The Progressive Corporation NYSE:PGR

Special Call

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Call Participants

EXECUTIVES

Glenn M. Renwick
Non-Executive Chairman

John Peter Sauerland
Chief Financial Officer and Vice President

Julia Hornack

Tricia Griffith
Chief Executive Officer, President and Director

William M. Cody
Chief Investment Officer

ANALYSTS

Adam Klauber
William Blair & Company L.L.C., Research Division

Amit Kumar
Macquarie Research

Brian Robert Meredith
UBS Investment Bank, Research Division

Elyse Beth Greenspan
Wells Fargo Securities, LLC, Research Division

Ian Gutterman
Balyasny Asset Management L.P.

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

Kai Pan
Morgan Stanley, Research Division

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

Paul Newsome

Robert Ray Glasspiegel
Janney Montgomery Scott LLC, Research Division

Ryan James Tunis
Crédit Suisse AG, Research Division

Sarah Elizabeth DeWitt
JP Morgan Chase & Co, Research Division

Unknown Analyst

Presentation

Operator

Welcome to the Progressive Corporation's Investor Relations Conference Call. [Operator Instructions] In addition, this conference is being recorded at the request of Progressive. If you have any objections, you may disconnect at this time.

The company will not make detailed comments in addition to those provided in its quarterly reports on Form 10-Q and the letter to shareholders, which have been posted to the company's website. And we'll use this conference call to respond to questions. Acting as moderator for the call will be Julia Hornack.

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

Julia Hornack

Good afternoon. Welcome to Progressive Conference Call. Answering your questions today will be Tricia Griffith, our CEO; John Sauerland, our CFO; and Bill Cody, our Chief Investment Officer. Additionally, Glenn Renwick, our CEO through the second quarter, now our Executive Chairman, has joined us for today's call.

The call is scheduled to last about an hour. As always, our discussions on this call may include forward-looking statements. These forward-looking statements are based on management's current expectations and are subject to many risks and uncertainties that could cause actual events and results to differ materially from those discussed during this call.

Additional information concerning those risks and uncertainties is available in our 2015 annual report on Form 10-K, where you will find discussions of the risk factors affecting our businesses, Safe Harbor statements relating to forward-looking statements and other discussions of the risks, uncertainties and other challenges we face. These documents can be found via the investors page of our website, progressive.com.
Dexter, we are now ready to take our first question.

Question and Answer

Operator

[Operator Instructions] And our first question is coming from the line of Ryan Tunis of Crédit Suisse.

Ryan James Tunis
Crédit Suisse AG, Research Division

So I guess my question is just on, I guess, the willingness in the short term to push through the 96 in terms of trying to grow some of the new business. I mean, is there a willingness to do that? Or should we think about 96 as the limit even if it's such -- even if it's at the expense of some short-term growth?

Tricia Griffith
Chief Executive Officer, President and Director

Thanks, Ryan. Good question. We're not going to change our sort of moat around 96. We want to continue to have it be 96 every calendar year. Clearly, we're pushing closer to that based on our results, but we're quite happy with the growth, but we'll continue to try get a 96 aggregate calendar year.

Ryan James Tunis
Crédit Suisse AG, Research Division

So should we think about, I guess, as you approach that, as may be a leading indicator so -- of how we should think about, I guess, new business growth, of looking out over, call, it the next 6 months?

Tricia Griffith
Chief Executive Officer, President and Director

I think we can take other actions to keep that 96. I really am pleased with our new business growth. Yes, when we look at it from a target perspective, I want to look at the long-term growth of Progressive. So I think there's other actions we can take to not necessarily take anymore rate we feel like we are -- we have a good rate position for the next -- until the end of the year.

Operator

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

Elyse Beth Greenspan
Wells Fargo Securities, LLC, Research Division

Picking up on something you said in the letter, just kind of you saw picked up in growth within bundled customers towards the end of the quarter, I believe. Can you quantify kind of the policies that you're seeing bundling, or put some numbers around that? And I'm assuming that was in reference to the platinum product that you guys now have in the market?

Tricia Griffith
Chief Executive Officer, President and Director

Yes. There -- a couple of things. They have growth on both the platinum products and on our direct side. I'm not going to put a lot of numbers around it right now. I'm going to give you a little more color, or actually, Pat Callahan will give you a more color on that during our October Investor Relations Conference. I believe what Glenn was saying, and he can add in, was really what we're seeing the growth start to happen, the momentum start to happen. So first quarter -- I talked about this a couple of calls ago, first quarter, we really spent time integrating the ASI and the Progressive sales force, and now we're rolling out more Platinum state and more PHA states, where -- or ASI rights business. So we feel like there's a really good momentum, and good momentum on both the direct and the agency side for the bundled growth. A lot of it has to do with our product model, which we believe is doing well, both on unbundled and bundled business. Glenn, did you want to add anything?

Glenn M. Renwick
Non-Executive Chairman

[indiscernible]

Tricia Griffith
Chief Executive Officer, President and Director

No.

Elyse Beth Greenspan
Wells Fargo Securities, LLC, Research Division

And then just as a follow up to the prior question on the 96% combined ratio target? What about if you kind of get above that level, just driven by CAT as opposed to just to the new business penalty. CATs and weather are probably more unpredictable. Would you still, I guess, pull back on growth if you kind of come -- keep coming in above that 96%?

Tricia Griffith
Chief Executive Officer, President and Director

That's a good question. I think I'll take that month-to-month. We put CAT load in. Clearly, first couple of quarters, it's been a lot higher, I think, in the whole industry. So I'll have to see how the rest of the year plays out. And I think I'll take actions appropriate to get as close to that 96% if something happens dramatically with CAT. I can't predict those so our goal doesn't change. It's still going to be 96% the aggregate calendar year. That said, as the months play out, if CATs continue, we'll have to make adjustments.

Operator

Our next question comes from the line of Kai Pan of Morgan Stanley.

Kai Pan
Morgan Stanley, Research Division

Tricia, congratulations on your new role. The first question is, like, one of your competitors just established a -- like a new business unit to deal with the connected cars. I just wanted your thoughts on the sort of industry trends. What's the potential impact from autonomous car in the shared mobility and your own initiatives?

Tricia Griffith
Chief Executive Officer, President and Director

Thank you. First of all. We have been, obviously, thinking through the impact of autonomous cars for quite some time. And clearly from our -- just our -- the -- our ability to be first and be a leader in the UBI space just to understand kind of the -- what's going on. We don't have specific unit. We have several areas of the company that think deeply about this. And as we continue to learn more about the changing technology, whether it's connected cars or just the sharing economy, we will continue to put the right amount of resources on to make sure that we think it through as a long term strategy.

Kai Pan
Morgan Stanley, Research Division

Okay. My follow-up question is on the PLE improvements. What's driving that? And also for the new business you're adding, are they coming from these sort of, like, the area where you see most of the PLE improvements?

Tricia Griffith
Chief Executive Officer, President and Director

I'll start with the new business. So the new business that we're adding, we look at everything as far as targets. So we look at targets, new renewals, by channel, by segment, and we feel really good about the new business coming in the door.

Our PLE is really based on how long we expect that business to stay, and we've been working really hard on a couple of things, both on the nature and nurture side. So our new business -- I mean, our PLE improvement is really coming from the mix of business that is coming into door, having a competitive product and competitive rates. You don't want to crank up rates. So getting ahead of that rate is really important because then people don't feel the need to shop. And we're seeing even some -- as we kind of look at our service, we're seeing some on the nurture side. We've been doing a lot in our customer service area to make sure we could give people the products they need when they need them, and the services they expect.

Operator

And our next question comes from the line of Paul Newsome of Sandler O'Neill.

Paul Newsome

Congratulations on the new positions. I wanted to ask actually the ride share question. And whether or not you think that, that's having any impact on previous year severity losses? And I guess, as a follow-up to that, I'd like to know how you guys are approaching it? My understanding is when the app is on, there's a possible -- rider you can get, whether it's a person, a passenger in a car, there is sort of coverage from private passenger. And I'm wondering whether or not you're successfully or you think you're successfully catching those instances where people are trying to use Progressive Insurance instead of a Commercial Auto policy?

Tricia Griffith
Chief Executive Officer, President and Director

That's a good question. I think we were able to, through a series of questions, when someone first reports the loss, we're able to identify some of those. I'm sure there's some getting through. On the Personal Auto side, we have an endorsement that fills part of the gap between Personal Auto and Commercial. And then in quarter 2, we rolled out in Texas, a partnership with Uber for a commercial product. So early, so I don't have a lot of results. And the results that I do have are mere expectations. So we're pretty enthusiastic about working with ride-sharing companies overall. So I can tell you more about that, probably in October, have more data, but we're excited about our relationship right now with Uber in Texas on the Commercial side.

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

Is there really an easy way to catch these folks if they are -- if they get into an accident with a passenger? You just have to kind of ask, or is there some sort of a process that allows you -- you and others to catch in a -- essentially when they are trying to get the coverage on the part of the passenger when they're not [indiscernible].

Tricia Griffith
Chief Executive Officer, President and Director

Yes. I think there's not an easy way. I think it is really about having a well-trained claims organization from their first dose of loss all the way through the file owner, who's kind of quarterbacking the file. This is top-of-mind with everyone now because there's so many Uber and lift drivers. So we have to put processes in the place to ask the right questions and try to get at when they're in an Uber vehicle versus a personal auto.

Operator

Our next question comes from the line of Adam Klauber of William Blair.

Adam Klauber
William Blair & Company L.L.C., Research Division

I have 2 quick questions. On direct, you've seen -- we've seen PIF really accelerate in the last 18 months. Would you attribute that more to dislocation in the market? Or more to more consumers buying digitally?

Tricia Griffith
Chief Executive Officer, President and Director

A couple of different things there. We got out ahead of trends. So I think we were -- we had a really good rate and took advantage of that. We also, last year, towards the second half of last year, saw some opportunity to invest more on the media side, specifically in digital auctions. And then we thought, we were able to buy some really efficient spend on that. So we've got some growth on that as well. So I think it was partly that. And what was the second part of your question?

Adam Klauber
William Blair & Company L.L.C., Research Division

Are -- is the growth being driven by just consumers being more comfortably buying and shopping digitally versus calling an agent?

Tricia Griffith
Chief Executive Officer, President and Director

Yes. So we're also seeing that as well. So in an answer to your question, both of those things, a little dislocation, some actions on our part, and people being very comfortable buying online.

Adam Klauber
William Blair & Company L.L.C., Research Division

Okay. Then the second question, you've been building up short-term cash. It's up over $5 billion. Or short-term investments, over $5 billion. I'm guessing -- I assumed that's because of the low rates. If rates stay relatively low, what are you going to do with that -- all that cash?

Tricia Griffith
Chief Executive Officer, President and Director

Bill?

William M. Cody
Chief Investment Officer

Sure. Yes, I'd love to be able to redeploy that to some spread product at reasonable levels. The reason for the cash buildup is somewhat that categorization change. We had a fair bit of treasury securities, close to $1.5 billion, that were -- at the end of 2015 that were classified as treasuries, and they matured in the first half of this year, and those wound up in the short-term portfolio. So that's one of the reasons why our cash and treasuries are up, or our cash is up.

If you look at cash and treasuries together, it's not up nearly as much as cash on its own as -- but yes, I'd love to be able to deploy that into some reasonable spread product. We had some opportunities to do that earlier in the year, but now it's gotten a little bit harder.

Adam Klauber
William Blair & Company L.L.C., Research Division

If those opportunities don't come around, if rates stay lower, it can go lower, do -- using that cash towards buybacks or dividends, does that become an option?

William M. Cody
Chief Investment Officer

Well, as far as the portfolio, if rates go lower, we'll -- we're only going to take risk if we get paid to take risk. We're going to take either duration risk or spread risk if we get paid. If we're not going to get paid -- if we're not being paid appropriately to take that risk, we're not going to do that. With regards to the capital, which is very different than the portfolio, John will answer that.

John Peter Sauerland
Chief Financial Officer and Vice President

Sure. So our decisions around buybacks or dividends are independent of the mix of our portfolio. That is more a function of the total level of capital we hold. And we've described that to you in a number of different venues. But briefly, we have a regulatory layer. We have a layer above that, which we call extreme contingency. And above that, we are in position to deploy that capital again through dividends, buybacks or otherwise. And as we report, we have been above that extreme contingency layer, so we have enough capital to take actions that we see fit. You may have seen, we did some buybacks in the second quarter. We are out of the market for a little bit of time due to some information that's obviously now public with Patricia in the role. So the decisions around capital return, if you will, are independent of the portfolio mix.

Operator

Our next question comes from the line of Bob Glasspiegel of Janney.

Robert Ray Glasspiegel
Janney Montgomery Scott LLC, Research Division

Congratulations, Tricia and Glenn, on your new assignments. In Glenn's letter, closing letter, he said that the fast growth, coupled with acceptable margins, is adding significantly intrinsic value to the enterprise. I was wondering what kind of math do you have behind that statement that you'd be willing to share with us? Warren Buffett, I guess -- Geico meeting -- Berkshire meeting, said that each new Geico policy is worth $1,500 in lifetime economics. What's the math between growth and enterprise value that you use?

Glenn M. Renwick
Non-Executive Chairman

I wasn't supposed to be answering questions. It's so unfair. I have done that math before on numerous occasions. I don't have any specific numbers for you, maybe John can think about that for the October meeting because it's quite simple. Although there are estimates, I'm not sure in this case whether it would be that much dramatically different than Geico. The bottom line and the implication there is a very serious one. Not only are we adding to the portfolio with a lot of new PIFs, but we're adding a mix that is taking us into longer PLE-type customers. And while we're not prepared to sort of lay out every detail of that, the intrinsic value to that to the long-term earnings of the company is very significant.

John Peter Sauerland
Chief Financial Officer and Vice President

Bob, I'd add to that. It's a great question. At the previous Investor Meeting, we talked about the invisible balance sheet. And so we won't quantify that completely for you, but naturally, an in force direct policy has a future NPV, if you will, that is greater than an agency policy because they are acquisition economics. We continue to grow that direct book far faster. We would like to grow across all segments, all channels. But if you're thinking about the longer-term intrinsic value, I think that's an important consideration as the growth of the direct book with, as Glenn was pointing out, extending PLEs. And our Direct auto business is actually now at a peak in terms of historic PLEs, and in the right direction, as Tricia was pointing out. So we think we are building on that invisible balance sheet.

Glenn M. Renwick
Non-Executive Chairman

We do have, and Tricia can give it to you, a slightly updated number that I've given on -- several years back in terms of what the implication of 1 month of PLE extension is worth to us.

Tricia Griffith
Chief Executive Officer, President and Director

Yes. I actually just was doing that math a few days ago. And 1 month of extended PLE has a lifetime earned premium value of about $1.5 billion.

Robert Ray Glasspiegel
Janney Montgomery Scott LLC, Research Division

And Glenn, I enjoyed your letter, and did notice who won the basketball this year. If I could just squeeze in one more question. Your growth is fantastic across the company. The one area that's been disappointing to me is homeowners. I hate to pick on the one sort of negative. Maybe it's in line with the growth that you expected, but where is that acquisition as far as top line contribution relative to where you thought it would be?

Tricia Griffith
Chief Executive Officer, President and Director

It continues to evolve. Yes, it continues to -- I'll ask John to add in some stuff. It continues to evolve. We've had some -- few things happened that we weren't prepared for, but we are very positive and bullish about the bundled offering on the agency side. Again, when I spoke earlier, it's really about kind of getting that momentum and getting more Platinum states, more Platinum agents. We have slightly less than 1,000 Platinum agents. And I think as we gain more, as we enter into more states, that momentum will continue. So I think -- would I like it to be faster? Absolutely. And do I think we have the momentum to really start moving on more and more bundled business? Absolutely. So while I'd love it to be better, I think you'll see that what we have a -- we've put a lot of resources on making sure that we get that bundled products in both our agency and direct business.

John Peter Sauerland
Chief Financial Officer and Vice President

The only thing that I would add to that, as we noted, there was a significant customer that ASI lost in the course of our taking a majority position. That is as it is. The new business impact of that is well behind us. The renewal business impact to that, I would characterize as a little more than half behind us. These are all annual policies or predominantly annual policies, I'll remind you. So we don't see that sort of drag continuing for long.

The efforts that Tricia mentioned, we're confident, are going to grow ASI materially, and again, along the lines of the intent of the acquisition, which was with the bundled product. And while it's not unit growth, if you're working on your model, recognize as well that we terminated a quota share agreement at the beginning of June. There was a 10% quota share. So in terms of premium growth, at least over the next 12 months or 11 more months, we'll see the benefit of that as well.

Operator

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

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

In terms of the short-term modeling that we have to do, do Platinum customers have a bigger new business penalty than sort of the legacy Progressive customers?

Tricia Griffith
Chief Executive Officer, President and Director

No.

John Peter Sauerland
Chief Financial Officer and Vice President

To that -- the new business penalty, if you will, varies by channel a lot. So obviously, Platinum is agency, so there's less expense ratio differential between new and renewal for Platinum customers. But the other important thing we see is the difference between new and renewal varies by customer segment. So when our product managers are working to price business to that lifetime 96, as well as hitting the calendar year 96, that's all baked in so that we're confident by segment that when we're putting on new business, we're putting out the lifetime 96 or less.

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

Okay. That's helpful. And then I don't know if this is for Glenn or for Tricia, but I had a hard time sort of understanding Glenn's comments about Commercial Lines in the second quarter. Is the expectation that you'll get back to sort of the really strong outperformance or we'll get back to 96? And maybe some color on what actually -- what questions were answered?

Tricia Griffith
Chief Executive Officer, President and Director

I'll start. And then if Glenn wants to add in because he wrote it. So I think you were just talking about Commericial Lines came in. There's some seasonality in June, and we expect to see that in June and July. But if you read the Q, we know that we've put on a lot of new business in the Commercial Lines organization and that put some pressure on calendar year combined ratio. And so we're addressing it with some rate adjustments. We saw some unfavorable development compared to 2015 on loss in LAE. And we have a little bit of a mix shift intentionally to for hire transportation, for hire speciality. So with that, we want to make rate adjustments to make sure we are ahead of the curve because we want to obviously bake in how those might play out and how those might develop.

In addition, on the Commercial side, we've made a lot of investments that also put pressure on the expense ratio. So we've made some investments in the direct channel, in our brand, and more importantly, hiring in advance of needs, specifically on our CRM organization. So some of those things, we're seeing a little bit more pressure, but we feel good where we're at. We're taking a rate adjustment around 4% to 5% in the aggregate. Do you want to add anything, Glenn?

Glenn M. Renwick
Non-Executive Chairman

No. I think you've got all the primary details. I hope that when Tricia writes to you, and I certainly have hoped that we provide some degree of color as opposed to just reported the numbers. So in this case, here was a data point that if you look at the time series, it clearly jumped off the page. That's can happen from time to time in a monthly time series. But I just want you to know what we already are doing, and that, looking at whether there's really systemic reasons that when something is being missed in the past. That does not appear to be the case. And just know that there's a lot of attention to it. If I were an analyst in your position and I saw a sudden jump like that, I'd ask questions. So we were just calling out the fact that we have those questions and we're looking at them and comfortable.

Tricia Griffith
Chief Executive Officer, President and Director

Yes. If you look at the history of June, July-ish, the last -- I mean, 5 out of 6, you'll see we're a little bit higher combined ratios. I think Glenn said something in this letter about there's going to be a lot of eyes watching this fast-growing area. And clearly, we're really proud that we are now #1 for Commercial Auto. But the numbers that I will care about and John will care about, will really be profit and growth in that order.

Operator

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

Brian Robert Meredith
UBS Investment Bank, Research Division

I was hoping -- could you give us a sense or help us quantify the year-over-year increase you're seeing in the loss ratio on the direct side? Ex the CAT, how much of that is attributable to the new business penalty? And then I have a quick follow-up.

Tricia Griffith
Chief Executive Officer, President and Director

Yes. I mean, I think there's definitely, you're going to see that new business. There's a little bit uptick in frequency and a little bit in severity. So I'd say those 3 things. Just more losses happen with new business and a little bit of an uptick in both frequency and severity.

John Peter Sauerland
Chief Financial Officer and Vice President

Additionally, we do have some very modest unfavorable development for the year. And you're comparing that to last year when we had a little less than 2 points of favorable development. So that's what you're seeing as well.

Tricia Griffith
Chief Executive Officer, President and Director

Yes. Yes, I'm not too concerned. I think the unfavorable year-to-date, 0.3 points, on the CR is about $30 million. And that I consider adequate, with a little variation, which is our goal.

Brian Robert Meredith
UBS Investment Bank, Research Division

Great. Could you just remind us the new business penalty you wanted to accept to the direct side versus the agency side? Just kind of give the economics of the business. Where are you kind of willing to let your combined ratio float up to on your agency business, net-to-gross?

Tricia Griffith
Chief Executive Officer, President and Director

Yes. I think understand your question. So the new -- the way we bring new business is so different in both the channels. So the new business target in Direct is much higher because we front load all of our acquisition costs. So that's the big difference in terms of that versus a variable cost model on the agency side with commissions each time a policy renews. Does that answer your question?

Brian Robert Meredith
UBS Investment Bank, Research Division

That's it.

John Peter Sauerland
Chief Financial Officer and Vice President

You know what, I'm hearing an overriding tone of understanding how we think about new business growth versus that 96 calendar year target. That 96 calendar year target is a ceiling. And as Glenn, especially, has pointed previously, we have multiple segments to the business. We have different combined ratio targets for those segments. So when we do our pricing indications, we are dialing in different margins by segment and we're also cognitive -- cognizant, excuse me, of the lifetime combined ratios for business we're putting on the books.

So there are times when you're growing really fast in a segment that you could be putting business on at a lifetime 96, but that will cause your calendar year to go above the 96. We balance that across our various segments and look at the market opportunity across those segments and say, where do we want to grow given the scenarios we're looking at to, again, ensure we're below that 96 calendar year? So it's bringing together a bunch of different segments, different geographies as well. And it's not that we're always targeting the exact same combined ratio by segment, we look at it before the year starts and target where we're going to have the growth, and again, ensure that calendar 96.

Operator

Our next question comes from the line of Amit Kumar of Macquarie.

Amit Kumar
Macquarie Research

Maybe just going back, I guess, to the broader team. It seems all of us are discussing on the new growth on the personal side -- Personal Auto side. How soon does the new business translate, I guess, into renewal business and then translate into a discernible lower AUI [ph] LR?

Tricia Griffith
Chief Executive Officer, President and Director

On the Direct side, because I said before we, front-loaded all of the acquisition costs, the first-term renewal is much different to get to that 96 ongoing. And depending, obviously, on what we think, depending on the mix of the business, and the PLE of each of the segments. So it's different, but on the Direct side, it's very different from first term to second term.

John Peter Sauerland
Chief Financial Officer and Vice President

And so you're trying to get beyond I think the expense ratio component of it and you're trying to get to the loss ratio component, and that is different by segment. So there's some segments that once you get to the first renewal, which, by the way, for the vast majority, I think 95-or-greater percent of our policies in force are 6-month policies in Personal Auto. We do have some annual policies. That's one of the benefits that we allow our agents with the Platinum program, but still, by far and away, our policy is a 6-month policy. So when we say renewal, you can generally think, for Personal Auto, the 6-month term. For Commercial Lines and for homeowners they are predominately annual terms. But when we look across segments, we see different levels of disparity between the new business loss ratio and the renewal business loss ratio. And again, we're trying the lifetime price to that 96 or less, so we're considering that when we are making those selects with the product structure by segment.

Amit Kumar
Macquarie Research

I guess, what I was trying to ask is maybe there's too much of a focus on the short term in 96. And maybe the bigger story is how this actually will add to the consensus estimates in the medium term. I guess that's what I was trying to get to, where I think it's -- everyone is talking about look at the growth, look at the new business penalty. But perhaps as this business is renewed for a few cycles, maybe all of us need to go back and actually rethink our numbers. I guess, that's what I was trying to ask.

Tricia Griffith
Chief Executive Officer, President and Director

Yes. I mean, I think our goal is to continue to grow at the targets we've been able to grow at because we think that as long-term intrinsic value to the company. And if we aren't writing at, again, the state level, the channel level, the segment level, at our targets or below our targets, then we take action to make sure we do. So as you think about your models, I would think of -- that we're happy with the new business growth coming on the books. So we're trying to continue.

Amit Kumar
Macquarie Research

Got it. The only other question I'll ask -- and this is -- I'll make this very quick. The only other question I had was, on your website, there are offerings for the small businesses, including professional liability, workers' comp, et cetera. Is that -- can you just -- is that more experimental? Did you talk about that previously and I missed it? I'm just trying to get a better sense on that piece.

John Peter Sauerland
Chief Financial Officer and Vice President

So those products are being sold by third parties, technically. So in the commercial business right now, for direct customers, similar to what we set up on the Personal Line side, originally with Progressive Home Advantage and now, with many other products. We are working with third-party carriers to offer direct Commercial Lines customers other products that they may have a need for. So that's not first party. We're not the insurer in those cases.

Amit Kumar
Macquarie Research

Got it. And -- sorry, go ahead.

Tricia Griffith
Chief Executive Officer, President and Director

No. I was just going to say, so yes, so we do offer, in some circumstances, business owner policies, GL, on the Progressive advantage side. We offer a lot of things, whether it's life or a mechanical breakdown, or travels, a lot of the Progressive advantage offerings. And we'll continue to do that because if our customers want it, we don't necessarily feel we have to manufacture every product.

Amit Kumar
Macquarie Research

Okay. That's very helpful. I just want to be sure that you're not getting on to the long-tail side of things.

Operator

[Operator Instructions] And our next question comes from the line of Dick Miller [ph] of NYCM.

Unknown Analyst

I just noticed one of your priorities this year was retention. I was curious what your goal was in terms of retention?

Tricia Griffith
Chief Executive Officer, President and Director

Continue to lengthen PLE. So we have specific goals for each of our segments and its improvement. We haven't necessarily shared them in the past, nor will we -- will show you the percentage improvement. But for me, it's -- you get the right mix of business in and you have competitive and stable rates and the services people need, that's how you do it. So we're focused on continuing to get that preferred mix of business. But we target improvement retention in every one of our segments.

Unknown Analyst

Okay. And then to follow along with that, I noticed one of the improvements you mentioned was enhancement to Snapshot. Does that include, like, mobile app? Or what kind of enhancements were you thinking about there?

Tricia Griffith
Chief Executive Officer, President and Director

Yes. We're going to roll out -- we have a plan to roll out on our mobile app in 2 states in December. And so we will monitor that, make sure that the data that we're getting meets our success criteria. And if that's the case, we'll roll out the rest of the 3.0 Snapshot states, just think of it second quarter.

And then we -- I think we announced in January, a partnership with GM and their Smart Driver program. And we rolled that out in May, mid-May, and so we'll start to see some possible quotes in August because we need 90 days worth of data. So hopefully, we'll have a little bit of data by the October Investor Relations Conference. And I've asked John Sauerland to do an update, a thorough update on Snapshot and some of our other data and analytics.

Operator

And our next question comes from the line of Ian Gutterman of Balyasny.

Ian Gutterman
Balyasny Asset Management L.P.

Tricia, can I get to clarify? Just -- I think it was the first question about -- Tricia, you talked about an aggregate 96. Was that aggregate including homeowners to commercial? Or was that just a Personal Auto comment?

Tricia Griffith
Chief Executive Officer, President and Director

The aggregate 96 was a Personal Auto. Actually, I shouldn't say that. Our -- the Progressive business, the special lines, Auto and Commercial.

Elyse Beth Greenspan
Wells Fargo Securities, LLC, Research Division

Okay. So excluding homeowners, you're saying?

Tricia Griffith
Chief Executive Officer, President and Director

Correct.

Ian Gutterman
Balyasny Asset Management L.P.

Okay. That's why I want to make sure. Okay, great. And then just to follow up on the investment income question from earlier. Obviously, you said you're building some of the short-term positions. Should we expect -- I think it was -- you've been doing that for a little while, and investment income held up pretty well until this quarter. It slipped sequentially. Is Q2 a better run rate than Q1 at this point, then?

John Peter Sauerland
Chief Financial Officer and Vice President

Q2 was a better run rate than Q1 on per-deal basis.

Ian Gutterman
Balyasny Asset Management L.P.

Just dollars investment can -- usually, investment can kind of grow throughout the year, right, because you're building cash, or at least kind of stayed flat, and then it went down several millions. So...

John Peter Sauerland
Chief Financial Officer and Vice President

Well, I would say, the new securities that we've put on the books in the second quarter were pretty much right on top of our book yield of the portfolio as a whole. And as I've said before, we don't manage to book yields. We try to manage total return. One of the nice things about the rate rise at the end of the year is we're now getting paid a little bit more on our cash than we were, which is I'd like to get paid more than that as well. But from a sequential basis going forward, we disclose as much as we can about the portfolio, what we own, and we try to maximize the total return, but we're not trying to focus on our book yield.

Ian Gutterman
Balyasny Asset Management L.P.

Got it. Okay. And just one more on the relationship between PIF growth and premium growth is always a little confounding for me. And it's obviously been very strong recently and sustainably, and I know part of that is pricing. But I assume there's a lot of other factors, some of which, we've talked about in the past. And obviously, PLE extending would help that relationship. Mix changes, whether it'd be more Robinsons or growth in high-risk-level premium states. So I don't know if there's any sort of short story you can give us to help us think about that better? Or maybe that's a topic for October, if it's a longer answer, but just any help you can give on how to better understand the relationship between those 2 would be helpful.

Tricia Griffith
Chief Executive Officer, President and Director

I mean, we have -- I think you hit a lot of the topics. So it is -- PIF growth, there's a lot of retention. So it's new business, as well as renewals. So are we able to retain that business? It's the mix. So it's the amount of average written premium for the customers. So that -- yes, that goes into premium, but I think you hit it. It's -- they all go together. And when we think of growth, we really think of it in terms of new business, extensions of PLE and average written premium.

Ian Gutterman
Balyasny Asset Management L.P.

Okay. I guess what I -- what will be helpful to me is sort of being able to separate the parts that are sort of, I guess, don't have an impact on the loss ratio versus those that do. And I guess, what I'm trying to say is, PLE extension, obviously, or pricing is obviously helpful, neutral to helpful to a loss ratios, where if it's mix to higher-growth states, let's say, we'll there's more losses that come with that so I shouldn't really drop that all down the same way, right? So it's just hard to sort of know when I see premium growth accelerating faster than PIF, how much of it is sort of good guys versus more neutral or little bad guys?

John Peter Sauerland
Chief Financial Officer and Vice President

One way to normalize that, and for that, is if you look at the increase in loss cost, the pure premium as we call it, so the great news is that over the past couple of few years now, we have been in an environment where we've been able to raise rates, and the industry has been raising rates to cover increasing loss cost. There's been other periods where there was less inflation loss cost. And consequently, we didn't have the luxury of built-in inflation in premium simply due to the underlying loss cost. You're right. Those mix changes play a lot into what we see in terms of coverages, states, et cetera. You sort of hit on a number of ones that we look at. But you can take out at least the effect of loss cost trends to understand what portion is the mix that we don't give you all the background around and actually loss cost trends. So you -- we obviously report our frequency and severity. You can get that from the industry. You can get that from your competitors. And that's a way to understand sort of structurally if average premiums are growing or if it's a mix change.

Ian Gutterman
Balyasny Asset Management L.P.

Got it. Helpful.

Tricia Griffith
Chief Executive Officer, President and Director

Yes. A couple of things, too. Yes, I think we -- our goal is always to keep up with trends. And we base our growth -- really, our best unit of measurement is our units. So how many new policies. So I think that's an important piece of it. When I see -- when I first answered your question about the aggregate 96, I think of it in terms of the typical progressive policies. I think long term, we'll -- the 96 will be all of our products in the aggregate.

Ian Gutterman
Balyasny Asset Management L.P.

The reason I asked that upfront was just, I think of home should be lower than 96 just because of volatility side. I don't know if home to make up a number should be a 92, then that's sort of allowing Auto to go to 96.5 or whatever the math is, that's why I was asking.

Tricia Griffith
Chief Executive Officer, President and Director

Yes. I know you're correct on that in terms of when we say aggregate. They're not necessarily -- there may be differences in different pieces, but they will grow up to be the 96 calendar year.

Operator

[Operator Instructions] Our next question comes from the line of Sarah DeWitt of JPMC.

Sarah Elizabeth DeWitt
JP Morgan Chase & Co, Research Division

Congrats on the new role, Tricia and Glenn. Tricia, I'd be interested in getting your perspective as CEO now on what you think is going well at Progressive? What areas do you think need improvements? And what, if anything, do you plan to you do differently as CEO?

Tricia Griffith
Chief Executive Officer, President and Director

Thank you. Yes, I couldn't be more excited about where Progressive is headed. And clearly, Glenn and our whole executive team really focused on the strategy that we're in now. And so for me, the people that we've hired, our culture are things that are really important to really capitalize on this pivotal part of where we see the company going. So I'm very excited about that. And yes, I think we need to just continue to execute. And I have absolutely 0 concerns with that. I think our team is one of the best teams I've ever worked with. And I've worked here for almost 29 years. We all are -- have a very clear strategy where we want to go and how we want to make sure our investment in ASI and other investments that we've made come to fruition and more.

So I've got to tell you, from being here a long time and seeing a lot of different things go on with the company, this is the most exciting time at Progressive I've ever been a part of. So I was a part of that strategy, developing what we talked about in terms of a destination era. And we've got to keep the pedal to the metal, and I'm thrilled. I don't know if you want to add anything, John, from your perspective?

John Peter Sauerland
Chief Financial Officer and Vice President

You said it well.

Tricia Griffith
Chief Executive Officer, President and Director

I know. No, he's good.

Operator

[Operator Instructions] And our next question comes from the line of Ryan Tunis of Crédit Suisse.

Ryan James Tunis
Crédit Suisse AG, Research Division

Yes, I just have one follow-up on -- I guess, thinking about the new business drag on the expense ratio. I think Tricia was indicating it. That's probably a little bit more pronounced than direct. And it's -- that's the type of thing that I would think would normally be pretty easy to see. But the expense ratio, actually, I think, in both segments hasn't really come up that much over the last couple of quarters, if at all. So I -- just order of magnitude, how do we think about where the expense ratio would be if you weren't going through, I guess, this investment phase?

Tricia Griffith
Chief Executive Officer, President and Director

We try to keep our expenses as low as we possibly can while still growing the business. So I don't think we necessarily look at it differently from that perspective. We want to take advantage of the times where we have the right rates at the right time. And we know that it's really important to be -- in order to be competitive in the rates to have a competitive cost structure. So a lot of it comes with what you get out of things like advertising and other things. But from a spend perspective, we have our goals. But really, our goal is to grow as fast as we can at a 96. And if we see the ability to spend more on advertising, we have advertising expense that we get for our targeted advertising expense, that's what we'll do.

John Peter Sauerland
Chief Financial Officer and Vice President

And just to add to that. So if you're growing year-over-year for Direct as an example, obviously, new business is pretty good last year as well. And I will point out that many of our competitors, or several at least, of our competitors were largely out of marketplace earlier in the year in terms of advertising. So the effectiveness of the same advertising dollar this year in the first half of the year, I think, was far higher. So we had that little wind behind our sales in terms of bringing prospects in with similar advertising spend. So I think if you're going year-over-year, you're not seeing as much drift up to some degree, as Tricia noted, because advertising has been really effective throughout this [indiscernible]

Tricia Griffith
Chief Executive Officer, President and Director

All right. Well, that would -- it would appear that there are no other questions at this time. Dexter, I will turn it back over to you for closing [indiscernible]

Operator
That concludes the Progressive Corporation's Investor Relations Conference call. An instant replay of the call will be available through Friday, August 19, by calling 1 (888) 566-0614, or can be accessed via the Investor Relations section of Progressive's website for the next year.