The Progressive Corporation NYSE:PGR

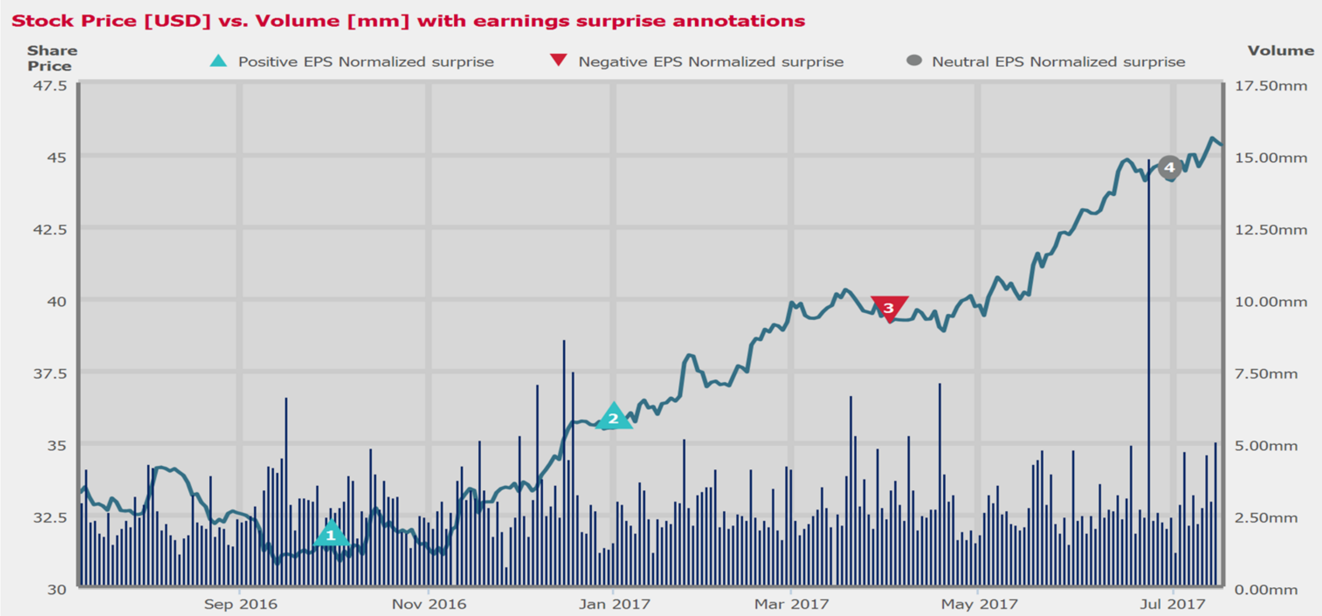
FQ3 2017 Earnings Call Transcripts

Friday, November 03, 2017 2:00 PM GMT

S&P Capital IQ Estimates

	-FQ3 2017-			-FQ4 2017-	-FY 2017-	-FY 2018-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	0.35	0.42	20.00	0.68	2.32	2.82
Revenue (mm)	7040.70	7142.40	1.44	6383.14	26748.38	29644.86

Currency: USD
Consensus as of Nov-02-2017 7:09 PM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ3 2016	0.33	0.37	12.12 %
FQ4 2016	0.51	0.62	21.57 %
FQ1 2017	0.69	0.67	(2.90 %)
FQ2 2017	0.59	0.59	0.00 %

Call Participants

EXECUTIVES

Heather Day

John Peter Sauerland
Chief Financial Officer and Vice President

Julia Hornack

Susan Patricia Griffith
Chief Executive Officer, President and Director

William M. Cody
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ANALYSTS

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Presentation

Operator

Welcome to the Progressive Corporation Third Quarter Investor Event. The company will [not] make detailed comments related to quarterly results in addition to those provided in its quarterly report on Form 10-Q and the letters to shareholders, which have been posted to the company's website and we'll use this event to respond to questions after a prepared presentation by the company.

This event is available via moderated conference call line and a live webcast with a brief delay. Webcast participants will be able to view the presentation slides live or download them from the webcast site. Participants on the phone can access the slides from the Events pages at investors.progressive.com. In the event that we encounter any technical difficulty with the webcast transmission, webcast participants can connect to the conference call line.

The dial-in information and passcode are available on the Events page at investors.progressive.com.

Acting as moderator for the event will be Julia Hornack. At this time, I will turn the event over to Ms. Hornack.

Julia Hornack

Good morning. Thank you, Brian and welcome to our third quarter investor event. Today we will begin with an update on our efforts to penetrate the home auto bundle market. Our presentation will last approximately 40 minutes and will be followed by a Q&A session with our CEO, Tricia Griffith; our CFO, John Sauerland; and our guest speaker today, Heather Day, Preferred Marketing Process Leader. For Q&A, Bill Cody, our Chief Investment Officer will join us by phone.

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

And with that it's my pleasure to introduce our CEO, Tricia Griffith.

Susan Patricia Griffith
Chief Executive Officer, President and Director

Good morning, and welcome to Progressive's Third Quarter Webcast. Before we get started at the topic of the hand, I wanted to reflect a little bit about the last quarter, specifically with Harvey and Irma, two names I think all of us are very familiar with based on this very, very active hurricane season.

As you know from my letter, several of us went down to both Florida and Texas just to get some insights into how our employees are doing, do they have the right resources to help our customers and get some insights into our customers and what they need from us.

This year, this CAT season, we took down and one of our internal videographers just to capture some of the moments. And really to have everyone at the company understand not only what happens in a CAT but how we react, which is so important and so critical to our customers.

So we captured this a couple of minute video, mostly internally because although we had our CAT team available in both of those states and almost 1,300 reservists from around the country, not everybody at Progressive gets the insight of how we really handle CAT and to us, that is really something we find very important, both for our employees and customers.

So I'd like to share that around 2-minute video with you for you to get some insight into our culture and the importance of making sure we take care of our customers in their greatest time of need.

[Presentation]

Susan Patricia Griffith
Chief Executive Officer, President and Director

As always, I'm very impressed with our response, both on the Progressive and the ASI side. And we know customers want us to be out there quickly, and we're known for our speed and that's why we take so much time to really understand all the customers, all what they need during a catastrophe.

And more importantly they want to make sure that they are taken care of and that their claims are resolved quickly and accurately. And as you can tell from our closure rate, a very impressive closure rate, we were able to do that.

When we take care of our customers during this time of need, they end up rewarding us with staying and they are starting to see that with our retention results. So again, I am so proud of all the employees at both ASI and Progressive of how they have handled both those of these and I know whatever is to come, we will be able to handle that in an exemplary fashion.

Let's get to the topic at hand. So last time we met, we talked about the addressable market and specifically the first component, the private passenger auto section of the personal lines market.

We talked about the fact that there's a $215 billion opportunity, of which we have less than 10%. And when John Curtiss outlined what we call our runway project, we talked about the fleet size as well as frequency and severity trends and how that really excited us to understand the opportunity in the auto market.

So we're not going to talk a lot about that today but we're thrilled with our opportunity in the auto platform in terms of our product, our service on both the claims and CRM side, our retention and our brand. So putting all those components together, we feel very positive that we have a lot of opportunity on the auto side.

Today our focus is going to be on the over $90 billion opportunity on the property side, the homeowner side, and that will really be the deep dive that Heather goes into. Again, we think having that bundle is really important, but that property piece and especially our relationship with ASI, continues to evolve, and that's what we're really excited about.

So really the spoiler alert for the rest of the 30 minutes that we're going to talk is that we continue to be extraordinarily pleased with our acquisition of ASI. We originally went in with the acquisition to be able to get access to the preferred customers on the agency side. But as it has evolved, and we are working hand in glove with ASI, it has proven to be positive on both the agency side and the direct side. So Heather Day, our preferred marketing leader is going to come up and talk about what we've done to-date, the momentum we're building and how we're going to capitalize and capture more of that preferred customer.

But before that, John Sauerland, our CFO is going to talk about the size of the opportunity, why we continue to be very pleased with the acquisition of ASI and how we structure our reinsurance in order to mitigate risk. And as you can see from the first quarter, that served us well with Irma. And then the 3 of us will come up for any questions you may have.

So let's get started. John?

John Peter Sauerland
Chief Financial Officer and Vice President

Thank you, Tricia. Good morning, everyone. The size of the opportunity for Progressive in the personal line space remains very large. We're very excited by the fact that we can now attract and retain virtually all personal lines customers, executing on our destination strategy.

Most of you are familiar with how we segment the personal line space, but for those of you who aren't, let me spend a minute to review.

We have 4 primary segments within personal lines, those are represented by the personas of Sam, Diane, the Wrights and the Robinsons. Sam isn't consistently insured, you can think of Sam on the nonstandard end of the spectrum. Diane, a renter, who is more consistent with her insurance consumption. The Wrights, homeowners, who don't bundle home and auto, and the Robinsons, who bundle home and auto.

You can see on this slide, we delineated the personalized market space across those 4 segments as well as the primary distribution channels in which they currently consume their insurance.

As you can see, the Robinsons are over half the personal lines marketplace. We've had some success penetrating the Robinsons segment, our growth year-on-year in terms of policies in force for households is 30%. We think we now have slightly less than 2% of Robinsons countrywide or around 0.75 million households.

The predominance of the Robinsons in our current customer set, we have developed or as we say graduated. Meaning they started as a Sam, a Diane, or a Wright, and we have evolved them through their life to be a Robinson, bundling home and auto.

Now today the new business, the new Robinsons coming into Progressive are a little more equal, 50-50, and that's driven predominantly by independent agents who are moving existing Robinsons to Progressive, but by and large our book is still made up of customers that we graduated into that segment.

I thought a real life example would be great to give you a perspective on how this journey evolves and the financial gains that the strategy brings. When I was Personal Lines President, thank you cards would go out to our customers under our name. On occasion I would get a response. And I saved one because I thought it was a great example of a customer who was in a state -- very young, who we could be their insurer for life. If our strategy was working, we could be their insurer for life.

The customer's name is Adrian and the letter to me he sent to me is short enough that I will read it to you.

"My name is Adrian and I recently received a thank you card from you. I just wanted to write back and say that I really appreciate it, and the personal touch that Progressive puts on all that it does. I've had Progressive as my insurance provider since I purchased my first motorcycle as a teenager. Now 'all grown up' as they say, Progressive protects my car and their affiliates protect my apartment.

I come from a marketing background so I understand the challenges involved with a big company trying to convey a personal touch. So again, I just wanted to let you know I appreciate it."

Adrian was 25 years old when he sent me that letter in 2012. I looked into Adrian's situation with Progressive at that time, and Adrian did indeed purchase a motorcycle policy with us as his first policy with Progressive. Our records show he was actually 21 when he did so. He paid $142 for an annual motorcycle with Progressive. So less than $12 a month. What Adrian didn't share in his letter that he was -- was that he was apparently living with his girlfriend Kathy at the time he sent the letter.

Kathy also had an auto insurance policy through Progressive separate from Adrian's, at the same address and apartment number. She was also listed on that renters policy. So Adrian was clearly starting to grow up and finding some stability in life. Perhaps not coincidentally, Adrian also sold his motorcycle just around the time he and Kathy moved in together.

Adrian and Kathy got married in 2013, so I obviously follow through to see every couple of years where Adrian and Kathy stand. They moved from one state to another, back to their original state. They have had multiple different vehicles, from a Ford Focus to a Lexus. And just in September this year, they purchased a home, went down to one vehicle and they insured that home through Progressive Advantage Agency, our in-house agency.

The key perspective I wanted to bring here is that while Adrian started with us with a policy that cost him less than $12 a month, he and Kathy have now sent Progressive and our affiliates almost $20,000 cumulatively in premium over the past decade.

If we didn't have renters insurance, would we have lost Adrian and Kathy at that point? If we didn't offer homeowners insurance, would we have lost them just a couple of months ago? My expectation is yes. We now have the products to keep Adrian and Kathy for life.

My hope is that the next time I check in on the household there is a new addition. Maybe they are considering life insurance, maybe they have even already purchased life insurance through Progressive. We can be Adrian and Kathy's insurance company for life for the next multiple decades and that means a ton of premium for Progressive.

I hope that gives you perspective on the strategy and the benefits. Adrian and Kathy, are direct customers with us. We had a lot of success with Robinsons in the direct channel. What I'm sharing with you now is the share we believe we have within each distribution channel, here direct and independent agents.

We think we have around 8.5% now of Robinsons who shop direct for their insurance. That's fantastic. We had 0, 10 years ago. We have had the luxury of working with multiple homeowners carriers, third parties, to meet the needs with our direct customers.

In the independent agent channel, we haven't had that same level of success. We have a little less than 2% of Robinsons today in the independent agent channel. If you recall an earlier slide, the Robinsons within independent agent is a more than $50 billion segment. Direct is a little more than $20 billion. While we had affiliate relationship that we use to bundle home and auto within the independent agent channel a number of years ago, that relationship did not work out in that channel. That carrier remains a key part of our direct efforts but it didn't work out for independent agents.

We were very clear at that time that in order to penetrate that more than $50 billion segment, we needed a preferably monoline homeowner carrier focused on independent agents, one that had a great management team in place and one that was consistently profitable. I personally believe at that point in time, it might have been only one company that fit that bill and that was ASI.

Monoline home carrier expanding across the country, focused on independent agents, great leadership team and a track record of very consistent and very robust profitability. Combined ratios that on their own are impressive and relative to the industry, even more impressive.

Now a key part of ASI strategy in terms of ensuring consistent profitability is a robust reinsurance program. We haven't talked a lot about that with you yet, so I'm going to take a little time on this slide to share the current aggregate stop-loss as well as named storm programs.

For named storms, the ASI tower for our first event that hit Florida is about $1.6 billion. Now models will tell you different things around what the probability of a storm of that size impacting ASI's book to that level, I think it reasonable to think of that top of that tower as a 1 in 300-year event. The layers in this tower are not shown, do drop down in case of exhaustion of the layers below them, and the majority of the lower portion of this tower is reinstatable. Further, the reinstatement premiums on those layers are prepaid. So layers can drop-down and the majority of the lower layers here are reinstatable and the premium is prepaid. Retention, $50 million. As you know in September, Irma was more than $300 million incurred for our property business, we retained $50 million.

The second tower here for a Florida event assumes a $1 billion event for the first event. The FHCF Florida Hurricane Catastrophe Fund is not reinstatable, so that would be not available for a second event, even given that fact, we have $1.2 billion available in the event of a second event and our retention is $50 million.

This tower would also be reflective of a first event in a non-Florida State.

There is yet coverage after the second event for a third event, and in this case we assume a $700 billion Florida event for the second event. You can see we have almost $700 million in coverage for that storm as well and we retain only $25 million in that case. Robust program for named storms.

As the company has expanded across the country, we've recognized a need for aggregate coverage, hailstorms can be very expensive for home carriers. Previously, the company employed a cash rebound with a $175 million annual aggregate retention, with $200 million above that. Starting in 2017, we employed an aggregate stop-loss agreement that has $200 million of coverage above a 63 loss plus ALA ratio excluding named storms and excluding liability claims.

Today we have a little less than $100 million as recoverable on that ASL. That does not settle until year-end, so we will hopefully end up in a better place by year-end.

But the point is the company has a very robust reinsurance program in place for both named storms and aggregate losses. We've gotten a question since we became a majority of ASI -- majority owner in ASI, whether we will increase the retentions here. This kind of risk profile in terms of a reinsurance program is very similar to what the company had when we acquired them or the majority interest.

The short answer to that question is today, there's no plan to do so. We have three reasons behind that. First, our commitment to our calendar year 96 or better. The second is that when we look at the return on capital in the reinsurance space, we see levels of return that are below P&C in general and materially below Progressive's performance. Thirdly, when we look at the reinsurance pricing today, while we don't contend to know if it's accurate or adequate, we do recognize that today the pricing is half or less than what it was just 10 years ago.

So it seems if we wanted to bring on more risk, retain more risk, this probably isn't the best time. Now we recognize that even with a robust reinsurance program, capital needs in property are higher than for auto. We shared this perspective with you actually 2 years ago, when we acquired the majority interest. And this is simply to say even at premium to surplus levels, half of auto for property, if you target a lower combined ratio, you can hit great returns on capital, and that's what we do.

Now this begs the question if you're going to target a lower return for -- a lower combined ratio for property, will you lower that 96 calendar year target? Or will you raise the target for your other business lines? Response to that question, I first offer the fact that property today is 4% to 5% of our premium. I also point out that when we set combined ratio targets by business unit, we do so at the new and renewal business level, we do so on a lifetime basis, we do so considering the returns on capital by line, and our expectations around growth for the coming year.

What I'm sharing with you here is our current targets for our 5 major business units, as well as the standard deviation, plus or minus the standard deviation, one standard deviation range around that target. You can see all the targets are below the 96. And I will quickly admit that the deviation around the performance relative to the targets has a performance bias in it. We are consistently but not always below that target. And that is intended. That is the construct that helps ensure that we are at or below that 96 calendar year every year.

Now I understand that return on capital here is not the same thing as saying that our return on the investment in ASI has been robust, but I will say that we are diligent in reviewing our assumptions around the acquisition and the price we pay.

So to-date, growth has been below our expectations, but I will quickly add to that, the growth to-date is far exceeding our expectations. The inception to date number is highly influenced by the fact that we lost a large client, early on, solely because Progressive took a majority interest. But as Heather will share with you in a moment, growth is robust so we think we are getting the momentum in the growth here.

When we look at our combined ratio versus our assumptions, we're slightly higher. But recognizing the period we're looking at, we have had 3 storm seasons and the past 2 in terms of hail, have been based on our vehicle experience, some of the most active hail seasons we've ever seen. And of course, we've now had 2 named storms hit the continental United States in 2017. We're comparing that against less than a

3-year premium period, again our combined ratio inception to date is not hitting the target. It is not that far off. And we're confident in the underlying profitability of the business.

I hope you're getting the fact that we are very excited by the fact that we have ASI as part of our destination strategy now. Heather is going to share more about our momentum. But my hope is the next time I talk to you about Robinsons, I will share an Adrian and Kathy story, along with one of our partner independent agents.

So with that, Heather Day.

Heather Day

Thank you, John. So as John highlighted, there is significant market opportunity for Progressive in the Robinsons segment. In 2014, we laid out our vision for the Destination Era and plans for growing that book of Robinsons. Subsequent investments in ASI, but also in processes and systems across channels, have laid the foundation for that growth.

In year-to-date, we are experiencing steadily increase in velocity in creating Robinson bundles. We are now accelerating away from the historical slope in both direct and agency channels, with about equal parts coming from our existing auto customers that are transitioning to bundled homeowners with us, and from new business Robinsons that are adding an -- that are buying an agent -- an auto policy as they bundle with us.

So property is considered an anchor product in the Destination Era. And we have extended our core distribution strategy to include property. As with auto, property insurance is now available how, where and when customers to choose to interact with us. And that requires thinking about property comprehensively. It has been woven into how we go to market and throughout our funnel, from our branded messaging, across all of our channels for purchasing and servicing a policy and through engagement with our existing auto customers as they become homeowners.

As part of that strategy, Progressive is well positioned to connect with the highest potential segment for home insurance shopping. The top graph here shows the overall U.S. population by age, the bottom graph shows the Progressive auto distribution by age. Merging the two, the orange line highlights Progressive's market share by age relative to the overall U.S. population.

Progressive has an advantage position with the younger population. And homebuyers skew younger. Overall, 62% are under the age of 44. Not surprisingly, the skew is even greater for first-time homebuyers. Looking at first-time homebuyers by age group, 80% are under the age of 44, peaking in the age range of 25 to 34. Again, aligning nicely with Progressive's auto distribution.

And while these millennials are shopping for homes later than in prior generations, as they age further into adulthood, the trend to homebuying continues. Now Progressive has a legacy of building demand, with strong response from younger customers. We seek to be first in wallet with auto insurance. But as we saw with John's story of Adrian, our customers are not static. They are constantly evolving in their needs. That first home purchase is a seminal event that fundamentally changes the insurance needs of our customers. And it can prompt shopping.

So our investments reinforce our relationship up to that point and increase the likelihood that we will be first in line as an option for our customers during that critical transition. We are making steady gains in bundling these customers.

We're also able to leverage strong brand consideration in that younger population, which extends here to the Robinsons consumer segment. Here we see the Robinsons insurance consideration by age, with the solid blue line representing the top 2 box consideration for Progressive, and the solid orange line representing the top 2 box consideration for a large captive carrier. The dotted lines represent the same consideration levels for 2016.

Again, Progressive's favorite position with younger markets comes through. These consumers have grown up with Progressive as an insurance brand.

To reinforce awareness and consideration of Progressive with these Robinsons, we are essentially extending the Progressive brand. Value and ease are core established brand attributes, and these carry over into home and bundling. However, we recognize that Robinsons are motivated not only by rate but also by peace of mind. We are able to tap into the power of the Progressive network of ads, leveraging familiar assets to layer on new messages around bundling and protection.

In an earlier ad, with a jar for bundle jokes, there was a simple message, bundle and save. This next ad was called "Flotection", in which Flo is ever present in her efforts to protect the family's home and auto, from a neighbor's barbecue to a pesky pigeon. In a recent ad, Flo and Jamie struggle to get into the Progressive labs to see the new HomeQuote Explorer, which echoes yet another brand attribute of comparison shopping. Finally a set of ads that are funny twists on that moment of realization that one is actually grown up, or perhaps morphing into one's parents, and that owning a home changes everything.

There is an ecosystem of content that wraps around these ads and reinforces the messaging online, connecting with people dreaming about and researching homes. Home and bundle ads like the one that I just described are strong performers in our overall marketing line up. Looking at the ads from the last 2 years on a 2 x 2 matrix of ad effectiveness, ads featuring home and bundled messages here are highlighted in blue. And as we can see by the cluster of home ads up in the top right, ads with these messages generally outperform on 2 of our key measures.

The net is that we are able to effectively layer home and bundle messages onto existing assets and leverage that brand equity. The strong performance of these messages enables very efficient spending relative to what might normally be expected in generating response for new product line.

In line with that efficiency, we have increased mass media spending for homeowners and bundle messaging. And with a more fragmented homeowners market, that spend is echoed by increased share of voice, which reinforces awareness and consideration.

Now the power of our content carries into earned media online. Organic search results reflect the strength and relevance of our content and our measure of online authority. Progressive has held a leading position in organic search results during most of 2017 and all of the peak homeowners shopping season. Top placement translates into traffic, which brings us to the direct acquisition funnel. While the volume of online home quotes is still small relative to auto, Progressive has established an early lead.

Looking at online quotes submitted during the first half of 2017, Progressive is the clear #1. And those quotes are dropping into a new and improved funnel. As Tricia has noted in her 2017 quarterly updates, earlier this year we launched the HomeQuote Explorer. Based on initial results, we accelerated the rollout and the platform is now available countrywide on both desktop and mobile.

Building on our years of online expertise and tapping into publicly available data, the HomeQuote Explorer provides a simple and comprehensive home insurance quote experience. The enhanced platform also supports our in-house Progressive Advantage agency, so there's continuity between the online and phones experience. One of our in-house agents can pick up a customer's quote, consult over the phone and take it through to conclusion.

Now the HomeQuote Explorer is an important foundational element for growing share in the direct Robinsons market. Progressive serves a wide range of direct customers, and whereas progressive alone can offer an auto rate for just about every risk, homeowners carriers are more limited. By extending our multicarrier platform, we have become more efficient at matching our customer needs to an offer that works.

Now previously we've highlighted the improved acceptability we saw with the multicarrier platform over the phones, with acceptability as the percentage of time we can present a customer with a homeowner's rate, and we are now experiencing those same acceptability gains across our multicarrier channels, desktop, mobile and phones.

So as we look back at acceptability over the last 12 months, we see some month-to-month variability due to customer mix and carrier appetite, but a clear trend emerges after the HomeQuote Explorer elevates. Those acceptability improvements are combined with gains and conversions and other funnel enhancements, so that as we see a similar pattern of improved year-over-year yield.

So to summarize on the direct side, our message is resonating with the target segment. We've established an early lead in driving online quotes and the funnel is notably more efficient.

However, even as we are enthusiastic about those direct successes, we know that most Robinsons continue to buy through agents. As John showed earlier, local agents write more than 85% of bundle business. As the #1 writer of auto insurance through the independent agent channel, we believe we are reasonably well positioned to leverage our strength to become the #1 writer of auto and home insurance through the channel.

And in agency, we have an equally comprehensive approach to growth, partnering with agents ready to write bundles, providing them with a competitive offering, making it easy for them to do business and building confidence in our ability to serve the customers.

So these elements come together in the Platinum program. It is the foundation for bundle growth in agency.

Progressive offers our auto and special lines products through broad set of independent agents, over 35,000. This is not true for Progressive home. Only 12% of agents have access to the Progressive Home product, and just 5% are invited into the Platinum program. Now the number of Progressive home and Platinum agents will expand to meet our growth objectives. In fact, we have almost doubled the number of Platinum agents over the last 12 months. But it will remain small relative to the overall agent footprint. Platinum in particular, will remain exclusive. It will be available only to those agents that have strong potential to write preferred bundled business and that demonstrate strong commitment to placing that business with Progressive.

And Platinum is working. I'd like to revisit graph that Pat Callahan shared during last year's Investor Relations meeting. This graph compares 2 cohorts of agents, both of which were offering Progressive home at the start of 2015. One group was selected for Platinum and the other group remained in the non-Platinum standard Progressive home program. Of course if we go back to the start of 2015, the more productive agents were ultimately invited to join the Platinum program, so we do see an initial delta. However, after the launch of Platinum, that gap widens.

Momentum was initially slow as we integrated the Progressive and ASI sales teams and built out the Platinum program infrastructure. But we're now seeing the multiplier effect of initiatives coming together. Looking at the solid orange line for Platinum agents versus the solid blue line for Progressive home agents, Platinum agents are now 5x more likely to bundle home and auto.

And then if I add preferred auto growth, these are the dash lines, you'll notice that both sets of agents are increasing preferred auto volume over time, but Platinum agents are now 3x more likely to write preferred auto for agency.

The gaps between these Platinum and Progressive home lines on the graph, this is the Platinum difference, and that gap is continuing to widen.

Now, of course, there is more work ahead, and one of the advantages of the Platinum model is the opportunity for deeper engagement with our agents. As we seek to continuously improving our offering, listening to agents is key.

So we know that a competitive bundle rate is just the starting point. Also essential is bundle alignment across our auto and home products. Progressive and ASI teams, both product and sales, work closely to make good use of agent feedback on product features and underwriting. The deepening integration of these teams has enabled faster learning and speed-to-market on a range of enhancements, such as new underwriting guidelines for older homes, Platinum endorsement of premium coverages for the home product, and continued progress in preferred segmentation on auto.

That said, winning in the agent's office goes beyond product. Agents have long recognized Progressive for our ease-of-use and we are investing to extend that value proposition into bundling with the next generation quoting platform. Now despite the growing prominence of comparative raters, the efficiency of the proprietary portal remains a differentiator. About 75% of bundled quotes start on raters, but agents still bridge into multiple platforms to complete the quote and to compare final rates.

So once again, we have talked to agents extensively and we have piloted some of these bundled quote features. But we also took a step back to look beyond the industry. We've benchmarked against best-in-class consumer shopping experiences to streamline the quote and to make it easy to offer multiple products through an integrated interface. And we are on schedule to start rolling out this enhanced experience in early 2018.

And of course, compensation matters. Enhanced compensation for bundled business remains a core element of Platinum, and we are also element -- we are also implementing a unified bonus program that recognizes Platinum agents for the quality and volume of business they write with us across all lines of business.

Finally, there are elements that are hard to quantify, such as agent confidence in Progressive Home. And we recognize that takes time. We know ASI's record of excellent claims service even in the most trying circumstances, like following a catastrophe. But we need to build that same level of awareness and confidence with our agents. So these many elements come together and they form the base for deepening our relationship with Platinum agents.

In close, Robinsons are growing as a relative share of our overall book. Of course, this is an expansion strategy. It is not a replacement strategy. While Robinsons are growing as a share of the book, we have more Sams in force today than we did in 2014. Further, the expectation that Robinsons would result in extended policy life holds. Using our Sam policy life expectancy as a base, our Robinsons policy life is now over 3.5x greater.

And finally, we are growing Robinsons from a solid foundation, based on those same attributes that drives Progressive's overall success, weaving property into our culture and thinking, extending the brand, putting forward a competitive bundle offer and ultimately meeting the broader needs of our customers. This is the Destination Era in effect, and we are building from here.
And with that, we will take your questions if you give us just a minute to get set up.

Question and Answer

Julia Hornack

[Operator Instructions] I'm going to start with a question that I've gotten frequently, which is how has the hard market contributed to the success of Platinum in the Agency channel?

Susan Patricia Griffith
Chief Executive Officer, President and Director

I'll start with that. And Heather, if you could elaborate a little bit, specifically with Platinum. Overall, the hard market is really about being in the consideration set, especially on the Agency side. So when we think of that, we think of course our brand, your trusted brand. We think of service, especially times like this when you have catastrophes. Agents get feedback on exemplary service and service that needs work. So make sure you always service your customers. But more importantly, when the customers come in that agency, do you have the right product at the right price? And that's really the key to being successful in a hard market, to be able to have a great product. And we are very happy with our [84] product at a very competitive rate. And to me, that's the overall picture of how you really win a hard market. Specific to Platinum, Heather, why don't you elaborate a little bit?

Heather Day

Yes, I think you're right. It is about being in the right position to take advantage of market opportunity. If I look back a couple of years, we would not have been in a position to grow, whether it is a hard or soft market. So it is really the work that has happened to reinforce our bundled product, to deepen those relationships with agents, that during this time where we've got the opportunity to grow, we're in a position with the right product, the right relationships at the right time.

Susan Patricia Griffith
Chief Executive Officer, President and Director

And the agents really do talk about that. So I do a lot of big agency events, and you can tell just in the last year as we've come together, especially with the agent representatives that go in, the agents really respect and honor that relationship. And you can tell it's adding to our results.

Heather Day

Absolutely.

Julia Hornack

Thank you. So Brian, can we please take the first question from the telephone participants, please?

Operator

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

Elyse Beth Greenspan
Wells Fargo Securities, LLC, Research Division

My first question, I guess, first as I think about the bundled customers versus nonbundled customers, do you assume a lower loss ratio on the bundled side, just because there generally have been more affluent customers? Or can you kind of just walk us through how you're kind of thinking through the margin profiles of the 2 different segments of the business?

Susan Patricia Griffith
Chief Executive Officer, President and Director

Yes. We do assume -- we look at all of our customers with segmentation and then subsegmentation. So generally, we believe that bundled customers will be more competitive and so we bake in, obviously, loss ratio-expense ratio differences in those customers. And we know that they stay longer, which also influences that.

Elyse Beth Greenspan
Wells Fargo Securities, LLC, Research Division

Okay. And then something that's a bit more topical over the past day has obviously been the prospects of tax reform. Given that you guys could be a pretty big beneficiary on the tax side, would you look to keep any potential benefit? Or do you think that, that -- would that be passed through to potentially lower pricing?

Susan Patricia Griffith
Chief Executive Officer, President and Director

The devil will be in the details. And generally speaking for Progressive, we believe that if it comes to a 20%, we don't know what the outcome will be, that we will benefit from that. I think what I'd like to do is to have John talk about how we look at that from an operational side. And then Bill Cody's on the phone, and he can talk about how we've been looking at that from an investment side. We talk about this all the time, at least in the last year or so, and model out what those changes would be. So John, why don't you start on the operational side?

John Peter Sauerland
Chief Financial Officer and Vice President

Sure. Obviously, a timely question. I'm sure most of you spent a lot yesterday reading a lot on potential tax code changes. Generally, it is our bias that we would allow benefits of tax change, federal tax change to fall to the bottom line. That said, we are -- we would be considering the competitive environment in which we operate as we decide whether we would change that 96 target or not, our initial expectation is that we would not. We would also obviously try to understand the likelihood of permanence in any change. But I also would like to note when it comes to taxes that we actually pay as much tax above the line in an average year as we do below the line, so to speak. So for insurance, we have a state premium tax, generally not a state income tax, and that state premium tax is about $0.5 billion for Progressive, and that's included in our expense ratio. We do a lot to try to optimize our premium tax rates, meaning multiple legal entities. We work on getting tax credits as well. And more recently below the line for federal taxes, we have been working to be more proactive in managing our federal tax rate through the use of renewable energy credits. So generally, we will expect to allow it to fall to the bottom line unless the competitive environment changed a lot. And I think Bill would -- can comment on the potential implications for our investment portfolio.

William M. Cody
Chief Investment Officer

Sure, Elyse. The biggest implication or the direct implication would be in the muni portfolio, which is now, let's say, 8.7% of our total portfolio, which is down about 2% from last year, the end of last year. So that comes to a little bit less than $2.4 billion. About $900 million of that or roughly 40% is in housing bonds which -- most of which, we would still find attractive at a 20% tax rate. A similar amount we hold for premium tax abatement purposes, which is something that John had mentioned. And I would say the vast majority of that would still be attractive at lower tax rates as well. The balance, there are some special situations which will be also attractive. And then others that we would sell, given valuations and tax rates because we look at munis on a fully taxable equivalent basis compared to other products. And to the degree they're not competitive on that basis, we will sell them. We generally expect munis to do well under the proposed tax plan because individual demand should hold up pretty well, given the top tax rate remaining at the 39.6% and the elimination of state and local in the income tax deduction. And as well as the fact that we will see some supply-demand -- supply drop, given the elimination of advanced refundings and private activity with bonds. Through the rest of the portfolio, corporate bonds should do better as cash flow is increased and leverage is reduced. We should also see some less issuance in that space as well. We also expect rates should move a bit higher on the boost to growth and some possible

[F1 series bonds]. And we also think our equity portfolio should do well. Obviously, it's a big winner of reduced corporate taxes.

Susan Patricia Griffith
Chief Executive Officer, President and Director

Thanks, Bill.

Julia Hornack

Thanks, Elyse.

Operator

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

Robert Ray Glasspiegel
Janney Montgomery Scott LLC, Research Division

Question on the -- on how we should think about the option execution. Is there anything magical about getting into a 100%? I mean if things are like they are, do you anticipate that you're going to want to get to 100%?

John Peter Sauerland
Chief Financial Officer and Vice President

Sure, yes. So Bob, I'll take that one. In April of 2018, we have the option to get to 80% or more. And I expect we will take that option. We have the option to get to 100% at the end -- or in April of 2021. And it is our expectation that we would take that option as well. The owners of those shares also have the option to put their shares to us at the same time at those 2 different dates. This is obviously intended to ensure that the key leadership team that I talked about remains to continue to build the business and be very engaged, which they continue to be. On that note I will, however, mention that we have also recently had a senior person from Progressive join the ASI team. So Dave Pratt, who most previously ran our Snapshot business and has a long history, probably 27 years or so with Progressive, is now [in direct report] of John Auer, the CEO of ASI. So working to get further integration, but yes, we would expect that we would be at, at least 80% come April of '18, and get to 100% in '21.

Susan Patricia Griffith
Chief Executive Officer, President and Director

Sorry, Bob, I didn't know you were referring to ASI. I was like, options? We don't have that option anymore. Sorry.

Robert Ray Glasspiegel
Janney Montgomery Scott LLC, Research Division

A question on where the sort of current run rate is in homeowners. If we sort of take out amortization and investment for growth and sort of unusual CATs, where should we think of this sort of current year-to-date run rate?

Susan Patricia Griffith
Chief Executive Officer, President and Director

You can talk a little bit more about that. I think taking out the amortization expense and the current CATs, we feel much more positively about the run rate. And of course, as we expand across the country, we learn more and more about -- we have more development and we understand a little bit more of each state and the nuances. But we also believe that that's a great strategy because being across the country and not having so much concentration in the states we have now will actually be beneficial to us.

Robert Ray Glasspiegel
Janney Montgomery Scott LLC, Research Division

So just to understand your answer, you are earning your targeted return underlying? Or you need more scale to get there?

John Peter Sauerland
Chief Financial Officer and Vice President

I can answer that, Bob. So as I mentioned, when we modeled the value of ASI, we obviously assumed a margin, operating margin. And we are slightly above that inception-to-date. Actually, in 2017, if you take out that amortization, we're at a 101 year-to-date, and that is not where the model assumed we would be on an inception-to-date basis. But of course, homeowners is spikier, consequently the need for reinsurance, consequently need for greater capital levels. But on an inception-to-date basis, given the fact that we've had a high degree of hail as well as the named storms, we feel great. So we have a target combined ratio, as I showed you on that slide. For the property business, it is well below 96, reflecting the additional need for capital. And we think our underlying profitability is solid. Homeowners is a line in which we have been taking rates up some. We expect to take those rates up more throughout the rest of the year and into 2018 as well. So we are seeing loss cost trends in homeowners accelerate a bit, and the folks at ASI are responding.

Operator

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

Kai Pan
Morgan Stanley, Research Division

First question on the reinsurance side. If the reinsurance rate's going up, would that impact your reinsurance strategy? And would you be able to pass on some of the increasing cost to your [Home] customers?

Susan Patricia Griffith
Chief Executive Officer, President and Director

We don't know for sure if reinsurance will go up. That'll be dependent after everything. It's true in different companies. We believe that we have a great strategy in terms of having multiple policies that are staggered in different years. So we will -- we always take a look to try to minimize our downside and we'll take action depending on what the reinsurance market does and what we feel like we need. But we want to obviously protect that spike in homeowners. So John just talked about that. And having 2 of the biggest storms in history in 2 of our biggest states for Home, we realized how important -- not that we didn't before -- how important to homeowners reinsurance is and we'll do, what we need to do to protect that downside.

John Peter Sauerland
Chief Financial Officer and Vice President

I might interject, I may have misspoken in my response to Bob. Inception-to-date, our combined ratio for homeowners is a little higher than we modeled. I think I shared that in my comments. But in case that was a misstatement on my part in Bob's response, I apologize. We are slightly above inception-to-date.

Susan Patricia Griffith
Chief Executive Officer, President and Director

Kai, did I answer your question?

Kai Pan
Morgan Stanley, Research Division

Yes. My follow-up question is on the auto sort of loss frequency. And we have seen pretty sort of like -- a lot of improvements so far this year. I just wonder, could you give a little bit color on the sort of what's like the puts and takes in there? And how sustainable is that going forward?

Susan Patricia Griffith

Chief Executive Officer, President and Director

I'll start with the sustainable piece, Kai. It's really hard to understand necessarily frequency because a lot of macroeconomic trends can change with frequency. What we do see internally that we believe is favorable on that side is the fact that we have a much more preferred mix of customers. And so we know that that's what lowered the frequency. We have some upfront underwriting we've put in, in the last several years that we believe is making a difference. And when we look at our snapshot data, we have longer miles. So think of longer -- trips. So think of trips over 15 miles. And we're seeing that, and we believe that the Snapshot population kind of mirrors the rest of our Population. So when we think about that and create hypotheses around frequency, those are normally what we talk about. And we always have other underlying hypotheses that we continue to try to quantify. But we wouldn't want to try to predict frequency. We react to it.

Julia Hornack

All right. I'm going to take a question from the webcast at this time. So the question is from Austin Boaz from Principal Global Investors. Do you think there would be better acceptance by independent agents of homeowners insurance if ASI was rebranded as, say, Progressive Home, for example? Why keep ASI as its own brand name? So a 2-part question.

Susan Patricia Griffith
Chief Executive Officer, President and Director

Great question, Austin. Yes, and thank you, we're going to be doing that. So yes, we -- so let's move back up. So we purchased ASI because in the states they were in, they were known as the preferred brand and agency channel. And for years because of our heritage of being a nonstandard auto, we knew that was a good marriage. So we've learned from -- as the last couple of years have gone through, not just from agents but from ASI as a team, we knew there'd be a right time when we decide to name the product Progressive Home. So over the last year or so, all of us have had lots of conversations with agents. And these are agents in some of the agencies where they have been an ASI agent for a long time and they said, "You know what? It's time to leverage the Progressive brand and have it be Progressive Home and Progressive Auto." And so we've decided to do this. It will take some time, because of just systems and different things. But Heather's actually -- will be running that project, and you can add in any more if you want. But yes, we think it's the time. We now are known as an auto home bundler. We have the right brand for that. It's a preferred product on both the auto and home side, and it's perfectly the right time. So great advice, Austin. Do you want to add anything?

Heather Day

I would just echo what Tricia just said. We tread very carefully here, knowing the legacy that ASI had built with agents in its existing states and how well recognized they were by those agents. As we expand it again, it was one of those, we've got those deep agent relationships through the Platinum program. We listened carefully and understood that as we are beginning to build out the Progressive Home brand generally, this was really the right time to make the switch. So yes, under way.

Susan Patricia Griffith
Chief Executive Officer, President and Director

And I would tell you, the first person that would say we absolutely have to do this is John Auer, the CEO of ASI, and he's leading the way as well.

Julia Hornack

Brian, can we take the next question from the conference call line please?

Operator

Our next question comes from the line of Christopher Campbell from KBW.

Christopher Campbell

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

A question on Auto, do you think reinsurance on your auto line would be useful, given there's probably a benefit if you did a multiproduct treaty? How does Progressive approach that type of question?

Susan Patricia Griffith
Chief Executive Officer, President and Director

That's a great question. We've been talking about that for the last couple of years as we've integrated with ASI. We have it on some of our commercial auto. So the higher limit Commercial Auto, over $1 million, we have reinsurance. I think as we think about continuing to expand, we always consider and protect the downside and weigh that with the cost. So it's something we talk about often to determine does that makes sense, does it make sense especially like you said with the multi treaty. We haven't gone there yet, but it is -- it's just something we discussed.

Christopher Campbell
Keefe, Bruyette, & Woods, Inc., Research Division

Okay, great. That's very helpful. And just the follow-up is how would you categorize the relative sophistication between your auto and homeowners pricing right now?

Susan Patricia Griffith
Chief Executive Officer, President and Director

So from Auto, we have had years and years of segmentation, and a lot of variables go into our auto pricing. And then recently, of course, we've added the upfront underwriting. On the home side, there's been a lot more underwriting in terms of acceptable risks. So coming in the door, knowing right away what we would accept and what we wouldn't. Now we're really starting to share data and best practices with both companies to really get the best of both worlds. So sharing the underwriting sophistication from ASI as well as our pricing and segmentation sophistication. And we've been doing a lot more of our business reviews collectively together. That's one of the reasons why we had Dave Pratt come down to work with the ASI folks. And we work back and forth to really share the best of both worlds. So I would say each company has different levels of sophistication. So together, I believe we're going to have a really optimal approach to even understanding segmentation at a more granular level.

Operator

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

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

On Platinum, I think you mentioned 5% of the agencies are currently Platinum and also you're being selective. But as we think about a couple of years down the line, will that be multiples of the 5%?

Susan Patricia Griffith
Chief Executive Officer, President and Director

Yes, we will obviously select more Platinum agents as we grow and expand. And we really have always positioned it as a scarcity model. And we want to make sure these agents, when customers come into their agency, we're their first or second choice. And some agents actually won't have access to the customers that want to have a home and bundled package or maybe don't own a home. So we will expand when we believe it will increase our Robinsons population, our auto home bundle. We'll be expanding for sure in the next couple of years just because of our geographic expansion. And then we'll likely step back and say, "Are there opportunities in different geographic locations to increase our Platinum agency population?".

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

Okay. And then could you talk a bit more -- I think you said in '18 that you're rolling out for Platinum a better interface and also better bonus program. Could you just talk about those a bit more?

Susan Patricia Griffith
Chief Executive Officer, President and Director

Yes. I'll have Heather talk specifically about the bonus program. I brought up the overall commission schedule that we talked about during the last webcast, so we call it Paths to Partnership, and we are investing a lot overall in our agency platform with IT, just to make things smooth and easy for agents to be able to have that auto and home and bundle online in the same system. Do you want to give any specifics on that?

Heather Day

Well, I would -- I think underlying this question is a sense of what kind of levels of investment are we looking at in terms of Platinum and how does that line up in terms of our cost structure. Let me know if I'm off-base on that. I think we feel very good that we are coming into the Platinum program with a very competitive cost structure in the agency channel. And as I think about the investments we are making in terms of ease-of-use with the overall platform as well as thinking about how we are going to compensate agents for both their bundled business and for other lines of business that they're writing with us, we are really rethinking about both the quality and the volume of the business we're getting, the kind of retention we expect to see with this bundled business. So overall, these investments should align us -- should position us very well for growth, but we do not expect upward pressure on the combined ratio. We will keep that very same target in place.

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

And also the last on bundled. You showed the Robinsons population is growing pretty aggressively in bundled. Is that coming -- is that growth coming more from the captive or independent agency channel? Or both?

Susan Patricia Griffith
Chief Executive Officer, President and Director

I would say the majority of the Robinson bundle is coming from the independent agents channel. That's not to say that it's captive, Robinsons aren't shopping as well. And of course, the other part of the Robinsons bundle, not with Platinum but on -- in our in-house agency on the direct side, really comes from the overall population in terms of what John had talked about with a lot of graduations of our Dianes and other people in our segmentation. So it's really across the board. But if I had to stay on the agency side, the majority of our growth is coming directly from the independent agent channel.

Operator

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

Brian Robert Meredith
UBS Investment Bank, Research Division

A couple of questions, first, back on the frequency. I'm wondering, do you see any benefit -- or in any of your data, see any benefit when you do have some major hurricanes or catastrophic events like this? Did you see a decline in frequency?

Susan Patricia Griffith
Chief Executive Officer, President and Director

We talk about that. We can't surgically say absolutely yes. Right after Harvey, I walked into John's office and asked that same question. Let's look at this. So I wouldn't be able to say concretely absolutely. We look at that, try to address that, but it's really specifically an unknown. I think the philosophy and probably what you're getting at, Brian, is -- so if you leave, is there less frequency in BI et cetera. We look at that. We can't exactly point to yes, that, that equates to frequency because again that is a couple of states and we have the whole country to contend with when we look at overall frequency.

Brian Robert Meredith
UBS Investment Bank, Research Division

Great. And also just on that topic, if you quantify -- or can you give us a sense of what benefits you're seeing on frequency from kind of mix shift to more preferred? And kind of what do you expect kind of going forward?

Susan Patricia Griffith
Chief Executive Officer, President and Director

I can't give you very -- specifics in terms of that. But we know when we have the more preferred customer that -- and the ones that stay longer, so we're going to be making more money over a long period of time that we benefit from that mix of customer. And I think the exciting part about this is that as we talked about, we have so much momentum going on and so much more to capture. And we're seeing this now. So we believe that if it continues, hopefully, we'll have those low pure premium customers that will benefit us. So we won't be able to tell. It's not something we can predict. We don't put it into our pricing. We watch for it. But having a more preferred customer, we believe, will benefit us.

Brian Robert Meredith
UBS Investment Bank, Research Division

Great. And just one last question. Could you provide us with kind of what the competitive landscape looks like right now in the direct agency distribution segment?

Susan Patricia Griffith
Chief Executive Officer, President and Director

Heather, if you want to add the agency part, you can. I think, overall, every -- most companies increased rates a fair amount in 2016. Our philosophy has been for a long time -- and we tried to do it; we can't always do it. So take small bites of the apple and continue to stay ahead of trend. We are seeing a couple competitors raising rates higher than we are. And so we believe that the hard market will continue to persist, I think especially after the hurricanes. So I won't speak of specific competitors. We obviously watch that from a competitive landscape. But there's a couple of companies that clearly need some rate in the system, and we believe that will have the hard market continue. Competitors from the agency side, do you have any?

Heather Day

So as we think about the competitive landscape on the agency side, it clearly varies across the country in terms of which competitors are relatively well positioned in different regions. We actually even think about it at the agent level. So as we are thinking through where our opportunities lie, understanding the competitive set within particular agencies is how we are getting a sense of where we have upsides. So it's a state-by-state, are we -- is the market hardening across both the auto and home and what opportunities do we have in that particular agency? and that's where our state-based field and sales model is really beneficial.

Julia Hornack

All right. I'm going to take a few questions from the webcast. The first question is from Mark Lane from William Blair. I'm going to do my best to rephrase this just a little bit. Can you make money on providing third-party insurance on homeowners? And I'll let you answer that first, and then I'll ask the second piece.

Susan Patricia Griffith
Chief Executive Officer, President and Director

Okay. Yes. We -- with our third-party insurance carriers, we receive a commission when we sell homeowners. And remember, what we really -- the intent of having multiple unaffiliated carriers and ASI on the direct side was really to extend the auto PLE. So when we've talked about that for years, being able to say that bundled customers, whether or not we write it on our own paper, really the goal is to extend the PLE of the auto.

Julia Hornack

All right. And then the second piece of the question is including the homeowners policies that we sell through our third-party insurers, our unaffiliated carriers, how would we think about estimating our market share in homeowners?

Susan Patricia Griffith
Chief Executive Officer, President and Director

We don't really publicize that. We've put the income in our service revenue and -- but we have -- we don't share that data.

Julia Hornack

Okay. All right. Thank you. So the next question is from Matthew Goetzinger from Fiduciary Management. So the question is essentially, as Robinsons grow as a contributor to the company, the assumption would be that Robinsons have comprehensive on their auto insurance policies today. So therefore, as comprehensive -- as comprehensive grows as a percentage of the coverage that our customers choose, would that change our reinsurance philosophy on auto insurance for the long term?

Susan Patricia Griffith
Chief Executive Officer, President and Director

We will always look at our reinsurance. I wouldn't necessarily say all Robinsons would have comp coverage, I mean some would, especially if there's a lien. But we watch the line coverage codes across our insurers. And if we felt that, that was necessary to protect the downside, we would absolutely consider it.

John Peter Sauerland
Chief Financial Officer and Vice President

I might add to that. Recognize that within our pricing in states where -- that are more prone to storms, there are what we consider catastrophe loads in the pricing. So we are looking back over history to understand what we think, over a reasonable period of time, is necessary to cover storm losses. So while it's not reinsurance, it is built into those comprehensive rates. And we think we're adequately priced in comprehensive.

Susan Patricia Griffith
Chief Executive Officer, President and Director

All right. Brian, can we take a question from the conference call line please?

Operator

Our next question comes from the line of Ian Gutterman from Balyasny.

Ian Gutterman
Balyasny Asset Management L.P.

A quick question on Harvey and then I had a question on the agency growth. Tricia, can you walk through a little bit sort of how you came up with your Harvey auto estimate? And I guess what I'm looking at is -- I think you even said it in your video -- about 500,000 cars damaged in Houston and your market share appears to be about 10% in Texas. Now maybe it's different in the Houston area, but that would imply close to 50,000 cars. And your 200-something million implies only 5,000 severity, which seems very low to me. So were you underweighted in Houston or can you give us a sense of what kind of severity you're using per car?

Susan Patricia Griffith
Chief Executive Officer, President and Director

I don't know that we've shared severity. We look at -- we model it out. Every storm, we model it out and we look at the share of market within certain areas. And Harvey was a little bit unusual because there were areas that were completely flooded, and we may or may not have had a higher or lower market share in those certain areas; and some were force flooded and some people left. So we literally modeled that one out prior to it happening and ongoing, and the severity was a little bit higher because most of those cars were totaled. But I will tell you, we feel that we have been very adequate in our reserving for both Harvey and Irma.

Ian Gutterman
Balyasny Asset Management L.P.

Is your market share in Houston similar to your market share in the state of Texas?

Susan Patricia Griffith
Chief Executive Officer, President and Director

Yes.

Ian Gutterman
Balyasny Asset Management L.P.

Okay. Fair enough. So on the agency side, obviously the growth has been very impressive. And I just want to understand, obviously, some of it is the initiatives you've talked about on the call, but I was hoping maybe you had some data you can share on sort of where customers are coming from? Is most of the priors coming from other agency carriers that ask for too much rate and they're coming to you? Or do you feel it's sort of the captive guys are moving into the agency? Just anything you can share on that?

Susan Patricia Griffith
Chief Executive Officer, President and Director

What I would say overall is that it really has to do with the agents shopping for a great product at a great rate. And so when you talk about that, when you think about that hard market, most of those customers are coming -- that are within their agency are likely to come to independent agents. I wouldn't say necessarily from captive. I don't know that, but anecdotally I would say people usually go to the captive or go to independent agents. So it's really about us having a different product in the market. So a couple of years ago, when we put out really our first preferred auto product, [83] and now it's evolved to [84], that has really been the shift in our ability to get more customers and having that right price. So we feel like we've got -- we were in a good position in 2015, we've continued to benefit from having better product models with better segmentation at a good rate, at a great rate, because we're able to get ahead of that trend. And that's really been so important to us not to rate shock our customers because that ends up upsetting the agents and then they shop around. And that's really where we've been seeing the growth.

Ian Gutterman
Balyasny Asset Management L.P.

Well, that actually kind of led into what I wanted to ask, was I assume -- so part of this especially in the -- again, I understand the direct is a different environment, but in the agency environment where it seems like we've gotten so used to the, whatever you want to call it, the power of the rater and low man win sort of thing, it feels like some of that business that other people won maybe from you maybe a few years ago ended up being bad business for them. So now it comes back out, they're asking for more rate. You're maybe lower than what they're asking for. But how comfortable are you? Or how much analytics do you have to sort of see how the performance of that book was for someone else. I guess I'm worried a little bit just that the rate of growth -- if someone else was getting it at a 110, and couldn't get the rate they want to renew it and the agency put it back in the rater, can you really get it to a 96 right away? Or do you have to bring it on with a heavy new business penalty and assume it takes 2 to 3 renewals to get into the 96?

Susan Patricia Griffith

Chief Executive Officer, President and Director

Yes, that's a really good question. We have very specific targets in the agency channel per state, new and renewal. So we -- when we're looking at this and why I've bee, I think, elated with the [84] model is the fact that we're writing at or sometimes below target for those -- that new business. So we do feel good about that. If we didn't, we wouldn't -- we would slow down growth. And you've seen us do that because you don't want to have that come back. If someone leaves after 6 months, that's not a good business model. So we feel very good and very adequate with our rate in the agency side.

Julia Hornack

[Operator Instructions] We have a few more questions from the webcast. The first one is again from Mark Lane at William Blair. It's essentially around the purchase price for the ASI minority shareholders. Has that already been a negotiated deal? And how is that valuation structured?

John Peter Sauerland
Chief Financial Officer and Vice President

Yes, I'll take that. Yes, that was part of the original purchase agreement. And the price at which we will purchase shares, either next year or in 2021, is a function of the change in the tangible book value of the company, plus the original price per share. There's also a multiplier that is applied to that change in tangible book value that is determined by a matrix of growth and profitability. It can vary from 1 up to a total -- a high of 2. So in addition to the base share price that we paid back in 2015, you add the change in book value times that multiple from 1 to 2, and that's how the price we pay is derived.

Julia Hornack

All right. The next question again is from the webcast from Matthew Goetzinger at Fiduciary Management. The question is really 2 parts. And the first is regarding the launch of UBI in the Commercial Lines market, so using ELD or truck drivers, how aggressive do you anticipate being on premium discounts given the small initial base of existing statistical loss data?

Susan Patricia Griffith
Chief Executive Officer, President and Director

So how we're going to work discounts in the ELD is if a current customer has at least 3 months of driving data, you will get -- you could get anywhere up to 18% discount, because we already have some knowledge of your driving data. If we don't have any knowledge of it, you'll get a 3% participation discount, and then after that 3 months of data, you could get upwards of an additional 15% for a maximum of 18%. So I'm sure things will change as we know more, but we believe we've gotten out ahead of it, working with some of the vendors. But that's our current structure as we head into 2018.

Julia Hornack

Great. Brian, can we take another question from the conference call line please?

Operator

Our next question comes from the line of [Joe Hawk] from [Bank Lead Asset Management].

Unknown Analyst

Just kind of a 30,000-foot question. When you guys acquired ASI, I think Glenn Renwick was very clear in saying the only way a success of the deal would be measured is if you're selling more car insurance through agents. Can you talk about whether that measuring stick has changed? Or morphed at all at this point?

Susan Patricia Griffith
Chief Executive Officer, President and Director

Having worked with Glenn for so many years, I'm sure that was a statement. But it was really -- the acquisition of ASI was getting access to those agents who wrote those preferred homes and to be able to bundle the homes. So we've talked a lot about extending auto PLEs. So I think with any good business model, especially as we integrated and have such a good partnership and relationship with ASI, we always want to evolve. But ultimately we want to be able to have as many preferred Robinsons auto home bundled in the agency channel as possible. while reaching our target goals -- our target margins. So yes, it's evolved, but I think it's evolved with what Glenn would have had in mind as well.

Julia Hornack

It would appear that we have no further questions, and so that concludes our event today. I will hand the call back to Brian for the closing scripts.

Operator

That concludes The Progressive Corporation 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.