S&P Global
Market Intelligence

The Progressive Corporation NYSE:PGR

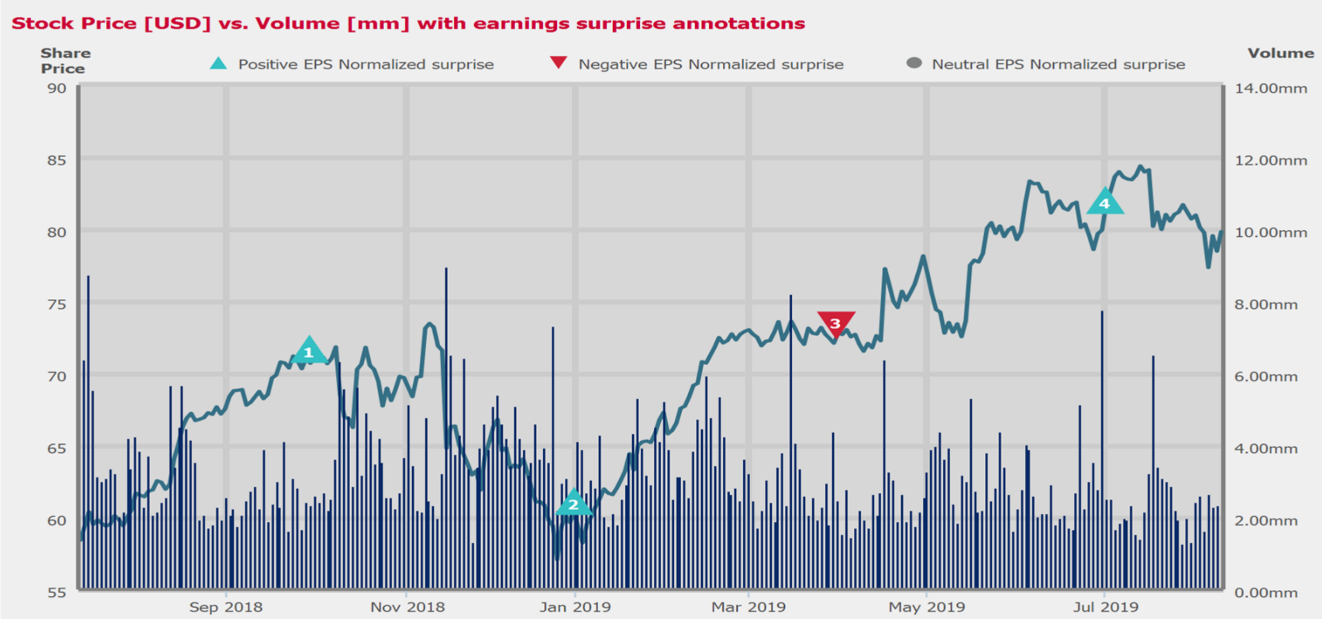
FQ2 2019 Earnings Call Transcripts

Thursday, August 08, 2019 5:30 PM GMT

S&P Global Market Intelligence Estimates

	-FQ2 2019-			-FQ3 2019-	-FY 2019-	-FY 2020-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	1.41	1.43	1.42	1.23	5.32	5.60
Revenue (mm)	9127.75	9126.50	(0.01 %)	9712.75	37024.60	41050.92

Currency: USD
Consensus as of Jul-25-2019 1:25 AM GMT



- EPS NORMALIZED -	CONSENSUS	ACTUAL	SURPRISE
FQ3 2018	1.10	1.33	1 20.91 %
FQ4 2018	1.01	1.25	2 23.76 %
FQ1 2019	1.36	1.35	3 (0.74 %)
FQ2 2019	1.41	1.43	4 1.42 %

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Call Participants

EXECUTIVES

John Andrew Barbagallo
President of Commercial Lines

John Peter Sauerland
VP & CFO

Julia Hornack
Investor Relations Contact

Karen Barone Bailo
Commercial Lines Senior Controller

Susan Patricia Griffith
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Presentation

Operator

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

This event is available via a moderated conference call line and a live webcast with a brief delay. Webcast participants will be able to view the presentation live -- slides live or download them from the webcast site. Participants on the phone can access the slides from the Events page at investors.progressive.com.

In the event we encounter any technical difficulty with the webcast transmission, webcast participants can connect through the conference call line. The dial-in information and passcode are available on the Events page at investors.progressive.com.

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

Julia Hornack
Investor Relations Contact

Thank you, Bridget, and good afternoon to all. Today, we will begin with a presentation regarding the opportunities in our Commercial Lines business by John Barbagallo and Karen Bailo. Our presentation will be followed by a Q&A session with our CEO, Tricia Griffith; and our CFO, John Sauerland. Also joining us by phone for Q&A will be our Chief Investment Officer, Bill Cody; and the General Manager of Progressive Home, Dave Pratt. This event is scheduled to last 90 minutes.

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 2018 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.

It's now my pleasure to introduce our CEO, Tricia Griffith.

Susan Patricia Griffith
President, CEO & Director

Good afternoon, and welcome to Progressive's second quarter webcast. We continue to be thrilled with our results across the board and probably more importantly, our plans to continue to gain market share. That said, if you've been watching the Commercial Lines results, they are nothing short of phenomenal on both growth and profitability. And in addition, we've taken this last couple of years to really invest in IT and talent, and we're going to talk a lot about that today and the addressable markets that we are really running into and excited about. And we're going to have a couple guests give you a lot of details on that.

This slide might be familiar in a little bit different form. But when we started these webcasts, we really wanted to look at the overall P&C addressable market and understand where Progressive plays and where we win. In the last couple of years, we've really focused mostly on the Personal Lines section, which is more than half of the P&C industry and more specifically, on auto and home, especially as we integrated ASI to Progressive Home. And we've shared with you the 4 pillars and our cornerstones and really our ability to continue to grow market share on the auto, on the home and of course, in our bundle, the Robinson, and we've proven that we can do that. The great news here is that we are less than 9% share on the Personal Lines side of the whole P&C market. So we still have a lot of runway. And as I'm sure you've read, our highest-growing segment is the Robinsons. The other half of this is the Commercial Lines addressable market, which is nearly half of the overall P&C market at $328 billion.

Let's take a look at what we'll call a doughnut and I'll walk through in Commercial Lines where we are going to play and where we believe we're going to win. And I'm going to start with that orange segment, and I'll work counter-clockwise. So the orange segment is where we are now, monoline Commercial Auto. It's almost a $14.5 billion addressable market. We've been doing really well there for decades. Right now, we're the #1 commercial auto writer with 22% market share. And with our advanced segmentation and our talent, we really believe we can even gain more market share.

The next tranche to the left of that in green is small fleet. So think of small fleet as vehicles between 6 and 30. In the 6 to 9, we do really well, but we're going to expand to the 10 to 30 vehicle fleets. And Karen's going to talk about how we're going to attack that market.

The next sliver, the black sliver at $1.5 billion, is the insured TNC. As you know, we've had a long-standing relationship with Uber, where we insure the drivers on their platform in 13 states. So we want to continue to grow there as well.

The next color over in yellow is Commercial Auto bundled with GL and BOP. So think of the Robinsons of Commercial Auto. We just started writing that this year. We're going to expand across the country, and we're really excited about the opportunities here. Again, we're going to be surgical, and we're going to make sure that we don't just grow but we profitably grow, but we're very excited about this opportunity. Those first 4 tranches really have the Commercial Auto at the base.

Let's go to the blue section. The blue section is small business with GL and BOP. So think of -- it is $20 billion addressable opportunity, so we're really excited about that -- but think of 30 million small businesses with less than 20 employees. So we think we're going to win and we think we're going to win in a big way. When you look at all 5 of those sections, it really increases our addressable market to over 3x. That's what's so exciting. And the fact that we've done so well in the commercial auto market with really understanding segmentation, we're going to take the same approach to these new areas with a lot of segmentation and less underwriting, so we're very excited.

A couple of places where we're not going to play in just yet are the gray area, and that is think of hazardous materials, public transportation and right now, businesses with more than 20 employees. Again, we want to get this right, be surgical, be measured, be disciplined, and then we'll consider expanding.

And the other area that's fairly large is other insurance -- other commercial insurance. Think marine insurance, workers' comp, mortgage guarantee, things like that. But for now, we're really excited about the growth opportunities and excited that the fact that we had been taking a couple of years to really make big investments and now they're coming to fruition.

What you're seeing here, you should recognize. I've shown you this a couple of times with private passenger auto. You're seeing the last 5 years of Commercial Lines' growth and profitability, profitability on the X axis with the combined ratio inverted. So you want to be to the right of 100. Net written premium on the Y axis. So you want to be in that gray shaded area. Progressive is blue, the industry is black and the 9 competitors in any given years are the gray bubbles. And as you can see, we have always been in that gray area and in fact, the last couple of years, by pretty wide margins. That's what excites us about delving into new opportunities in this really vast addressable market.

So let's get to the meat of the day with my guests, John Barbagallo and Karen Bailo. You've met both of them over the years in different capacities. Karen started at Progressive in 1990 in the CRM organization. She's had a multiple -- multitude of jobs in terms of process and claims and product. But for the last 10 years, she's been either a Personal Lines GM or more recently in charge of agency distribution. In fact, she's been integral in rolling out the Platinum program and integrating the sales force of ASI and Progressive. So she's done a phenomenal job. Last year, she was one of the 7 people that we did a talent swap with, where she landed in Commercial Lines control. So I'm really excited to have Karen share with you what they're working on.

But first, I'll have -- I'll ask John Barbagallo to come up. John's been with the company since 1983. He started in claims and has done, again, a lot of jobs, whether it's national sales or claims. He left for just a 2-year hiatus. We welcomed him back, thank goodness, with open arms. And in the last 10 years, one, he's worked with Karen on the agency distribution; but more importantly, he's been our Commercial Lines Group President. And what you're going to see today is really what John has been working on, seeing the vision of how we can get great at Commercial Auto, which we are, and then expand.

And so I'm really excited to have John share with you his plans for the future. John?

John Andrew Barbagallo
President of Commercial Lines

Thank you, Tricia. Commercial Lines continues to be a really good story at Progressive, Commercial Auto in particular, and it's an important contributor to overall growth and profitability. Now this has been particularly true for the last 5 years, but it really reflects a competitive position we've carved out over the last 2 decades. And as Tricia just alluded to, and as Karen will get into a little more detail in a few minutes, we still see lots of opportunity for continued growth simply by capitalizing on the people skills and assets we already have in place plus some new capabilities we've been developing.

But first, I want to talk a little bit about results because our results have truly diverged from most of the rest of the industry. So on the left, you see a 20-year time series of Progressive's Commercial Auto direct written premium growth versus the rest of the industry. Two things pop out at you here: one, Commercial Auto has some cyclicality to it and tends to move along with the larger economy; and two, when the market grows, Progressive historically has grown at a much faster pace. In fact, over the last 4 years, we have increased our market share by 50%. So not only are we taking advantage of an expanding market, but we are taking share from competitors.

But perhaps the more important divergence is the chart on the right, which shows underwriting profit. And there, same 20-year time series, you see a consistent delta of 8, 10 and in some years, more than 20 points on combined ratio versus the industry.

So how is this possible in what is generally considered to be a very competitive industry sector? Well, I think there are a number of factors that contribute to that, and I really can't get into all of them. But perhaps the most important one has just been our intense focus on Commercial Auto as a core line of business for the company.

So back in 2014, I introduced you to our business market targets, or BMTs. Now this was originally a marketing construct designed for product management. But over the intervening years, we have operationalized these BMTs across virtually every aspect of our business. And this is important because we see meaningful, actionable differences between the BMTs.

Some examples: the demand function is different by BMT, and how that demand function reacts to changes in the economy is also very different. How losses present and how they develop, attorney representation rates, litigation outcomes, all different by BMT. Certainly, frequency and severity trends and other factors change at different rates and at different times by BMT. All of these things are critical inputs to our rate levels and our underwriting actions. This granular focus allows us to develop insights faster, be more responsive and develop strategies and tactics to profitably grab market share.

So having a granular focus and understanding the business at that level is certainly helpful. But beyond that, you have to have the will and the confidence to react to what you're seeing and the process capability and dexterity to continue to make adjustments as new evidence emerges.

So back in 2016, we saw a marked uptick in accident frequency between the months of May and November. And on both these charts, that's indicated by the blue shaded area. At the same time, that frequency was increasing rapidly, prior year loss reserve development was contributing to an already positive severity trend. We saw these trends and we reacted very quickly. And in a little over 3 months, we raised rates by more than 10% on the portfolio and implemented a number of underwriting changes. And as you can see, we have continued to make a series of changes and adjustments over time. I would suggest to you that having a granular approach to the business and reacting decisively to what we see, while much of the market was slower to react, has all been an important part of us maintaining strong underwriting margins and growing the business in this recent period.

Now we know our claims organization provides us with a significant competitive advantage on Commercial Auto. This is really a combination of 2 things: one, leveraging the massive Personal Auto claims infrastructure and quality control processes to handle a very high volume of our Commercial Auto claim features at low cost. On the chart you can see, in the last 4 years, we've essentially doubled the size of our core auto business while maintaining a very competitive loss adjustment ratio and good quality.

The second factor is having very targeted specialization within Commercial Lines on the highest impact claims. Now Progressive's claims organization has over 19,000 employees and a very high degree of specialization and a focus on quality and efficiency. This larger group handles the majority of our Commercial Auto claim features, and that alone gives us an advantage over many of our Commercial Auto competitors. But beyond that, we have invested in a specialty claims group that now numbers more than 750 people, and they work exclusively on Commercial Lines.

Now while the larger claims organization handles the majority of features, this specialty group accounts for nearly 60% of the indemnity dollars we spend as they deal with the highest impact and most complex claims. To that end, we have 115 highly tenured commercial casualty adjusters and managers handling the highest exposure and often most complicated commercial injury claims. On the physical damage side, we have over 300 dedicated claims people, the majority of them deployed in the field, that only handle heavy equipment and cargo claims. And to support our new but rapidly growing TNC business, we now have over 200 wholly dedicated claims adjusters and managers.

We've built the specialty group primarily with internal hires, drawing from some of our most experienced and savvy employees. So while many on the team are new in their roles, they are not new. In fact, they're very experienced and produce consistently good outcomes in line with our claims guiding principles. I believe this combination of a well-tuned, highly efficient claims infrastructure for the majority of our features, combined with a group of highly skilled commercial specialists for the highest impact claims, gives us a competitive advantage on claims that few can match.

I'm going to make one last point on reserving, where our philosophy to be as accurate as possible with minimal variation has served us extremely well. This chart shows our Commercial Auto reserve development versus the industry over a period of 7 years, and you can see we have much tighter variance. There are 2 primary reasons for this. One is the claims organization I just talked about. Getting more of the high-impact and complex claims into the hands of that specialized claims group more quickly leads to more timely and accurate claims handling and better estimates.

The other contributing factor is the highly segmented approach we take to loss reserving for Commercial Auto, as we do with our other products. This is another area where you operationalize our BMT structure, where in addition to the usual loss cost cuts, a BMT view allows us to see pattern changes sooner and react appropriately. More consistent loss cost estimates through accurate reserving lets us understand our true ultimate costs faster and be more responsive with pricing and product refinements. So that's a little background on what you've been seeing in our results recently over the last few years and why we've been able to produce some very, very different outcomes.

Now I'd like to have Karen come up and share a little bit about our going-forward strategy and tactics and some exciting new opportunities for growth.

Karen Barone Bailo
Commercial Lines Senior Controller

Thank you, John. As both Tricia and John referenced, we have a growing and profitable Commercial Lines business. And with our investments, we have an expanding addressable market that affords future opportunity for growth.

The road map for growing the business focuses investments in 3 areas: pursuing untapped Commercial Auto potential; expanding the distribution of our products; and then expanding our product portfolio.

I'll start with the opportunity in our core Commercial Auto business, where we have investments and additional enhancements that are fueling growth. We don't have time for a comprehensive review of everything underway so I'll cover a handful of items that we're excited about and how we're opening up new, substantial and underpenetrated markets with more competitive offerings. I'll cover preferred truck, fleet and how our 2 telematics-based programs are fueling our competitive position.

This chart specifically highlights growth in our truck segments, with written premium indexed to the year 2000. Now we've been investing in our truck business for quite some time, and we're excited about our progress but also the opportunity ahead.

Reflecting on recent contributions to growth, I'll start with the year 2012. Back in 2012, we rolled out our long-haul product more broadly and we also began using business market targets, or BMTs, in our segmentation and our product. And then in 2015, we launched a new product with a proprietary scoring model for trucking risks. That model included parameters around tenure, safety and stability and introduced powerful segmentation into our product. And then between 2017 and '18, there were a number of things going on in the marketplace for which we were well positioned for growth. The economy was growing. The trucking industry was also growing in terms of new truck sales and new ventures. The industry was also raising rates given poor underwriting results and adverse development. And in late 2017, the federal electronic logging device mandate went into effect. Given we had already addressed rate need, as John mentioned earlier, and introduced powerful segmentation into our product, we were well positioned to grow profitably during that time period. And while we've grown significantly, there's more opportunity ahead, and I'll cover that in the next few slides.

Back in 2016, John shared that we saw potential in telematics-based pricing for truck. We had been collecting our own telematics data, and we observed that the driving behavior of commercial operators varied significantly from Personal Lines customers in terms of how, how much and where they drive. And in 2017, as I mentioned earlier, the federal electronic logging device mandate went into effect. And because we had already invested in telematics and had an early-generation telematics-based product ready to go to market, we were well positioned. And what we've learned since is that telematics data for trucking is as powerful as we thought it would be.

So per the federal mandate, most over-the-road truckers are required to have an electronic logging device to manage their hours of service. And Smart Haul is our telematics-based program that uses the driving data of a trucker's existing electronic logging device in exchange for a potential discount on their insurance of up to 18%. The data on the left shows the power of that data. We have policies grouped into quintiles and the loss ratio relativity across those quintiles. And what we see is that the predictiveness of the telematics data is very powerful.

And there's a lot more we can do with this data. For example, geolocation information has the potential to significantly improve rating and ultimately eliminate some less reliable approaches like radius of operation. We expect the segmentation value of this information to be more meaningful for Commercial Lines and as a result, telematics data to be even more predictive than what we see in Personal Lines with Snapshot.

So while there's more we can do with this data, this early-generation Smart Haul model that we're using today is better than any competitive offering out there. Results are also really terrific. We're seeing that Smart Haul quotes are converting at a rate of more than double our normal trucking business, and the savings is substantial at around $1,400. Now that's a significant competitive advantage for us considering insurance costs are the fourth largest cost for a trucker behind fuel, lease payments and repair costs, and it's shopped often.

I'll also point out that even after applying these significant discounts, we continue to see that the loss ratio is better on this business. So it's good business and it's all incremental segmentation. So this is a big win for customers and for us, and consumer adoption is strong. We see a 50% take rate in our direct business. And although the agency take rate is lower, the adoption rate in agency is stronger than what we see in Personal Lines. So the segmentation value here is real. It's powerful. Our results are terrific, and we're just getting started.

So while we've grown a lot, we're always looking for untapped potential for growth, and we see the preferred truck market as an area of opportunity for future growth. We estimate this market to be about $1.2 billion in size and focuses on 1 to 10 vehicle risks. Now this is an internal definition of preferred and it has parameters around tenure, safety, financial responsibility and business operations. And this is a look at the estimate of the top preferred carriers in the marketplace and also a look at their change in market share over time.

We've made significant progress in growing our market share over 50% in the last 3 years. We estimate that we're the #2 writer of preferred truck and we're closing in on that #1 spot. We've made significant gains by applying telematics and our core strengths of pricing and segmentation to really intentionally target this segment and improve our competitive offering. The ongoing evolution of our preferred truck offering will include continued investments in Smart Haul as well as rate changes and product enhancements to improve our rate competitiveness, rate stability and our overall coverage offerings. So these investments that we're making will continue to improve our competitiveness and our ability to grow preferred truck.

So another exciting opportunity for us to grow across all of our business market targets is really focused on businesses with 10 to 30 vehicles. This small fleet market is estimated at around $4 billion in size. We have low penetration today, and we've only started to put energy into it. Our approach of using objective and verifiable data historically hasn't worked well in an environment where pricing is driven more by qualitative assessments of an underlying business. Today, we have assets and capabilities, including more verifiable and objective data, that enable us to use our strengths of pricing and segmentation to target this opportunity.

So the fleet opportunity has required us to really think differently about these customers in terms of our product, our process and our workflows, and we have completely revamped our approach around these areas. We've made investments in our product to rethink how we assess fleet risks using new data available. We've redesigned our process and workflows around service levels and turnaround times, and we're building an underwriting skill set with profit and loss accountability and really solidifying an acquisition mindset with the goal of improving quotes and conversion.

We've piloted these new enhancements in Texas and we're excited about the results we're seeing. We're seeing a 28% improvement in quotes, and our conversion is more than 3x what it was prior to rolling out these new small fleet enhancements. And so based on our success, we're undergoing a countrywide rollout of these new enhancements, and we expect to be in states that represent over 80% of our premium by the end of this year. Now while we're very excited to get these new enhancements to market, I'll point out that we're just getting started. We have a robust road map ahead of us with continual improvements and enhancements that are on the way.

So to round out the opportunity to pursue untapped potential in our core Commercial Auto business, I'll touch on telematics again. Like in our truck segments, we expect telematics to be a key driver of success in our small fleet business. There will be benefits to us and our customers which we expect to drive adoption. For us, we get the added segmentation that we expect to be as important as it is in Personal Lines with Snapshot. And for customers, there will be savings through discounts and better rates, but also through value-added services that will come in the form of our SmartTrip program. The additional savings will come through improved safety by monitoring and enforcing safe driving behavior. Additional savings will also come through improving the efficiency of fleet operations through better asset management and monitoring. We think there is a ready-made market for these services because today, about 20% of the 10 to 30 vehicle fleet operators are already buying these services on a stand-alone basis. So there's a need. Penetration is low, creating this market opportunity. And we also believe through the indemnity savings and the retention benefits we can essentially deliver these services free of charge.

So we're piloting SmartTrip in 6 states through the remainder of this year, and we have a goal of being ready for a countrywide rollout next year.

Now let's talk about the second area of investment, which is expanding distribution in our small business direct channel. Back in 2016, we also shared that we expect a shift in small business owners accessing direct channels for their insurance needs. Consumers across a wide range of industries are showing not only an acceptance of direct channels but a preference for shopping in those channels. And we don't expect small business owners to be any different.

Also, market projections are pointing to the growth in the small business direct channel. According to a report from Novarica, which is a technology strategy research firm, they are expecting that -- the small business direct channel to capture as much as 15% market share in the next 5 years. Additional findings in that report show that younger small business owners have a comfort level with shopping online, and buying online and a significant portion of those young business owners have a preference for shopping that way. So we believe the changing demographics of small business owners will contribute to continuing that trend and drive up more market demand. Ultimately, we see this as largely an untapped part of the Commercial Lines market with ample room for growth.

We've been selling direct commercial insurance for over 10 years now, and our early approach was very auto-centric. And then in about 2012, we broadened our approach and our marketing to be much less auto-centric and more focused on ensuring and protecting the business. More recently, we've made significant investments in additional capabilities. And as a result, in the last 2 years, our growth has accelerated considerably. I'll talk about those investments in the next few slides.

At the same time we broadened our marketing, we began to add capabilities to offer other carrier products to meet the growing demand of commercial prospects and our own customers. We built an in-house agency to sell other carrier business owner policies, general liability, workers' compensation and professional liability products in addition to our own Commercial Auto product. And we've been having terrific success in growing our direct business.

In September of last year, we introduced BusinessQuote Explorer, or BQX, which is our online quoting platform for small business owners. Now customers have a choice for how they shop with us for their small business insurance needs. And over time, we'll work to optimize and improve the experiences in both of those paths. There will be times when the self-directed online approach is the right option for a customer, and there will be other times where calling in for phone support is the right option.

Today, I'd like to focus on the online experience and share some of our success. We learned early on there was an opportunity to make it easy and intuitive for small business owners to get the right coverage. The process for obtaining the right coverage can sometimes be complicated and nuanced and a challenge for a small business owner who isn't an insurance expert. So we built BQX to help business owners with what they need, match them to the right carrier and ultimately, leave them confident they have insurance that's tailored to their unique business needs.

In BQX, we have built a business quoting platform that is very capable of good new business yield, and we're just getting started. When we look to the success of our Personal Lines direct business, we have had tremendous success by advancing our quoting platforms through a continual testing and learning and improvement feedback cycle, and we expect to build success in Commercial Lines with that same virtuous cycle approach. We also know that even small incremental changes in the quoting experience can result in significant improvements in our sales metrics.

So we're focused on continuous improvements in the following areas: first is increasing engagement in one of the early steps in the quoting flow, which is accurately classifying the business; the second is improving the overall quoting experience by increasing capacity and improving or accurately matching carriers to the risk; and then finally, adding online buy functionality.

So the business classification step can be a defection point in the quoting experience. And the challenge is helping a business owner describe their business in a way that can be matched to how a carrier classifies an assessed risk. Let me give you an example. While everyone might think that landscaper is self-explanatory, from an insurance classification perspective, most carriers, there is a difference between landscaping services, lawn care services and tree services and inaccurately classifying that business can lead to misrating or inappropriately declining or accepting that risk. So to improve that process, we've recently introduced an adviser tool using supervised machine learning that guides a business owner through a series of questions that are designed to get to an accurate and common business classification.

Since rolling out that tool, we've seen an immediate 7% increase in quoters moving forward into the quoting experience. We're seeing the better improvement in quotes coming through mobile devices and tablet devices. So this is really an early effort at leveraging supervised machine learning, and we fully expect that our results will only get better from here.

In addition to accurately classifying the business, we have a number of efforts underway to expand our capacity and increase the availability of our products to meet the needs of customers who are contacting us for their insurance needs. We're working with a strong, carefully selected group of carriers, and we're having working sessions on how we can potentially expand their appetite and improve our matching process. We're also identifying where we need additional carrier supply, and we're currently exploring additional capacity in select business owner policy classes, workers' compensation capacity and excess and surplus lines, which should help us with contractor business where the demand is high.

So in less than a year, we've made significant investments in expanding the availability of our offerings. And today, we can meet the needs of about 70% of customers who contact us.

Now the work that I've described is all designed to improve what we refer to as quote yield. Quote yield is the measure of the number of customers that complete a quote and see a rate online. And the combination of improvements over the last year have resulted in a 2x improvement in our quote yield. That's a pretty dramatic improvement in successfully getting more customers through the quoting experience and matched to the best carrier based on the risk, carrier appetite and the coverages needed for their business.

Finally, I wanted to highlight a significant step in improving sales and ultimately the efficiency of our direct operations. Our data and experience tells us that some customers get confidence from talking to a real person, but we also know that many customers don't ultimately pick up the phone to complete that purchase. So in April, we launched an online buy option for select general liability business classes, and the results are encouraging. Quotes that are offered an online buy option are quoting at a 15% higher rate than those not offered an online buy option. So these results indicate that online quoters are comfortable executing their purchase digitally. And offering an online buy option gives us one more opportunity to meet the expectations of customers who prefer to shop online.

To build on that success, in July we introduced additional online buy capabilities for select professional liability business classes, and we have plans for additional general liability business classes in the near future. Ultimately, we're working toward a fully digital experience with online buy options for all products.

So with the investments that we continue to make to drive demand and then meet that demand with ample supply and great experiences, we are confident that we will continue to grow our small business direct channel.

With that, I'm going to turn it back over to John to wrap up with some of our efforts to expand our product offering.

John Andrew Barbagallo
President of Commercial Lines

Thanks, Karen. Yes, this is actually a very, very exciting development for Commercial Lines. And that's -- in May, we introduced our own manufactured business owner's policy, or BOP, and we now have 144 independent agents trained and authorized to sell it. So again, BOP is a multiline policy that provides business liability coverage and covers common property exposures that many small businesses would have. So we see this is a first step in a countrywide rollout of the product that will open up that $20 billion addressable market that Tricia mentioned in her opening as well as begin to unlock an additional $12 billion addressable market for Commercial Auto that today is tied up in auto BOP bundles.

I'm going to tell you a little bit about the product and we will be updating you on results in the coming months. So our Commercial Lines strategy has always been to be low-cost and easy to use, and similar to Commercial Auto, for BOP, we want to have a streamlined, intuitive quote flow and have competitive pricing derived from expense discipline and price segmentation. Now we chose to deploy our BOP product in the agency channel first, and we're designing the product, systems and experiences to succeed with agents while keeping an eye on the requirements for the digital channel. The reality is today this business is in the agency channel, and agents continue to deliver real value on small business insurance.

Initially, we have a limit -- we've limited our underwriting appetite to the 5 categories you see depicted on the screen. These categories are big enough to matter, will allow us to develop pricing and segmentation skills and will allow for that straightforward intuitive quoting and binding process. Those 5 categories account for about half of the 31 million small businesses in the United States with fewer than 20 employees, which is our target market. We'll expand those categories over time as we gain experience and identify additional opportunities to automate the quoting and underwriting flow.

Now this will be a competitive product. The coverage will be on par with anything available in the market. We'll be offering industry-specific endorsement packages and some really unique embedded endorsements to cover things like employment liability, cyber, equipment breakdown and E&O.

Early market response to the product has been quite positive, and it would suggest we have really hit the mark on ease of use. Now keep in mind, ease of use is one of the things that really drives Progressive Personal Auto and Commercial Auto business in the agency channel as a key strategy that we think will work for BOP. Here, you can just see some of the quotes from our Ohio agents' experience with the product. It's consistent with the feedback we've been receiving.

So we're pleased with the level of quoting activity from our agents. The distribution of quotes across those 5 categories is generally in line with our expectations. Now there's a slight skew towards contractors, but that's not unexpected because contractors is a really, really strong category for Progressive on the Commercial Auto side. And it's actually a place we think we can begin to make headway, capturing that bundled auto BOP business.

We're going to be revising our rates in October as conversion is lower than we want it to be. Now our initial rates were built off an ISO base. But now that we have live competitive quoting data in our hands, we think with just a few adjustments we can get the rates where we want to be and we'll see conversion move up.

One key metric for BOP is the quote start to finish ratio, and that is very high and in line with all our established products. So we really think we have the design right. We're excited to be in this business and we're excited to expand our addressable market. We feel good about where we are today and we look forward to adding 3 additional states by the end of the year.

Beyond that, we expect the rollout to be fairly aggressive in 2020 and 2021. But as with everything else we do, we will take a considered, measured approach, and we'll be disciplined around our loss ratio targets and our business mix.

So this is really all part of our broader vision to become consumers' and agents' #1 choice and destination for auto, home and other insurance. And we're excited to have considerable underpenetrated addressable market out in front of us, where we have the people, skills and assets to win. Thank you for your time this afternoon.
Now we're going to take a few minutes to set up for Q&A.

Question and Answer

Julia Hornack
Investor Relations Contact

Thanks, John. [Operator Instructions] So Bridget, can we please introduce our first participant from the conference call line?

Operator

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

Elyse Beth Greenspan
Wells Fargo Securities, LLC, Research Division

My first question is just on the Personal Auto side of things. In the 10-Q, you guys make mention of a softening marketplace, which I know you had also mentioned last quarter. And you alluded to the fact that you're going to continue to take rate action. Can you just give us a sense, does that imply that you're going to take some rate [declines] from here as you look to maintain your growth levels in a softening market? If you could just give us a sense of what to expect from you guys on the rate side of things.

Susan Patricia Griffith
President, CEO & Director

Absolutely. Thanks, Elyse. Before I answer that question, you'll notice that I have 2 Johns with me. Because we had so much information on Commercial Lines, we thought it would be best to have John Barbagallo up here as well to answer any questions you have about what we presented today or really anything about Commercial Lines. So if you have a specific question on that, just make sure you say John Barbagallo or John B. or John S. So I just wanted to clarify that.

So yes, Elyse, we've seen the market continue to soften and so less shopping. And as usual, we look channel by channel, state by state, segment by segment to see opportunities where we believe we can either increase conversion due to the competitors' actions to grow rate. And with that, we have taken several actual rate decreases so -- and we mentioned that as well.

So we're going to do like we've done in the past, though, because I don't want to overshoot. Because there's a lot of unknowns. So we really want to make sure that we continue to grow as fast as we can within our target margins. We've enjoyed these really great margins and we don't want to give those away unless we believe it converts. So we're very surgical in our approach. I think I mentioned last time, Pat Callahan and his team did a soft market summit. We kind of went literally so deep to say what are ways we can win, what are places where conversion seems to be going really well and let's not mess with that. So yes, when we believe we will grow, we'll take rate action for that positive growth. But we won't just try to grow just to grow, because we want to make sure that our conversion stays. We know that the -- our marketing is working harder than ever, but we're still well within our allowable costs.

Elyse Beth Greenspan
Wells Fargo Securities, LLC, Research Division

Okay. Great. And then my follow-up, I guess this is for John B., this is on some of the -- when you guys were talking about BOP and that you're going to need to revise some of your rates in October to try to see the conversion move up. I just want to get a sense of, I guess, how you -- maybe where you guys set the rates off a little bit to start and how we could think about the rate setting as you roll out that product more widely across the country.

John Andrew Barbagallo
President of Commercial Lines

Sure, Elyse. And again, we have no data of our own to price off of, so we're using ISO data as a base. We're building in our assumptions about expense ratios at run rate, and we have introduced some of our own segmentation using external data that we've tested. So we have a good base. It wasn't really until we got into market and had some competitive quotes that we could start looking at to see where we were relative to the market. And we believe with just a few really minor modifications to our rate calculation, we're going to be right where we want to be.

Long term, we think we win a couple of ways. One, we believe at scale, we will have a better expense ratio than a lot of the people writing this business. We believe we will out-execute on segmentation over time. And we just think our -- the breadth of our distribution and our marketing power is going to drive a lot of business our way.

Susan Patricia Griffith
President, CEO & Director

Yes. And to add, we actually have a new marketing campaign coming out shortly that I think really tells the story well with the small business and other products.

Julia Hornack
Investor Relations Contact

Great. Thanks. Bridget, can you take the next caller from the line please?

Operator

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

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

My first question. In your letter, you spoke about rolling out a new property product. I think you called it product 4.0. Moreover, you talked about the results in your property business being affected by catastrophes. I'm curious, as you roll out this product and make adjustments, how you think you're going to mitigate weather-related challenges going forward in your combined ratio results?

Susan Patricia Griffith
President, CEO & Director

Yes. So we did roll out what we called next-gen 4.0. It's in 2 states now. We'll plan on rolling it across the country, and that product really is much more aligned with what we've done over the years with our auto product on the Personal Lines side. So much deeper segmentation, understanding deductibles in areas where -- that are more hail-prone, et cetera. And really, our R&D teams are working in lockstep together to understand how to more deeply have segmentation on the home. So although we won't be able to prevent mother nature, we'll set some parameters within our products to be able to mitigate some portion of the loss.

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

Great. My follow-up question would be on Slide 16, you talk about your accurate and efficient claims handling and you talk about your LAE ratio, and you show a nice chart, where your LAE ratio is trending down. Can you talk about some of the levers you've used to lower your LAE expense ratio on top of just the growth in the business?

Susan Patricia Griffith
President, CEO & Director

Yes. I can start with that, and then I think you -- specific to the commercial if you want to add to that, you can.

John Andrew Barbagallo
President of Commercial Lines

Sure.

Susan Patricia Griffith
President, CEO & Director

So overall, we have worked on our loss adjustment ratio for many, many years, making sure that we pay the accurate amount every time. We do in-depth training, especially during these years of high growth. We've hired in advance of need to make sure we had in-depth training to really understand to get the right file to the right rep at the right time. We've also centralized a lot of our claims organization to make sure that we have people that do similar activities over and over again. So some of the slides that John B. showed were really about the larger losses that happen in commercial and making sure that we have people that handle litigation files every day, large loss files every day, nonlitigation files. So that really helps us with our efficiency, to be able to get more throughput with the right people and the right leadership.

John Andrew Barbagallo
President of Commercial Lines

Yes. So Greg, the chart you're referring to, that LAE is strictly Commercial Auto LAE. And I guess a more pointed question might have been, "Hey, you've doubled the business and it's kind of stayed the same instead of going down." But the point is we have actually made a lot of investment in commercial-specific capabilities over the last few years. And the fact that it's kind of held level while we've dramatically increased our volume, one, I think is a positive, and two, portends for much greater efficiency and accuracy as we go forward. So I feel really, really good about where we are on the claims side with Commercial Auto. And I think you'll see us continue to win in the market in part because of our claims organization, how efficient it is and the outcomes we get.

Julia Hornack
Investor Relations Contact

Bridget, can we take the next caller from the conference call line, please?

Operator

Our next lesson comes from the line of Mike Zaremski with Crédit Suisse.

Michael David Zaremski
Crédit Suisse AG, Research Division

First question, can you give us an update on Personal Auto bodily injury inflation levels? They stayed higher, we can see in the 10-Q. And in the last quarter, you had mentioned it was coming from a specific number of states. And I think we were all trying to decipher whether this was a kind of Progressive-specific issue or an industry issue.

Susan Patricia Griffith
President, CEO & Director

Yes. Absolutely, Mike. So we started seeing really in Q4 2018 both Progressive and industry having inflation in BI. So if you look at our results for the quarter specifically, incurred BI severity is up about 9 points. Take 2 of those points out for just strengthening of our reserves and so we see it at about 7 points. We'll be anxious to see the quarter 2 results for the industry. A couple of our competitors that have announced earnings for the second quarter, we're very much in line with them.

So a couple of things. We have continued to narrow down a handful of states, specifically 5 states, where we believe we have opportunity for some process improvements. We've also kind of narrowed down what we're seeing in terms of increased special. So more attorney rep files, a little bit more surgeries, more injections, things like that. So we'll keep an eye on that. And I think that will affect the whole industry, but I obviously can't assess that.

In addition, we've changed our mix of business with higher limits. So with those higher limits, you're going to get the premium associated with those limits. So we believe we're in a good place.

Net-net, what I would say is frequency in BI is down. Average written premium is up. We feel comfortable across the board with our loss costs, which in turn, of course, result in combined ratios lower than our targets.

Michael David Zaremski
Crédit Suisse AG, Research Division

Okay. And my last question is a little bit of a follow-up on Greg Peters' question on the expense ratio. If I recall correctly, over the last couple of years -- a couple of years ago you guys came out with kind of an improvement in certain expense ratio targets. And I don't believe you met the target and one of the reasons was because you had been -- decided that it was a good decision not to meet the target because you want to spend more on advertising because you're winning more. So just curious -- and then you got also a competitor recently, a major competitor, come out and announce major expense ratio improvement initiatives that are taking place now. And so I know this is a long-winded question, but kind of curious, are there -- is there low-hanging fruit in the coming years to improve the expense ratio? And also, if the competitive environment continues to increase, will the -- is there kind of a natural lever for the expense ratio maybe to tick down due to less advertising?

Susan Patricia Griffith
President, CEO & Director

Yes. We look at expense ratio in 2 different ways: overall expense ratio and nonacquisition expense ratio. So when we are growing, when we believe we have efficient spend in both agency commissions and our advertising, we will continue to spend because we'll continue to grow as long as we believe it's efficient. What we look at -- on the claims side, we talked about loss adjustment expense. The rest of the house, we talk about expense ratio -- or nonacquisition expense ratio, and we always believe there's opportunity to be more efficient, to understand how technology advancements will help us. So I think I've talked to you a couple times about a cohort -- in the claims side, a cohort of claims that we do from either video or photos that the insured send, and those are really efficient. We're always looking at ways to learn, use technology through that.

Same thing on the nonacquisition expense ratio. So we've rolled out many things in our CRM organization, whether it's chat through AI or natural language IVR, there are some things that we've rolled out. So our intentions are to continue to push down expenses, and it's a balance, of course, of investing in things for the future like we've done across the board with Commercial Lines and will continue to do.

We know that one of our strategic pillars is competitive costs. We know that customers care a lot about that. So we always want to be competitive in order to win when people are shopping for an insurance. So that's -- expenses are something that are always on our mind, but we do bifurcate that with acquisition costs. Do you want to add anything?

John Peter Sauerland
VP & CFO

Sure. You mentioned targets for expense ratio. We don't have a target for the overall expense ratio. As Tricia noted, to the extent we think we can advertise effectively and bring business in below our allowable costs, we're going to do that. As you've noted in the Q, advertising costs are up about 30% year-over-year.

And then the agent side, we know we have to pay a competitive commission to bring in the business. So we focus on that nonacquisition expense ratio, as Tricia noted. We have had internal targets for that ratio and bringing it down. We've actually been hitting those targets. And for the Personal Lines business year-to-date, that nonacquisition expense ratio continues to drop. We expect that the marketplace will continue to get even more competitive, as you mentioned. So it's our intention to continue to drive what we think of those infrastructure costs, those nonacquisition expense costs down.

Julia Hornack
Investor Relations Contact

[Operator Instructions] Bridget, can we take the next call, please?

Operator

Our next question is from the line of Paul Newsome with Sandler O'Neill.

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

This may be almost a housekeeping question. Where are the expenses that you're making in Commercial Lines running through? Is it all through the Commercial Lines segment? And are they material to the expense ratio if they are in that segment?

John Andrew Barbagallo
President of Commercial Lines

Yes. All expenses related to Commercial Lines activity, including all the investments we've been making, some of which you heard about today, run through the P&L for the Commercial Lines. So we need to, in effect, self-fund what we do and still achieve our overall combined ratio and expense ratio targets, if that's responsive to your question.

Susan Patricia Griffith
President, CEO & Director

Yes. And I think the only thing I would add is they have -- they also have their own marketing budget. However, I'm certain that they get some brand from the whole Progressive brand to help out as well, and that's something that we obviously attribute to each area of the company. But everybody sort of gets it because our brand is so well known.

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

And then a slightly different question. Do you plan to use any level of reinsurance to cap some of the different risks that you're taking here in Commercial Lines?

John Andrew Barbagallo
President of Commercial Lines

Yes, we do. So I'll just talk a little bit about limits and retention. So for the BOP product that I introduced today, we will have a maximum total insured value on any risk of $5 million, but our retention on -- in any coverage group is capped at $1 million. So we're using reinsurance to cap that exposure at $1 million per occurrence within each coverage group. So again, our target is small businesses with 20 or fewer employees -- or fewer than 20 employees, about 31 million of those in the United States. Those limits going up to a $5 million total insured value, TIV, is more than adequate for the vast majority of those businesses. And I think generally, our limit distribution will be much below that, but we are capping it at $1 million through these reinsurance.

John Peter Sauerland
VP & CFO

I might just add, to the extent we're going into lines that we're less familiar with, or coverages, we are also having some quota share arrangements. And at least in one line of coverage, I believe we have a 100% agreement. So I think our intent in going in is not only to cap the maximum exposure but also to provide competitive product while learning and getting our own experience while we do so. As John mentioned, we come into it without any of our own experience and we are very intent on pricing accurately and segmenting really well. So we have to gain our own experience, but we're doing so, to some degree, with help from our reinsurers.

Susan Patricia Griffith
President, CEO & Director

Yes. I think John and I both used the words, we're going to be measured and disciplined, because this is really exciting, but we're not just growing these addressable markets just to grow. We want to grow and we want to be profitable, for sure.

Julia Hornack
Investor Relations Contact

Great. I'm actually going to take a question from the webcast, Bridget. So if you could bear with me for a moment.

So this question -- and I'm going to paraphrase a little bit. Can you discuss the role that service revenue and expense, of course, that's the other side of it, such as commission income, will play in Progressive's income model in the future? This item has been increasingly -- excuse me, increasing rapidly over the past couple of years. Do you see this continuing to increase? What is the margin on this revenue, et cetera? So what role does that play in our future?

Susan Patricia Griffith
President, CEO & Director

From a commission revenue perspective, we look at it differently depending on actually different types of agents in our books. So I referenced -- when I introduced Karen -- the Platinum agency. So those agents that are -- we -- they are brought across the board. They have access to the Robinsons, the auto home bundles that we have. We'll pay them more in commission. If you have -- if you're a no-pop agent that writes a lot of nonstandard, we'll pay you a little bit less. So on average, they've been increasing a little bit but not extraordinary. We want to make sure, as we expand our footprint and become more and more preferred, that we pay our agents commensurate to that.

John Peter Sauerland
VP & CFO

And you might be referring to the service revenue and expenses lines on our P&L. And if that's the case, they have been growing a lot, you're right. And that is predominantly because we are writing a lot more property with third-party companies direct to consumers. Obviously, Progressive Home is a part of that offering as well, but we still have a stable of a number of other third-party property carriers that we write a good amount of business with and a growing amount of business. So that commission is recognized as service revenue. Naturally, we have some costs associated with that. We have I don't know how many hundreds or maybe approaching 1,000 people in a group that actually takes the phone calls. So homeowners, we have what we call HomeQuote Explorer, which allows people to get rates and in a lot of circumstances, buy online. That said, homeowners is a little more complex product than auto. So we have more phone calls where consumers want to ensure that they're getting the right coverage and we close over the phone.

So all those costs flow into that service expense category. And as you could see, there's a slight margin there, but by and large, the intent of that whole effort is to open up the Robinsons for us as a segment direct, in this case, get those auto policies and retain those policies for decades.

Julia Hornack
Investor Relations Contact

Great. Bridget, can we take the next caller from the conference call line, please?

Operator

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

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

Great. I think this is going to sound like a question about competitors, but I'm really asking from the perspective of growth potential. We've seen phenomenal growth in underwriting results within Commercial

Auto at Progressive, and most competitors seem to be struggling to catch up with worsening results. That's been the case for several years. And I'm wondering, in your view, how much of the competitor challenge is because Progressive's segmentation allows for picking the best accounts, leaving them with sort of unintentional adverse selection?

John Andrew Barbagallo
President of Commercial Lines

I don't know that I can quantify how much. Certainly, segmentation is a key strategy for us. Again, I go back to just having a really intense focus on commercial and really kind of getting deep and granular in terms of how we analyze what's going on with the business and then having that will to react to what we're seeing. So I think with some of our competitors -- and I really can't speak for our competitors -- commercial is thrown in with other commercial lines and they manage on an account level or portfolio level, and that's really never been our approach. I think we definitely extract advantage there despite kind of moving faster in a more timely way.

The market is not in great shape. Yes, our results continue to diverge from the overall market, but I would say the rate and magnitude of competitor rate activity is starting to slow a little bit. So it's potentially getting a little bit healthier out there. But I would not say we're seeing the same softening that perhaps you're seeing on the personal side.

Susan Patricia Griffith
President, CEO & Director

And I would say from that perspective, from John's team, when we need to react -- or when we needed to react back in 2016, we did swiftly and really were able to turn the corner, especially when you're thinking about annual policies.

John Andrew Barbagallo
President of Commercial Lines

I will say Karen talked a lot about telematics. We really, really believe in the power of telematics, and we think we have a significant lead in the Commercial Auto space there.

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

Okay. That's very helpful. Somewhat unrelated question. In the Q, you talk about business mix within Commercial Auto shifting to shorter PLE products. And I'm wondering, should we connect what you're talking about today with that phenomenon?

John Andrew Barbagallo
President of Commercial Lines

I think yes. To the extent the business mix shift by BMT changes, yes, we're growing faster in some of the lower PLE categories. That's really all that is, and we're very happy with our truck growth. And as Karen shared with you earlier, we're ecstatic about our ability to start penetrating the preferred truck market. So -- and that will actually improve PLE within that segment, although, again, that's still lower than what we see in business auto and some of the other areas.

Julia Hornack
Investor Relations Contact

Great. I'm actually going to take another question from the webcast, and it follows on actually well to the last question that Meyer just had. Paraphrasing a little bit again, but the question is really about adding bundled customers to Commercial Lines and what that will do to the Commercial Lines segment's combined ratio as well as policy life expectancy.

John Andrew Barbagallo
President of Commercial Lines

Sure. And I did talk a little bit about how having our own BOP and GL offer will at least give us access to that Commercial Auto that's bundled today. I would say at this time, we have less of an explicit bundling strategy in commercial. I mean we're really focused on kind of getting BOP deployed, getting it -- like I think we have the product design right, getting rate levels right, improving segmentation and just winning in that category. But again, it will certainly improve our consideration for those more established businesses that do tend to bundle, and that will be higher PLE business. At this point, I couldn't speculate what that will mean for loss ratio, but generally, a higher PLE business is a good thing for loss ratio. Hopefully, that's responsive to your question.

Susan Patricia Griffith
President, CEO & Director

Yes. I think we talked -- I talked a little bit about it at the opening about that being the Robinsons, and that was sort of -- was our approach when we went into homeowners just to make sure that we extended auto PLE. And as we had more Robinsons, they have the highest PLE. So I would -- we'll have to wait and see, but I think that [indiscernible].

John Andrew Barbagallo
President of Commercial Lines

Yes. One thing I would add is within our in-house agency, and Karen talked about BQX, what we find is there's a lot of what I would call bundling of a Personal Auto and a business insurance policy. And again, we're very focused on small businesses, and about 1 in 7 small businesses is actually home-based. So we actually think there's a lot of bundling opportunity there between personal and small business.

John Peter Sauerland
VP & CFO

One more addition on that one. So the direct business in our commercial group is a little over 10% of the business. And there, we are working with third parties and have had experience bundling. We have actually seen some increased retention, policy life expectancy, for those customers who have more than one product with us. Obviously, the predominance of the commercial business in the U.S. is sold through independent agents, and that is why we are now providing our own BOP and GL product to independent agents. So I think we can take that same experience from our direct business, replicate it in an arena that is 85% or so of the marketplace and enjoy the benefits of both PLE and, as John mentioned we would expect, loss ratio as well.

Susan Patricia Griffith
President, CEO & Director

We basically want more share of wallet in every household in America.

Julia Hornack
Investor Relations Contact

I'm actually going to take another]question from the webcast. We've got a bunch of good questions from longtime shareholders today. So in light -- sorry, wrong one. Give me a moment. Got it.

In light of the somewhat softening pricing environment, what other steps are being taken to maintain the impressive and important gains in PLE?

Susan Patricia Griffith
President, CEO & Director

Well, again, we continue to make sure that we have -- and John mentioned this, John Sauerland mentioned this -- available home, whether it's Progressive Home or unaffiliated partners that we've been working with for a long time to make sure that we can have a conversion on every -- almost every policy that comes in, whether it's through our HomeQuote Explorer, whether it's through HQX or Progressive Home in the agency channel. So we continue to make sure that we make efforts around segmentation.

Our advertising has been huge. Our brand continues to get big. We have -- obviously, everyone knows Flo, but we have less reliance because we've really broadened the aperture of how we look at customers and what they need. And I think that's been really key. We have a very fun campaign coming up as well. I'll give you a hint, it's during NFL season. I won't give any more than that, but it's going to be really good as well as the new campaign we have in Commercial Lines. We're constantly getting new creative. You've probably seen some of the commercials that don't have any super store in it, which is where we call the store that Flo's in, and we call that Parentamorphosis. You become your parents when you buy your first home. So what we're noticing is we thought if we went in and advertised something that talked about home, it wouldn't increase our prospects on the auto and we were wrong. They absolutely do. So we're seeing, because we have such an overall brand, a lot in that perspective.

And I think lastly, we really look at all 4 of the strategic pillars that I've talked about when I talk about our 4 cornerstones. So we want to make sure we have competitive prices, so we continue to look at how we can continue to segment across the board and how we can be competitive on LAE and NAER, and we talk about that obsessively. We talked about brand. We want to have broad coverage. We want to be -- we want to -- we follow the customer, where, when and how our customers want to shop and be serviced.

And I think lastly, and this is something that I wrote in the Shareholders' Letter or the President's Letter, was we care a lot about our culture. We have 40,000 people here that are all marching to the same tune. We want to take care of our customers. We want to grow. We want to profitably grow, and we do it all while we're following our core values. So all those things together, it's not one thing. And we talk about this all the time, not just in my team but across the country.

John Peter Sauerland
VP & CFO

And since we've had softening market, there's portions of -- a couple questions maybe -- may have been a few. Just some general commentary. Rates were dropping amongst competitors pretty markedly around -- in the first quarter. I would characterize the second quarter as continuing decreases, but far fewer of them and far less in terms of severity of the decreases. So in aggregate, even the industry and we are experiencing increased severity but decreased frequency. But net, loss costs are rising. So rates can't keep dropping as loss costs keep rising and the industry continue to have acceptable combined ratios. So we have seen some softening of the softening conditions so to speak. It's still a difficult market, for sure, but we think that trends over time will take us away from that.

Julia Hornack
Investor Relations Contact

Thank you. Our next caller has been very patient as we go through the webcast questions, so Bridget, can you please introduce the next caller?

Operator

Our next question is from Brian Meredith with UBS.

Brian Robert Meredith
UBS Investment Bank, Research Division

A couple of ones here for you. First, I'm just curious, if I look at your commercial written premium growth, it slowed down in the second quarter, yet you had this increase in the number of states that you have with Uber. Just curious why that happened. Was there some reinsurance you all bought, something happened?

John Andrew Barbagallo
President of Commercial Lines

No. Nothing like that. The Uber premiums tend to get recognized in big chunks at -- in certain months of the year so it kind of distorts the view a little bit. So that would have been in March, first quarter, and there was not a similar event in the second quarter. So I think that's a little bit of what you're seeing. And for about 4 years, we grew at a 20% compound rate. So we've slowed a little from that, but we still have a very, very robust growth on a much larger base. But yes, it is slowing somewhat.

Brian Robert Meredith
UBS Investment Bank, Research Division

Great. And then I'm just curious as far as the severity you guys are seeing on [closing]. Obviously, you addressed it and you said it's -- a lot of it's the new technology in cars. Are you seeing the rest of the industry react to that as far as new cars? I know there's often a challenging for insurance companies to, when a new car comes off the lot, understand all of the options and stuff on it. Is that something that you're able to kind of measure pretty quickly and pretty well and maybe have an edge over everybody else?

Susan Patricia Griffith
President, CEO & Director

Again, I don't know what's going on with our competition in that aspect, but we look at that very carefully. We continue to hone in on our models to understand what type of ADAS equipment it has, do they have it on, what is the ultimate loss for those so we can, one, give the right discounts to understand the cost associated with those losses, whether it's more total losses or more components that cost more. So I believe we have a good model that continues to get better and better.

Julia Hornack
Investor Relations Contact

All right. We have one more question from the webcast. Here we go. So the question is really about deploying excess capital. Given Progressive's recent growth and profitability, could the company be more aggressive with share repurchase activities over the next few years? If not, what other ways would you look to deploy what seems to be a growing amount of excess capital?

Susan Patricia Griffith
President, CEO & Director

Yes, we have -- we always talk about what we want to do with underleveraged capital. And so really in these past couple of years, we've really wanted to make sure, with the opportunities that we have, to grow the company and continue to grow. And with that growth, obviously, we have to make sure we have the right capital adequacy. So we've got the 3:1 premium surplus. That has grown as we have grown. We want contingent capital in case unforeseen events happen, and that continues to grow as we get bigger. So we consider share repurchases when we think it makes sense. What we have been doing clearly is growing the company, and we have so many opportunities that we feel are worthy of using capital in that aspect. Obviously, we changed our dividend program this year, and towards the end of the year we'll be talking with the Board and working towards what would be a variable dividend payable next year. And likely, we will use some of the excess capital for that.

Julia Hornack
Investor Relations Contact

Great. Well, that's actually the last question that I have in either queue. So Bridget, can I hand it back over to you for the closing scripts?

Operator
That concludes Progressive Corporation's second 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.