

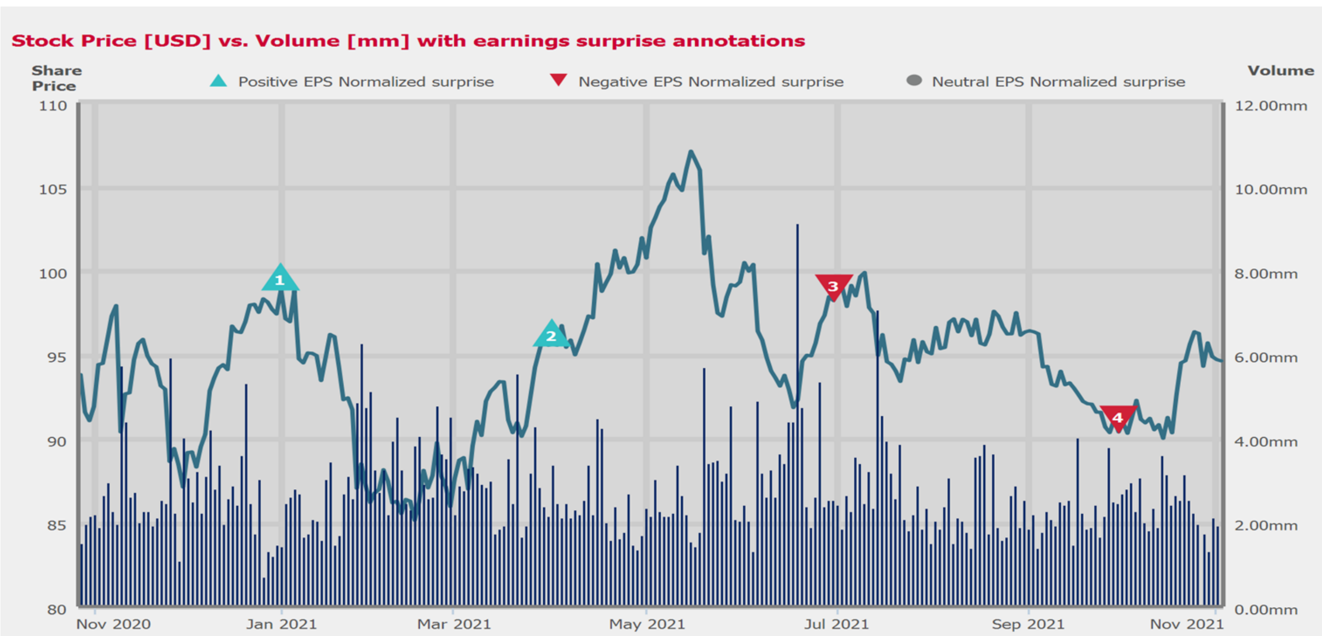
FQ3 2021 Earnings Call Transcripts

Wednesday, November 03, 2021 1:30 PM GMT

S&P Global Market Intelligence Estimates

	-FQ3 2021-			-FQ4 2021-	-FY 2021-	-FY 2022-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	0.22	0.15	(31.82 %)	1.01	3.59	NA
Revenue (mm)	12328.37	12446.50	0.96	10562.92	46217.65	NA

Currency: USD
Consensus as of Nov-02-2021 4:25 PM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ4 2020	1.69	1.84	8.88 %
FQ1 2021	1.71	1.72	0.58 %
FQ2 2021	1.05	0.71	(32.38 %)
FQ3 2021	0.22	0.15	(31.82 %)

Table of Contents

Call Participants	....	3
Presentation	....	4
Question and Answer	....	6

Call Participants

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John Peter Sauerland
VP & CFO

Patrick K. Callahan
President of Personal Lines

Susan Patricia Griffith
President, CEO & Director

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Presentation

Operator

Welcome to the Progressive Corporation's Third Quarter Investor Event. The company will not make detailed comments related to the 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. Although CEO, Tricia Griffith, will make a brief statement, the company will then use the remainder of the event to respond to questions. Acting as moderator for the event will be Progressive Director of Investor Relations, Doug Constantine.

At this time, I will turn the event over to Mr. Constantine.

Douglas S. Constantine
Director of Investor Relations

Thank you, Deshandra, 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-minute schedule 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 on our annual report on Form 10-K for the year ended December 31, 2020, as supplemented by our 10-Q reports for the first, second and third quarters of 2021, 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.

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. Good morning, and welcome to Progressive's third quarter conference call. We appreciate you joining us.

During our second quarter call, we discussed the challenges we were facing as our customers return to normal driving habits as the country opens in the pandemic and as supply constraints contributed to an unprecedented increase in vehicle valuation. In the third quarter, those challenges continued with the added effect of the most expensive storm in Progressive's history, Hurricane Ida. The result of these challenges is our first quarter with an above 100 CR in 20 years.

In true Progressive fashion, we are facing these challenges head on to do what's needed to meet our publicly stated goal of a 96 combined ratio on an annual basis.

As part of our efforts to ensure we meet our 96 targets, we are taking rate increases across our product lines. While objections and regulator scrutiny are part of the revision process, the pressures on the insurance pricing are real. The entire industry has been buffeted by the headwinds of higher severity, post-pandemic increased frequency and weather-related catastrophes. Regulators take their mandate of adequate rates seriously. And as such, we've been able to work with regulators to increase rates to meet the rising costs.

Year-to-date through the third quarter, we have placed in-market increases in aggregate of 5 points in Personal Auto, 3 points in Commercial Lines and 8 points in Property. In Personal Auto, during the third quarter, rate increases were effective in 20 states, which had an average increase of about 6%. So we're taking the changes in the environment seriously and reacting decisively. We have more revisions and process across our suite of products as we work to ensure the rest of 2021 and 2022 meet our calendar year objectives.

Underwriting is another lever that we are using to address profitability. We continue to use this lever in Commercial and Personal Lines to ensure we write exposures accurately and that meet our underwriting targets. In Personal Auto, our 8.7 model, which is now in states representing about 40% of our premium further advances the science of underwriting.

In homeowners, where profitability has been under pressure for several quarters, we are taking additional steps to hasten our progress to meet our profit objectives. In states with high cat exposure, we have changed our underwriting roles to reduce our exposure, including targeted nonrenewals. While nonrenewals are not our preferred path, there are times where we need to use nontraditional methods to meet our targets.

While we take steps on the profitability side of the business, we continue to see strong growth. Personal Lines written premiums grew 7%, while Commercial Lines and homeowners both saw double-digit year-over-year written premium growth in the third quarter. Personal Lines and homeowners recorded PIF growth of 8% and 13% in the quarter, respectively. Commercial Auto continues to capitalize on the macroeconomic environment with its third straight quarter of double-digit PIF growth, largely due to growth in the for-hire trucking segment.

Though our underwriting actions often have the unfortunate side effect of reducing growth, our product managers continue to scour the competitive landscape to find profitable growth opportunities. Finally, I'd like to take this opportunity to once again thank Mike Sieger, our Claims President; and Jeff Charney, our Chief Marketing Officer, for their contributions to Progressive and to offer my congratulations on their planned retirements. While I'm confident that their replacements are up to the task, Mike and Jeff's presence will be greatly missed.
Thank you, and I'm ready to take the first question.

Question and Answer

Operator

[Operator Instructions] Your first question comes from the line of Mike Zaremski of Wolfe Research.

Michael David Zaremski
Wolfe Research, LLC

I guess as an insurance geek, I kind of missed the deep dives you guys do. But so first question, I guess a lot of -- I know there will be a lot of focus and you gave a lot of color in the past about kind of on Personal Auto, the severity side of the equation. I was hoping to maybe get some of your insights on the frequency side. Maybe any color on the rate increases and actions Progressive's taking? Does it -- is it -- is some of it predicated on the potential for accident frequencies to continue increasing? Do you think they're kind of plateauing? I know they're nearing pre-pandemic levels. I guess I feel like that's kind of one of the bigger uncertainties out there.

Susan Patricia Griffith
President, CEO & Director

Thanks, Mike. Yes, there is a big uncertainty. And we watch it closely, especially because we have so much data from our usage-based insurance, our Snapshot. And there's a couple interesting trends that I'd like to share. And we're going to watch these closely again. There's been so many dynamic shifts since the pandemic that we really do have to watch and then react swiftly to the data. So if you look at vehicle miles traveled, they haven't really changed since the last call. They're still down about 6% to 8% from our 2017 and 2019 baseline. The bigger news that we've watched is frequency has picked up. And we've noticed that in each quarter, specifically in PD and collision. So let me give you a little bit of color on the things we watch for.

So during quarter 1, collision frequency was down about 10 points more than vehicle miles traveled. In quarter 2, that narrowed to 7 points. And in quarter 3, that narrowed further to 3 points. So we look at day parts. During quarter 3, that narrowing was kind of across the whole day. During quarter 3, we saw that frequency narrow more during the morning rush hours. So think of 6:00 a.m. to 9:00 a.m. While we see some evidence that there's congestion as well, it's a little bit surprising to us because people haven't fully returned to the office. We read the headlines in most companies because of the Delta variant have pushed off a full return to the office until January. So could it be that kids are going back to school. So we're taking our children to school. So there's other variables that we're watching really closely.

I think what will be interesting is to see what happens first quarter 2022 when many companies have stated they're going to return to work. And of course, what will that mean? It certainly won't mean full return for every single person, since I think there's going to be a lot of flexibility built in based on the pandemic. So we think that will be an interesting data point.

We also have observed frequency up sharply in the overnight hours. So think of like 1:00 am to 6:00 a.m., both weekends and weekdays and that correlated with the March reopening. And that frequency is above pre-COVID levels by about 10% to 20%. Again, a smaller amount of people driving. So we're watching VMTs closely by dayparts in each state, et cetera, and we'll be very interested to see how frequency continues to close the gap on vehicle miles traveled or not, but we're going to watch that closely. So we were able to get a lot of interesting information from our telematics data, and we're going to continue to watch that. Does that help, Mike?

Michael David Zaremski
Wolfe Research, LLC

Yes. My last follow-up question, if I may. If we look at Progressive's overall paid to incurred boss ratios. I know this is company-wide. And if we exclude catastrophes, they seem to be down and a lot of the -- so a lot of the commercial kind of casualty insurers were seeing paid loss levels to be down too and some have kind of cited the courts being clogged or kind of running slower. And I guess any color on what's -- anything is going on there, it kind of points to maybe some conservatism in Progressive's picks?

Susan Patricia Griffith
President, CEO & Director

Well, when we think of our reserving in any time frame. We want to be adequate with minimal variation and that has been consistent for as long as I can remember. I think it's really hard to rely on historical metrics when we're looking at the data. So when you look at case IBNR or paid to incurred, whether you compare it to companies or even our own historical data, it's really hard without having underlying data. So we have changes to our closure rate, drop and then rebound in frequency, increase in severity. All those ratios change when you look at that.

What I would say about Progressive is that we feel very good about where we're at, again, with adequate, with minimal variation. We're about 0.5 point unfavorable for the year, and the majority of that can be attributed to -- for the PIP. So we don't believe there's conservative, and we have not changed our model.

Operator

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

Michael Wayne Phillips
Morgan Stanley, Research Division

Tricia, I appreciate the comment in your letter about how you see 2 forms of risk from the regulatory environment. The first was the kind of risk around mandatory rebates or just regulatory rebates or mandates around the profitability in 2020. I guess on that one, are you referring to the possibility of more refunds that might happen? And I guess that and if so, how real is that risk?

Susan Patricia Griffith
President, CEO & Director

I was referring more to the asymmetry in the fact that we had this unprecedented event that hopefully none of us will have to live through in our lifetime, where we had excess margins. And as an industry and certainly Progressive, we swiftly gave that back to our customers and our 20% decrease over the 2 months. And then, of course, when and decreased rates by another 3%, which equated to another $800 million on top of the $1 billion, we gave back.

So what I was referring to was now we're in a much different place and severity trends are up 10 points, and we need rates. And we want to make sure, in the end, I mean, we believe that regulators are rational. They want to make sure that we're open and available and have competitive rates because that's good for all of our consumers. And so what I was referring to there is when things change swiftly, it's got to go both sides and in many of the states that we work with. And again, the majority of the regulators we're working with are really rational and get that. They want to see the data, which makes sense. They want to make sure their rates are adequate for their constituents, but we definitely need rates. It is real.

Michael Wayne Phillips
Morgan Stanley, Research Division

Okay. Yes, it definitely feels real. I guess the second risk was just kind of in line with that prospective rate increases. Are there concerns there from -- when you talk to regulators that maybe what you're seeing on the severity side isn't long lasting and, therefore, we don't want to give where it increases if that's the case?

Susan Patricia Griffith
President, CEO & Director

Well, because we're state regulated, there are different ways with which rates get approved. And so different states look at it differently. So as you look at say like a California, their Department of Insurance requires us to look backwards to fill up a template. So while California was a little bit behind in frequency, it has picked up and is actually outpacing countrywide at this point. And so when you fill up those templates, those rate indications are going to be distorted based on the data from last year.

What we believe will happen is it's not reflective of the claims activity we're seeing. So as frequency and severity trends earn in, we'll be able to put that in the template and show that we will -- we were rate inadequate and then we'll be able to increase rates in California. For now, we're going to reduce our marketing spend in California to slow our growth and continue to be able to update that department. So we work with every department, and every department is a little bit different. You can have file in use, you can file prior approval. So we work in with each department to make sure we give them the data they need to feel good about putting our rates on The Street.

Operator

Your next question comes from the line of Jimmy Bhullar of JPMorgan.

Jamminder Singh Bhullar
JPMorgan Chase & Co, Research Division

So first, I had a question just along the line that have been asked on the auto business. Where are you -- and you mentioned California already, but where are you overall through the country in terms of your prices catching up to what's happening with frequency and severity? And your margins sort of getting to what your long-term goals have been? Is this something that you think happens in the next 3 to 6 months? Or could it be even longer as you go through the whole process with states like California?

Susan Patricia Griffith
President, CEO & Director

Yes, I think it could be a little bit longer than that depending on states. We think we'll continue to need a little bit more rate, and we're watching the trends carefully. We've talked often in the last actually probably 10 years about wanting to take smaller bites of the apple. So we're watching the trends closely, especially because they've changed so dramatically since March of last year. And so we're going to watch those trends, and we'll react swiftly.

What I would say is that there's a lot that goes into a premium, including average written premium, and that can change and it reflects differently depending on states. So you might have a high average written premium state like Florida. And if you don't have the right rates and you don't grow there, that would affect countrywide. So there's still so many different inputs, including our consumers. So if you shrink in Sam's versus Robinsons', that will also affect average written premium because they have a higher average written premium. So we're getting there. We believe we'll need more, and then we'll continue to watch the trends again as they unfold. And I shared the opening question about how we're seeing the trends change with our usage-based information, and then we'll react swiftly to those.

Jamminder Singh Bhullar
JPMorgan Chase & Co, Research Division

Okay. And then just on the property, the homeowners business. I think margins, obviously, you saw caps recently, but margins have been weak as far back as I could remember. So -- and I realize that you're trying to build the business. But is this a business that you think can be profitable on underwriting margins on its own? Or is it subsidizing auto or providing you other benefits that you're willing to continue to underwrite it at 100% plus combined ratio?

Susan Patricia Griffith
President, CEO & Director

So we're not happy with writing at 100% combined ratio. We want to make an aggregate 96 in all of our products. There, we have different, but none of them are over 100%. I assure you that. We don't want to subsidize. We do think it's great for our customers, our Robinsons that want our brand, our home and auto bundles, so we'll continue to do that. But we know what we've done has started to work, but has not fully worked.

Again, if you look at what has happened this year, a lot of it was based on catastrophes. If you look at and compare it to the industry in more of the nonvolatile states, we're actually very competitive. So we knew we need to do something different. So last year, we took up rates nearly 12 points; this year, 8 points. And then we've talked about cost sharing with our customers. And more importantly, a couple of bigger things that we're doing to get us closer to our profitability is we're going to shift our portfolio of property over the next year or 2. So we have legacy states where ASI was really strong. And think of Texas and Florida or Louisiana through some of the hail alley. We've had a lot of catastrophes.

We have more exposure there because more of our book of business is there. So think of the rest of the state, nonvolatile and the rest of the country. Nonvolatile states is a little bit over 50% of our portfolio. We're going to shift that over time to be more in the 60% to 70% of our portfolio, so shifting away from the volatile catastrophic coastal states. We are going to appoint more agents in those nonvolatile states, reduce our agent footprint in the volatile states and make that movement to have a more balanced portfolio.

And I talked in my opening remarks about some targeted nonrenewals. We will start to commence that specifically in Florida. And we're going to work really around that focus on making sure we have more of a balanced portfolio. We still are very happy that we purchased ASI, now Progressive Home. We believe that's in our future. But our goal now is to get to profitability, and we believe the things that we're doing besides the rate increases, and I should mention continued segmentation. So that is a big piece of it. We're going to continue to enhance our segmentation like we have in the auto product. And we believe those levers will certainly help us get to where we want to go.

Operator

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

David Kenneth Motemaden
Evercore ISI Institutional Equities, Research Division

I had a question just around PIF and conversion rates. Wondering if you could just talk a little bit about what's going on in the direct segment. I saw the conversion rates were down only 2% in the quarter, which is a little bit less than I would have expected given some of the rate actions that you're taking. Maybe could you just talk about why -- like why this is down? Did that surprise you that it was down that much and not more? And I guess why -- is that more a reflection of some of the price changes that you're putting through just haven't hit yet? Or does that really just speak to the competitive environment and peers increasing rates like you are?

Susan Patricia Griffith
President, CEO & Director

Yes, it's a great question, David. There's a bunch of different things, including some timing of what was happening in quarter 3 of 2020. So when I think about conversion, I would go back to our decline in new apps. So on the agency side, they're down about 14%. We think that prospect denominator was elevated in 2020. So in 2020, there was virtually no shopping in quarter 2. That moved to quarter 3. And then this year, in addition, we pulled back on advertising. So we think conversion was stable. So we do think we still have a fairly competitive product on the direct side.

On the agency side, new apps were down about 20%. Prospects were down slightly, but conversion was down a lot. That was really due to material tight underwriting restrictions we put into place, rate increases and there's like 3 big states where we have material drops in conversion. Again, the timing-wise, that may be overstated even a bit based on the fact that there was a lot of stimulus going on at this time last year, and we also had high conversion in Michigan based on some coverage reform. But you talked specifically about the direct side. I think a lot of that has to do -- the reduction has to do with advertising from the new apps. So we feel good about our conversion. That could change as more rates come in and as we reduce more advertising. Do you guys want to add anything?

John Peter Sauerland
VP & CFO

I would add briefly that the other thing that could influence countrywide conversion is the mix of quotes we're getting across geography. So with direct advertising, you have the ability to generate quotes at a very local level. And if we have concerns on profitability in the area where we previously had higher conversion, we will shut off or reduce the ad spend in that area and that would then show the decrease in conversion just by that mix change. So when we're adjusting ad spend at the local level, you can see changes in conversion in total simply by that mix. So rate is one thing for sure. But interestingly, on the direct side, you can also influence conversion based on your marketing spend.

Patrick K. Callahan
President of Personal Lines

Yes. I would add just one further thing that when our prospects fall because we spend less, then your conversion naturally goes up simply because you've got more engaged consumers when you're spending less because they're motivated to come shop. So that will have a counteracting effect on conversion that will offset some of what rate increases would be doing.

David Kenneth Motemaden
Evercore ISI Institutional Equities, Research Division

Got it. That makes sense. Yes. So it sounds like we need to think about just quote volume as well in combination with just the conversion rate as well when thinking about that. So that's helpful. That makes sense. And then I guess just for my follow-up, I guess I just had a question on the 5 points of rate that you've taken so far this year. My understanding is some of that is on new business, some of that's on the renewal book. I guess when I look at the policyholder life expectancies, those were also a bit more resilient than I would have expected. I guess maybe could you just talk about how much of the 5 points that you've gotten this year has been, I guess, policyholders -- existing policyholders seen a lot of that 5 points yet? Or is that still on the come?

Susan Patricia Griffith
President, CEO & Director

Yes. I would say and Pat, you can add anything. I think that is still yet to come because think of if we had a rate change on The Street that started today, and I renewed yesterday. I have the old rate, so I've got that for 6 months. So we have some inflationary measures that work into their like monthly rating factors. But then I won't get that new one until that 6 months, and then it earns in over that 6 months. So it really depends on timing at each state. And remember, it's 5% in aggregate. So it's different in different states, depending on our needs. So that rate will continue to earn in. And that's one of the reasons why we continue to have the majority of our auto policies, our private passenger auto policies on a 6-month position. So we can be more nimble when we need to get rate.

Operator

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

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

I know you've commented in the past on this, but given the changing sort of moving parts within new business versus renewal, maybe you could just revisit your comments around the loss ratio or combined ratio performance between the different cohorts because I suppose if new business is a little softer, theoretically, you should get a corresponding lift if there is an impact of new business penalty?

Susan Patricia Griffith
President, CEO & Director

Yes. I mean, I see -- I think I get your question, you guess. I mean new business has -- historically has a penalty win, it's put on the books and it's different in agency and direct. That's why it's so important we talk a lot about our Holy Grail being renewal business because we start to understand our customers better. And on the direct side, we're loading all of our marketing costs on that first 6 months policy on the direct side.

So I think when we look -- when I look at that, we look at PIFs differently, new PIFs versus renewal PIFs. Our renewal PIFs are still up. That could change. I think David asked a question about PLE, we're still up 4% across both channels and trailing 12 PLE. So we hope that continues. That could fluctuate depending on how much rate we need. And then again, with new PIFs, we are down slightly, maybe 10%. But again, that is very dependent on different commercial or tiers -- marketing tiers. So we're down much more on Sam. So that affects that as well. So there's a lot of different factors that go into both new and renewal. And -- did that answer your question or do you need more information?

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

Well, it does answer the question, but I'm always -- I always welcome more information if you want to provide it.

Patrick K. Callahan
President of Personal Lines

The one thing I would add to that is that -- you talk about the new business penalty. Of course, as Tricia mentioned, on direct business, there's a huge expense flow difference. So as we're writing, fewer new customers that flows through an advertising spend as well. So there's certainly a benefit on spending less and getting fewer new customers in the direct set in terms of cost.

In terms of loss ratio, we see a bigger differential between new and renewal on the Sam of the spectrum than on the Robinson in the spectrum. So to the extent we are reducing Sam's coming through the door relative to Robinsons', it would have a bigger benefit on the loss ratio side. So there's some of that coming through, but you also have to recognize that our book is heavily, heavily weighted to renewal customers. So it can have some benefit. But in aggregate, we need the benefit of the rate flowing through the book, the new and renewal customers. It's going to flow through renewals sooner and there's far less elasticity in the renewal book. So you'll see average premiums rising sooner and more likely on the renewal side.

On the new side, customers are shopping and it's a highly elastic market. We'll see some of that rate. We'll see a little slower, and we'll probably see a little less of it simply because there are other options in the marketplace, and we move faster than others when it comes to taking rate when we need it. So we think and we've seen historically, at least, that competitors are seeing the same trends we are. They will need the same price changes. It may take them longer. So we might see a bit imbalance on the new business front for a while. But again, our experience is, competitors see the same thing. They catch up and by the time they do, we're in a very good position and very confident in growing more and turning advertising back up and the other growth levers we have.

Susan Patricia Griffith
President, CEO & Director

Yes, I think that's great. And as long as it's great, you want more information, if you go back to the last time we needed rate like this to be right around 2012. And we did the same thing. We have a great pricing organization. They're able to get their rates in The Street relatively quickly, usually before our competition. So when the market churns hard, we believe we're more competitive and that's really what we're positioning ourselves for right now.

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

I appreciate the color. I guess the second question is more detail oriented because you've mentioned it, I'm talking about Florida PIP. You've mentioned it, we've heard it from others. Maybe you could just take a minute and provide us your perspective of what's going on with that. When we see charges for a specific issue, it's my perspective that it's never one bite at the apple fixes it. It takes us a couple of bites before you finally got it resolved. And so I'm left wondering with Florida PIP. If we're not in the third or fourth inning and we're going to have a couple more adverse hits from that specific issue before it resolves itself, so just some history on what's going on there and what you think about going forward.

Susan Patricia Griffith
President, CEO & Director

Yes. I mean Florida PIP is such an anomaly in terms of what can happen with plaintiff bar there. So you can -- something you can go through the system, it can seem really good and then it's challenged. And if it's lost in one part of the state and then appealed and lost or won in one part of the state, different things are always happening. With what we have currently, we feel very good about our reserving for PIP and where we're going. That can change at any time because plaintiff attorneys in Florida, specifically, can challenge anything. And then you have to make sure you are thinking about the future. Do you have to reopen?

What we try to do in anything like this happens where a case is lost by a competitor and usually, when a case is lost by us or any competitor, it affects the majority of the competitors. And then we determine, is it worth fighting, how long, what does it mean exactly? And we work towards getting it wrapped up. And that's really what we're doing right now. We're just trying to wrap this up. We're trying to do some bigger global settlement of maybe a law firm that has many of our insurers with this litigation to get it wrapped up quickly and as inexpensively as possible.

I can't tell you that something won't be challenged next year. I will tell you that we've talked about it more internally because Florida PIP goes with these ebbs and flows of what happens depending on what happens with PIP reform or not. And so we're starting to think more with Florida PIP almost like you do a cat load in some of those other states. And because this does come more often, so what I can tell you is we're looking at more like that, which is differently than we've done in the past.

Operator

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

Paul Newsome
Piper Sandler & Co., Research Division

I had a couple of questions on the home business in particular. And first one, how impactful is the home nonrenewal on growth of new product? I mean, I think it's been a long time since you've actually done nonrenewals. But the bundled product, obviously, auto piece is really important for you guys. Is that something we should see in the numbers? Or is it pretty small?

Susan Patricia Griffith
President, CEO & Director

Well, we have a number of what we believe will be nonrenewals. And then we take it down to each customer to say, are there customers that have maybe something's changed with their home that they've updated their roof that we can continue to have on the books. We look to see if some of our unaffiliated partners could help if they want to take the customers. So -- and it's going to take a while because there's actually a time frame with which we need to work with the Florida Department to make sure that we give a lot of notice. So you're not going to see the first nonrenewals happen until May of next year.

But we think it will be significant because this cohort of customers are really, really, really unprofitable. And so we need to get there in addition to moving our footprint more towards nonvolatile states. So there's a lot of work to be done before we know the exact number. We obviously have a number of where we think we start with and then we're going to try to work with our customers.

We also -- we'll give the customers an opportunity to stay with Progressive if they opt into the new roof payment schedule, which is where there will be some coverage option to share the cost of the replacement with us. So a lot going on there. No, we don't do nonrenewals very often. It's -- and usually, you try to get the rate for it, but these customers are very unprofitable. We couldn't get enough rate to have them ever be close to profitable and that's why we need to do that. It's never something we want to do. But as we look at our whole portfolio and our strategy going forward, we realize this is an important piece to set us -- to start to set this ship straight.

John Peter Sauerland
VP & CFO

Well, we don't know exactly how many customers will have to now renew. And as Tricia said, we're trying to work with customers for options to stay with us. You should think of a very low single-digit percentage of our policies in force countrywide. This is not a huge shift, but it's a shift, as Tricia was saying, geographically. So while we want to reduce our footprint in the volatile states, we want to grow in the less volatile states. So in aggregate, our objective is still to grow, is simply to grow in different areas.

Paul Newsome
Piper Sandler & Co., Research Division

Great. I actually want to follow up on just that comment on the move into the non-coastal states, the less volatile states. I would have thought that -- and maybe I just -- that you would have had a lot of these agents already signed up. I mean you have a pretty darn broad national carrier agency distribution to begin with. Was there something in the process that kept you in earlier years from expanding earlier from an agent perspective? Or -- because I would have thought that today, you pretty much have all those agents that you want outside of the coastal areas signed up?

Susan Patricia Griffith
President, CEO & Director

Yes. Our original plan when we purchased ASI was more of a scarcity model. And so we had platinum agents that were appointed to sell auto and home. So we have a lot of opportunity to appoint more platinum agents in the nonvolatile states. So we -- that's what we're working on right now.

Operator

Your next question comes from the line of Ryan Tunis of Autonomous.

Ryan James Tunis
Autonomous Research LLP

I guess when I think about ASI, that's been clearly a successful deal from a growth standpoint. But the value proposition to agents has always seemingly been that you guys would write good insurance in cat-exposed states like Florida, Texas. I guess what I'm trying to think about is we've seen good growth with the Robinsons. But most of the ASI book is in those

2 states. How are we going to continue to grow the Robinsons kind of given this geographic move? And how are agents reacting to it in Florida and Texas?

Susan Patricia Griffith
President, CEO & Director

Well, even right now in our nonvolatile states is actually, we have about 54%. So we do have -- we have been expanding over the last several years to have less density in those states. So we are purposely doing just to make sure that we can take care of the majority of the consumers. There's some like we said with the nonrenewals that we can't. And I think insurers get that, I think agents get that because they also see the data.

So for us to make sure we can protect those states, we need to make sure that we only have so much density in those states. So for us, yes, Florida and Texas are a big part, but still the nonvolatile states are a majority at 54%. We're going to get those to 60% to 70% over the last couple of -- the next couple of years. And when we look at that compared to the industry, we outperformed based on that state mix. Again, we're going to change that state mix to make sure that flows through with everything.

Ryan James Tunis
Autonomous Research LLP

And then I guess another follow-up -- sorry, go ahead.

Susan Patricia Griffith
President, CEO & Director

John is going to say something.

John Peter Sauerland
VP & CFO

I was just going to say, you referenced sort of the majority of the book being in those 2 states, that's a little heavier than reality. And since we became owners of ARX ASI, we have been diversifying the book. Now it hasn't always been to the less volatile state, unfortunately. So we have grown in some other volatile states, think Hail Alley. But we have done a lot to diversify the book. We've just come to the more recent realization that we need to diversify it more and faster.

Ryan James Tunis
Autonomous Research LLP

And I guess, one other thing is I'm wondering if maybe you guys are overreacting just a little bit to the elevated cats. Even this quarter, you guys have done a great job with reinsurance. Cat is just still not a significant part of your loss cost relative to most insurers. I'm just wondering why this is really that big of a deal, especially because you have the reinsurance. I always thought that home was more -- not a loss leader per se, but the purpose of selling home was to sell wheels business and that's been successful. So why abandon that or why you kind of move away from that simply because you have an extra couple of points of cats?

Susan Patricia Griffith
President, CEO & Director

Well, our purpose is to having home, specifically in the agency channel was to grow more Robinsons. But it was never to be a loss leader. It was to make money on home, make money on auto, bundle, have great claim service. So that hasn't changed. So I might say we were overacting if we did this a year ago, but we -- or 2 years ago, we continue to see quarter-over-quarter where we're struggling to make money. And cat is a big part of it. Reinsurance is great, but it doesn't come without a pretty heavy cost. And so we want to make sure that we use our shareholders' capital in the right way, and we believe this is the best way to do it.

John Peter Sauerland
VP & CFO

I would just add to it. We're not only reacting to the results. We've been digging harder into the modeling and looking at our exposure for what that could be look like even after reinsurance. So while we are heavily reinsured and we have a pretty tall tower relative to our total insured value, especially in those cat states, there are still potential scenarios and that's what we're trying to manage. The tail risk is still there. We haven't seen it. But we want to be proactive in managing that so that we don't see that down the road.

Patrick K. Callahan
President of Personal Lines

And the one thing that I would add on top, John, and I think you mentioned it but it's not about shrinking our book in the volatile states. It's about accelerating growth in the less volatile states. While we have a period of time where we're investing in product segmentation and as Tricia mentioned, product features, that risk share with our customers. So don't think of it as abandoning the property business in any way, shape or form. It's a temporary acceleration of growth in less volatile states till we get to a more comfortable balance between volatile and less volatile.

Ryan James Tunis
Autonomous Research LLP

Got it. And then just one quick technical one. Of the disclosed auto rate increases that you give us, how much of that is coming from the monthly rating factors?

Susan Patricia Griffith
President, CEO & Director

A small part of that.

Operator

Your next question comes from the line of Tracy Benguigui of Barclays.

Tracy Dolin-Benguigui
Barclays Bank PLC, Research Division

Could you help me understand how it works in practice, the process you go through to request the rate increase in a filing state because it doesn't seem to be as simple as filing in Q? We've been seeing back and forth objections and iterations. So maybe just to walk through an example in Texas is our understanding that the public hearing on your previous set of filing has been postponed due to ongoing settlement discussions. In the meantime, it looks like you submitted 2 new rate filings through your independent agent in direct business. So I guess what I'm getting at is how long kind of filing being a state of limbo way past the requested effective date?

Susan Patricia Griffith
President, CEO & Director

Great question. So we'll use Texas as a file a new state. So we put the files out there and we're able to put them on The Street. They don't need to approve the filings, however, they can disapprove. They have not disapproved our filings and rather filed objections with that. Objections don't mean rejections of our rate. What that means is they want more information. So we've been working with the TDI, making sure to supplement all the information we can have to support our rate level. In fact, since April, we have done 3 rate increases, one that just a couple of weeks ago, so heading into the fourth quarter to total around 13%. So we don't have a rate hearing. In fact, they issued a notice for our July filing that was extended because we're trying to work back and forth on making sure we do the right thing.

Again, we have a good long-term relationship with the TDI and we believe the rationale. They want the data to make sure they do the right thing. And if you look at the filings, we're in good company with many of our competitors where they're asking for more information. We want to be competitive and open and available for the people of Texas. So every state is it could have a little nuance to it, but that hopefully gives you a little bit of light of Texas objections. It's just the back and forth of data.

Tracy Dolin-Benguigui
Barclays Bank PLC, Research Division

Is there an expiration of those back and forth discussions?

John Peter Sauerland
VP & CFO

No. Typically, it will reset a clock. So some states will have a deemer provision where if there's not an objection filed, then it will be deemed approved after a certain date. But the ongoing -- especially in preserving great relationships with our regulators, if there's open questions, we want to be transparent and provide them the data they need to do their jobs.

Tracy Dolin-Benguigui
Barclays Bank PLC, Research Division

Okay. And also, it looks like you're not the only one. Many insurers are making filing rate increases, but it's not uniform like the largest auto rider is lagging on those efforts. So how can that uneven it -- even it like impact of progress of rate increase discussions with your regulators? And how do you think about increased shopping behavior?

Patrick K. Callahan
President of Personal Lines

Well, the competitive environment that we operate in has some pretty different business models. So whether you have a mutual structure or a stock company as 2 good examples. And as a result, there's different motivating factors, different profit objectives, different targets. So while we can't comment on specific carrier action, we operate our business to deliver, as Tricia said, to $0.04 and grow as fast as we can. And that may mean that our growth is a little lumpier but our profitability is generally pretty consistent.

Tracy Dolin-Benguigui
Barclays Bank PLC, Research Division

Yes. I guess if I look at the last time the market tried to push rate increases, let's call it, 2015, it just seemed like a while for the mutuals to catch up. And many mutuals now are taking notice and maybe asking swifters -- it's like different company by company, but I think that may just present opportunities for shopping in general. I'm not trying to pick on one insurer. So how do you think about that in general?

Patrick K. Callahan
President of Personal Lines

We fully expect as rates go up, that will create shopping, and we enjoy, we believe, a larger share of the shoppers than we do of the overall market. So generally, that's been good for us. When there is a hardening market that creates shopping, we benefit because we're broadly distributed and try to be available where, when and how consumers want to shop for and buy insurance.

Susan Patricia Griffith
President, CEO & Director

Yes. But we're not going to change our model because this has been a model with some of the mutuals for many years, and the money they make is more on the investment side. We are still going to -- with many of our competitors, we want to make a profit on the underwriting side. We want to grow as fast as we can, but we're not going to knowingly put a bunch of unprofitable business on our book, and that's why we're pulling back on advertising and doing the rate increases.

But again, like I said in a prior question, we believe this really positions us well for what we believe might happen as the market churns and we'll be positioned when the shopping happens, we're going to get a lot of that business. And when that happens, we don't exactly know. But that's why we're positioning ourselves where we're at now based on the data that we see.

Operator

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

Joshua David Shanker
BofA Securities, Research Division

Can we talk a little bit about in the transition when the business is underpriced and your competitors are raising price, customers still are likely to come to you maybe at a margin that's not entirely attractive? When we think about the business that's going to come in the door in the next 3 to 6 to 9 months, even without advertising, I think people will come to Progressive because of your funnel. How is the stickiness of that business at the current price? How are you thinking about the margins on that business? And what is the long-term value of the customers who are coming in the hairpin transition?

Susan Patricia Griffith
President, CEO & Director

Yes. I mean besides advertising, we really do try to have some tighter underwriting restrictions to not have as much of that business come on the books. Clearly, they're going to come on the books because timing is everything and so we will get some of that business. Some of it will be underpriced and they'll get it in renewal. And some of it if it's overpriced and they shop, they will leave and that will be okay, especially with what we believe is our industry-leading segmentation, especially if we have data from our Snapshot.

So it's hard to say in an environment like this because there are so many variables happening. But clearly, we'll get some business on the books based on our brand and people want to come and the pricing doesn't hit all at once in the industry.

Patrick K. Callahan
President of Personal Lines

Yes. No, I think that's exactly it. Over the lifetime of these customers, we do expect to hit our targets and we do price to a lifetime model. Additionally, there's value in selling other products to these customers and establishing a relationship with them now. Even if they may not be priced completely to target is not a bad thing for the long-term health and growth of the business.

Joshua David Shanker
BofA Securities, Research Division

And without -- I'm citing it too much, the Sam's, I guess, are going to be looking for the best prices. It feels like you guys are about 6 months ahead of the industry and adjusting your price. Can the Sam find a provider with a smaller funnel than Progressive who hasn't raised their price yet? Or are you still going to think of a fairly good share of Sam regardless even while you're raising prices because your customer acquisition capabilities are so strong?

Susan Patricia Griffith
President, CEO & Director

Yes. I think Sam is going to be able to find a price out there. In fact, I talked a little bit about new business test being down and they're down mostly in Sam is because they're one inconsistently insured and they frequently shop because it is really about price. So yes, I think they'll find it. And then when the -- Sam's is very much about price. So as those companies raise their rates, they'll come back to us. At that point, we'll be competitively priced to make a lifetime 96 on those Sam's.

Operator

Your next question comes from the line of Meyer Shields of KBW.

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

Just I can't disagree with your viewpoint of the regulators as being rational, but sometimes it takes a lot longer than we would hope for that to manifest itself. So I was hoping you could clarify the difference between the indicated rate increases that we would infer from frequency and severity trends and the 5% that you've gotten so far. How much of that is regulatory friction? And how much of that is Progressive slowing the increases to maintain retention?

Susan Patricia Griffith
President, CEO & Director

We're not trying to slow the increases for retention. If we slow increases is because like I talked about in California, the mechanism is more backward looking than what we are seeing in the claims. So we will try to get the amount of rate we think we need at that time against small bites of the apple. And as we see more data, we'll either won't raise rates or like last year reduce rates or raise them a little bit more.

But the regulator's timing is really an individual conversation we're having across the country. I gave a couple of examples in Texas and California. California is probably going to take a little bit longer. So we're going to try to reduce our growth there. But I think it's really -- we priced our indications, and we look at that prospectively.

Patrick K. Callahan
President of Personal Lines

Yes. The one thing that I would add is there's just acceleration in our rate take. So the 5% is a year-to-date number. And as Tricia mentioned, in Q3, in half the country, we increased rates about 6%, got 3% in that period. So there's 6 months of the year before we saw the real frequency recovery that we were still lowering rates, frankly, and that's factored in there.

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

Okay. And that's pricing compared to, I guess, end of year 2020?

Patrick K. Callahan
President of Personal Lines

Correct.

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

Okay. Second question, can you talk about what the catastrophe loss exposure in homeowners means for small commercial property?

John Peter Sauerland
VP & CFO

Yes. The -- so our small commercial property book is very, very small. While we are trying to grow our business owner's policy program, and I think we're out in 29 states.

Susan Patricia Griffith
President, CEO & Director

31 now. 29 we've been so active at the Q, 31 by the time we have this meeting.

John Peter Sauerland
VP & CFO

Yes. Our property exposure at this juncture in Commercial Lines is very minimal. We aspire to a far bigger share of that business. And at that point, you're right, it will be something we need to manage proactively at this juncture is really not material.

Operator

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

Elyse Beth Greenspan
Wells Fargo Securities, LLC, Research Division

My question is going back to the Personal Auto rating discussion. You guys just said, you took about 6 points of rate in the third quarter. That still does put you below where frequency -- frequency and severity are on a combined basis. Tricia, I think earlier in the call, you said that it would probably take more than 3 to 6 months for all this rate to pull through the system. So when you make that comment, are you thinking that you will, at some point, get the approvals and get rates in excess of trends? Or are you also assuming maybe that severity, which has been elevated and impacted by the supply chain issues that over that time period, severity trends might improve? Or maybe it's a combination of both?

Susan Patricia Griffith
President, CEO & Director

Well, I would say, and I'll let Pat add what he has. We will look at prospective need for rate increase, and that's why we're following the trend so closely. And again, they're -- it's so volatile based on what's been happening and could change back and forth. So we'll continue to get that. And we will likely, at this point, if trends continue, we'll see that we'll need even more rate in the fourth quarter and probably into Q1.

Patrick K. Callahan
President of Personal Lines

Yes, we price to our expected cost. And as far out as we can see, the effective date of a revision or the average date of that revision, we're setting our prices based on where we expect trend to be. If trend continues to accelerate, we'll continue to take rate. If trend ameliorates, we'll slow our rate take and not file for additional increases.

Susan Patricia Griffith
President, CEO & Director

That's always important to be really nimble and that's why I often talk about our pricing group and what we're able to get to really quickly and decisively. And if you couldn't do that, you might have to take way more rate because you know it's going to be a big issue to do that. But we're able to be so nimble that we can do that, watch trends. And if we need a little bit more or not, we can act accordingly.

Patrick K. Callahan
President of Personal Lines

And that's the key for individual consumers, right, that they get a small increase at renewal, which doesn't prompt them to shop as opposed to somebody that waits. And if they wait 6 months or 12 months and at that point, you need 8 points of rate or something higher, it creates shopping in your book that's just not healthy, frankly, for the health of the overall book.

Elyse Beth Greenspan
Wells Fargo Securities, LLC, Research Division

And then my second question -- sorry, in terms of capital management, you guys shifted to quarterly dividend, I think, going back 2 years ago. And then you do -- you have still been paying a special dividend at the end of most years. This year, obviously, growth is a little lighter, given the rate you're taking and also we've seen profitability be impacted by loss trends in auto and cats in home. Is the prospect for a special dividend still on the table? Or how should we think about the ease of capital return for this year?

Susan Patricia Griffith
President, CEO & Director

Yes. So we're meeting with the Board in December, and they will ultimately make the decision on the variable dividend and what we would intend to give throughout the year. We look at all the inputs like you suggest to determine what makes sense. So that's one of the reasons why we changed the dividend policy several years ago because it can, from a timing perspective, be different from what we're seeing internally from the gain share program that we aligned it with several years ago. So we're working with the Board and, ultimately, it will be their decision in December on how much they believe the variable dividend will be for this year.

Operator

Your next question comes from the line of Brian Meredith of UBS.

Brian Robert Meredith
UBS Investment Bank, Research Division

Back in the Personal Auto, just quickly here. So what is your expectations of kind of claim severity here going forward? Do you expect this inflationary environment to persist here for a while? So when you're thinking about filing rates, are you kind of assuming these kind of elevated severity levels?

Susan Patricia Griffith
President, CEO & Director

Well, we're watching them closely because there's so much in place. So obviously, if you look at the severity on the collision, it's up 14%. And you've been watching what has happened as an example with the Manheim used car index. I mean even the first 2 weeks of October, it was up 8% over September. And then if you look at October '20 to October '21, it was up 37%. And then pre-pandemic to now up, over 50%. Those are huge increases we've never seen.

So we'll have to watch and see what happens with the supply of chips. Does that open up the supply-demand of new cars and used parts? We do have -- we're offset a little bit with frequency on salvage returns. So we're going to watch that closely. What we haven't seen yet in body shops are labor rate increasing. They've been relatively flat. We'll watch that, especially when you think about talent in that area. And we have seen the labor -- I mean, parts price is up right around 5%. Some of that's inflation, and some of that is just inherently expensive parts on more expensive vehicles. So those are the things we're watching and we have trend meetings all the time really closely to see if the sort of inflation is transitory or baked into our system.

Brian Robert Meredith
UBS Investment Bank, Research Division

Okay. So it should be determined, I guess. And then I guess my next question, maybe just to simplify this a little bit. If I look back historically, it's generally taken you all about 6 to 9 months to kind of get enough rate for margins to kind of return to, call it, more normalized levels. Look at '12, it's kind of happened that way, '16 kind of happened that way. Is there anything different this time around that we shouldn't kind of expect that you'll be able to get enough rate to the system to become kind of rate adequate in the next 6 to 9 months?

Susan Patricia Griffith
President, CEO & Director

Yes. I think '16 was a little bit different because most of the rate we needed was on the commercial side, and those are 12-month policies. I think what we've been talking about a lot on this call with regulatory, just some of the objections. It might take a little longer with those states as we provide more data. But we expect to -- as we have in the past, be in that position in that 6-month time frame, hopefully, sooner.

Operator

Your next question comes from the line of Tracy Benguigui of Barclays.

Tracy Dolin-Benguigui
Barclays Bank PLC, Research Division

Very helpful context to hear that you want to take multiple bites of apple and be agile as you're thinking about future rate increases. But I'm just wondering as you're thinking about it, is that 6% that you took in the third quarter? Is that, in your view, more of maintaining where you are on loss trend or that be getting more into the long-term combined ratio target so more on improvement of margin?

Susan Patricia Griffith
President, CEO & Director

It's on improvement of margins and where we're at with the data we have now and that we do look at those prospectively. But if we believe we need more, and I think the question that Brian just asked makes a lot of sense. If we're watching some of the inflationary trends and we'll watch those closely, so we believe we will need those and we'll get more.

John Peter Sauerland
VP & CFO

I want to offer 1 point of clarification and a little more color. One is that we've heard twice people say we took 6 points of rate in the third quarter. We actually took 3 in our Personal Auto, we took 6 points in about half the country, which gets you to 3, 5 year-to-date and we're going to continue to take rates. So whenever you're taking rate, you're either or both catching up from what you didn't see when you first priced or you're pricing for the future. So in a perfect world, you're just always pricing for the future and your previous pricing was perfect. That's normally not the case.

You're either a little higher, a little low in your previous pricing. So some of that adjustment is catching up in this environment. It's catching up, frankly. But it is also looking forward as to what we believe frequency and severity trends will be for the coming life of that rate revision, be at 6, 12 months. So I just wanted to clarify on what we've taken year-to-date and be, say, it is, to some degree, catching up, but to a large degree, ensuring we have very adequate rates on The Street going into 2022, so that we're very confident to turn on more advertising and other growth levers.

Susan Patricia Griffith
President, CEO & Director

Yes. I would add that's sort of why I gave the percentages of what happened with used cars. And obviously, the things that have happened with supply chain. I think the industry overall missed that because who would have ever thought use parts would go up to that extent. So those are some of the things we're catching up. Again, yes, that 6% was in 20 states.

John Peter Sauerland
VP & CFO

Yes.

Tracy Dolin-Benguigui
Barclays Bank PLC, Research Division

Yes. Yes, I recognize 20 states. Appreciate it.

Douglas S. Constantine
Director of Investor Relations

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

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