# The Progressive Corporation NYSE:PGR

*Special Call*

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# Call Participants

## EXECUTIVES

**Brian C. Domeck**
*Former Vice President*

**Glenn M. Renwick**
*Non-Executive Chairman*

**Julia Hornack**

## ANALYSTS

**Brian Robert Meredith**
*UBS Investment Bank, Research Division*

**Cyril Max Zormelo**
*Evercore ISI, Research Division*

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

**Josh Stirling**
*Sanford C. Bernstein & Co., LLC., Research Division*

**Joshua David Shanker**
*Deutsche Bank AG, Research Division*

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

**Michael Zaremski**

# Presentation

**Operator**

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

The company will not make detailed comments in addition to those provided in its annual report on Form 10-K, annual report to shareholders and letter to shareholders, which have been posted to the company's website and will use this conference call to respond to questions. Acting as moderator for the call will be Julia Hornack. At this time, I will turn the call over to Ms. Hornack.

**Julia Hornack**

Thank you, Wendy. Good morning. Welcome to Progressive's conference call. This is Julia Hornack. I recently assumed the role of Business Leader of Investor Relations from Matt Downing.

Participating on today's call are Glenn Renwick, our CEO; Brian Domeck, our CFO; and Bill Cody, our Chief Investment Officer. The call is scheduled to last about an hour.

As always, our discussions on this call may include forward-looking statements. These forward-looking statements are based on management's current expectations and are subject to many risks and uncertainties that could cause actual events and results to differ materially from those discussed during this call. Additional information concerning those risks and uncertainties is available in our 2014 annual report on Form 10-K, where you will find discussions of the risk factors affecting our business, safe harbor statements relating to forward-looking statements, and other discussions of the risks, uncertainties and other challenges we face. That document can be found via the Investors page of our website, progressive.com.
We are now ready to take our first question.

# Question and Answer

**Operator**

[Operator Instructions] The first question is from Max Zormelo from Evercore ISI.

**Cyril Max Zormelo**
*Evercore ISI, Research Division*

First question is on the agency channel. I'm wondering are the group challenges in that channel related to your inability to provide a well-branded bundled auto and home owner product. Or is there something else going on? And how long do you think it takes before you reach an inflection point in the agency channel and we start to see an improvement in growth and policy life expectancy?

**Glenn M. Renwick**
*Non-Executive Chairman*

Thanks, Max. Frankly, of all the things that are going well for us, the one that has my greatest attention is the production in the agency channel. So you're right to bring that up as a primary question. Don't look at it as -- I wouldn't encourage you to look at it as an inability to have that bundled product, traditional offering in the agency channel. Didn't rely on that. That's really sort of the next-generation where we hope that to be simply additive. Obviously, we've been doing it for some time, but we expect to ramp that up. We've outlined quite a few challenges. Some of them competitive, some of our own pricing challenges. Last year, we took rate in the channel, I'll call it 3.5%. But most of that was in the first half or around about the midpoint. So we're still seeing it comes through a little bit in our renewals. But towards the latter part of the year, that rate was actually moderated quite substantially. So we look forward to that flowing through into the renewals and seeing a different reaction there. The competitive reactions, we've said probably on a past call, that we had a multi-response to that. I would say many of those responses were relatively marginal in their results. One of the biggest things that we were doing, which is far from marginal, is introducing our new product and I want to be careful here since other companies do this a little differently. We're always bringing out not only a new product into the marketplace, but we have R&D. So from time-to-time, we'll talk about new product and also in R&D. It's a continuous process for us. But we did release what we will call our most recent 4-market product in Missouri, very recently. And we're starting to see some signs from that introduction that are positive, I'll say positive in a couple of ways. One, it's producing more preferred business and that was one of the goals of that rate revision. Another goal built into that rate revision was the adoption of Snapshot at a higher level inside of the agency than we had seen in the past, and we're also seeing that reaction. So identification of the issue is correct. Agency is not performing as well as we think we should be performing in that sector, still performing well, but we think we've got a good rate level. We think we're leaning into a renewal period that will be less dramatic in terms of rate change for consumers. And we have new products in the marketplace. And then add on to the top of that, a lot of what we talked about in the specific rate, the specific conference call in December where we've entered into our arrangement with ASI. And we expect that as a bundling option to take on a whole different face for agents seeing Progressive/ASI as an entity and bringing something distinct to them. I've said very clearly, that our #1 goal with that controlling interest is to actually have something that agents want to sell, which is very different than having something that's there, it's another alternative. It's something they want to sell and the consumers will want to have. So we look forward to that. That's not going to turn the tide in any sort of immediate time frame. So we have short term, with new product. We have sort of the effective last year's rate revision mitigating. And we also have a longer-term strategy with our bundled policies that we'll be reporting on a great deal more, as that starts to come to life.

**Cyril Max Zormelo**
*Evercore ISI, Research Division*

Thanks for a thorough answer. One other quick one, if I may. The -- are you willing to -- in the direct channel, are you willing to take the consolidated combined ratio up towards 96% in order to grow in that channel, meaningful share?

**Glenn M. Renwick**
*Non-Executive Chairman*

Simple answer would be yes. My commitment to shareholders is that the overall company will produce a 96%. Clearly, you know the relative size of the portions, agency and direct, call them roughly equal. But it is not an intent necessarily to have combined ratios substantially lower than 96%, if we believe we can grow and grow attractively by any closure of the margin that we might be attaining in a 96%. I have quite a physical reaction to going over 96%, so that won't happen by design, but absolutely a good growth and profitability combination and a direct channel to put the combined ratio closer to the 96% is a very acceptable outcome, especially if it's coupled with that growth combination.

**Brian C. Domeck**
*Former Vice President*

This is Brian. The only thing I would add to that is keep in mind, in the direct channel, particularly as it relates to drivers of demand, one of the functions is advertising and advertising spend. And we measure that on the cost per sale or yield relative to allowable acquisition costs. And so as long as we are meeting those new and renewal targets, we are more than willing to continue to spend on advertising and where you might see that as a change in expense ratio from time to time. And if you saw January, if you saw that, our direct channel expense ratio is a little bit elevated in January. And yes, indeed in January we did spend a fair amount on the advertising higher than [indiscernible] growth rate, but we believe, meeting those cost per sale versus allowable acquisition targets. So that is one of the things that we have a lever on, in terms of how much we spend on the advertising. But they always have to meet those new and renewal targets.

**Operator**

The next question is from Josh Stirling with Sanford Bernstein.

**Josh Stirling**
*Sanford C. Bernstein & Co., LLC., Research Division*

So Glenn, I was hoping we could chat a little bit about -- more about your acquisition of the Homeowners company. I think you did a nice job in your shareholders letter of talking about sort of the destination area and how this sort of fits in both as an offensive opportunity as well as a defensive one of making sure you have the ability to continue to manufacture and you continue to have or have partnership and the ability to deliver homeowners business in sort of any conceivable scenario in the future. But I'd love to get a better sense, if we think not in the defensive side but on the offensive side, what are you guys really hoping to do with this? What does -- I think you just said, creating a product that agents want to sell, I think I can imagine a few different things that might fit there, but I'd really love to hear kind of what you guys are thinking that you'd really like to do with this fit to actually drive agency sales growth of bundled products, whether that's commissions, new product designs, introductions in more states. It will be really great to have a better handle on what the actual operating agenda is going to be and then sort of a realistic time frame of what you're going to hold the organization to.

**Glenn M. Renwick**
*Non-Executive Chairman*

Yes. Very fair question, Josh, and hopefully I have sort of at least outlined what I can outline at this stage. There is work going on and I'm not one to sort of avoid the question. So it always makes me awkward when I just know more than I'm prepared to say right now. There's work going on right now in a joint design with ASI, Progressive folks as to what a responsive product for agents will look like. And you mentioned some factors in there. Those are all being considered. I'm going to suggest to you that, that will be a better question for us to address. We may or may not be ready, but if we are, we will address it in our IR meeting in May. I'm not avoiding the question. I'm just saying that it's a real-time discussion going on right now with the answers having not been determined in specific detail, but there are a lot of things on the table that could happen. I think you know me well enough to know that we don't sell futures. We absolutely are working on things. So are things like commissions on the table? Could be. Are things like policy period and coordination of policy period on the table? Could be. Those sorts of things are absolutely important. And do we think that there will be a group of agents that will see the combination of a Progressive/ASI as something potentially special? And more importantly those that can think, gee what would that look like 5 years from now, 10 years from now, we're going to try to put that proposition out there with its real substance. So for me, this is exciting. We didn't go in just to get something because it was available, or that we liked it. It is to make a meaningful difference for both companies and their ability to create a bundle that will be meaningful for consumers. And to the extent, I think I heard this in your question, yes, it does provide a lot of optionality for us going forward. We won't get everything right out of the gates, but this relationship will provide an awful lot of optionality to be able to continuously change, modify and have the relationship that isn't sort of 2 companies trying to sort of work 2 agendas. It will be very much a one agenda with regard to bundled policies.

**Josh Stirling**
*Sanford C. Bernstein & Co., LLC., Research Division*

That's great. We will stay tuned for the investor meeting. If I could, I have to ask something on -- you brought up the Missouri product launch of your sort of most recent Snapshot generation. I'm wondering if you can give us a better sense of what you think the impact of that would be, if we could imagine that it sort of were to roll out nationally? Is this going to be something that actually moves the needle on the margin side? Or is this a new business growth vehicle? And if that's the case, how do you think we should be thinking about sizing that?

**Glenn M. Renwick**
*Non-Executive Chairman*

Of those 2 choices, I wouldn't think about it as a margin issue at all. We try to get the same margin across the board regarding -- regardless of rating segmentations. So to me, it's just a segmentation variable. If it segments people that are favorable, then we will price them to the point that their favorability is incorporated into their rate. So don't think of it as a margin issue, think of it as a growth issue. Last year, you almost threw me asking ASI before our Snapshot question. So I thought I would cover a couple of other Snapshot issues. We were up with the Snapshot program about 28% last year. Targets or margins, very, very close to what we're looking at and where we are off, it's off on older models. So we're very comfortable with what we're doing in the marketplace. The Missouri entry, which will be followed by many other states this year, the rollout will start, I believe, late April into May. What we've seen so far, and I'll just restrict this to Snapshot, is I'm going to report the news, and I will be the first to admit when it's not the news or different, but we have seen a substantial tick-up in agent take rate, as measured by quoting activity. So first of all, it was very low to start with. So the fact that we've seen it tick up is promising. It's encouraging. It's supportive of what we saw in Massachusetts where we tried the same sort of issue. It is not at the levels that we see on a direct basis. But we see directionally that we've made a difference. And hopefully, for agents and to be very fair, this is something that agents are going to have to get a little bit more comfortable with, but bringing at least partial discounts forward in the rating process, I don't think it took that much creativity to believe that, that would likely have an effect. If it has had an effect, we will continue to monitor that. But based on everything we see, both now in Massachusetts, sort of early pilot and Missouri where it's incorporated into our model design, we have every expectation of continuing that rollout. And we have every expectation that agent take rate will reflect a better proposition for them to present to their customers. A couple of other things just on Snapshot. Since they may or may not be on people's minds, we did finalize an agreement with GM very late in the year, so it will actually go into effect more in the summer of this year where we actually will be able to use the OnStar device. I think I've said on this call or other formats, we -- I would just as soon be long-term device agnostic or not even in the device business. So this is a very first step where ultimately we'll be able to use the technology that's in the car, totally with the consumer's consent, to be able to actually have one more source of data. We'll continue to push based on the results that I gave you of the 28% growth last year. And as we recognize premium, we're now sort of in the above $2.5 billion, that's associated with Snapshot. I want to point out, Snapshot is not a separate program. It's a rating variable. And I suspect one of the questions might be a little bit later, so I'll just get right onto it, is the indication that we gave, maybe on a call last time, or the time before that, with regard to our interest in using Snapshot to really understand the changing macro economy with regard to gas prices and what gas prices might do, might not do, what mileage might be correlated, might not be correlated. I can tell you it's actually quite fun to be sitting here looking at data on a weekly basis, and I'm sure there are people looking at it on a daily basis by state. And I once made a comment, I could tell the weather outside by the number of motorcycle losses. Now I think we've got another way of knowing what the weather is, but there is a macro trend to increased mileage. We're not going to be specific with the data that we're seeing. We think that's an important internal data set for us. So we've actually -- we're doing indications for our rating based on different gas prices. And we can actually correlate that to frequencies, so we're actually getting quite sophisticated in our pricing as to what might happen, might not happen but will be [ph] paired in different circumstances. And most importantly, the miles that are being driven are not necessarily direct duplicates of the miles that were being driven. People don't commute more to work, just because they have lower gas prices. So it's a different type of mile. You could recently imagine it's longer trips and the frequency on those trips or the frequency per mile is different. And those are all sort of intricacies that the Snapshot program is allowing us to see on a pretty large statistical basis that we feel very good about that input and won't have to wait 6 months or 3 months to see governmental data to adjust our pricing. We'll be able to factor that into our trends. So for me that's a very exciting thing to be able to actually see signal, as it's starting to develop. Imperfect, but very exciting.

**Operator**

The next question is from Joshua Shanker with Deutsche Bank.

**Joshua David Shanker**
*Deutsche Bank AG, Research Division*

Why is the move into homeowners happening now on an equity basis? What changed in the past year? I mean I'm going to mischaracterize it, and you please can correct me. But I feel in some ways, Progressive has always said we don't want to take on that kind of risk. It doesn't fit with how we run our business, and it makes this feel like the least worst option. Or -- but I'm totally mischaracterizing and please disabuse me of that, but it seems like this is a change of strategy, something you've avoided in the past. Am I mischaracterizing it?

**Glenn M. Renwick**
*Non-Executive Chairman*

I'm not going to say you're mischaracterizing that. Look, out of my lips has definitely come the words that I'm not interested in homeowners as a fundamental use of our capital. The leverage is different. Auto was absolutely where our focus was. And I am, if nothing else, someone who believes a great deal in focus. So what has changed? It's a fair question. And I've tried to address that in a couple of different ways, but let's take one more shot.

**Joshua David Shanker**
*Deutsche Bank AG, Research Division*

Why now, I guess?

**Glenn M. Renwick**
*Non-Executive Chairman*

Yes. That's fair. Why now? We have for, probably, and I might mischaracterize it, but let me say 5 years, maybe 6, had a multiple relationship with homeowners to be able to bundle our auto. There is a segment -- and let's just start with the segment. There is a segment of consumers that we simply don't really have the product that represents their long-term interest. We call them the Robinsons. Doesn't matter if you haven't sort of caught up on that nomenclature, but Progressive has been incredibly successful in my mind, of attacking certain market segments and getting a over-index market share relative to our index share of the entire PPA market. But that leaves about a 40% part of the consumer base that is not really well-represented by our product. Is it because our auto product is not a fit? I think the answer to that is, no. It's because those customers need more product and tend to bundle. So I have no interest with the brand that we have of being left out of 40% of the marketplace. So why now? Because A, we have a brand that's appealing to what we consider to be the future, long-tenured customers. Auto is a primary first product purchased. And we are very aware that many people end their relationship with us simply because their life is changing, and they need additional products. We would like very much to use our business model, leverage the business model that we've had, but use it to start to say how can we keep those people for a longer period of time and that does require additional products. We are more than happy to provide those additional products under our brand umbrella, which is working well for us, even if we don't manufacture them -- even if we don't manufacture them, which is true for the vast majority of the ones that we offer. With regard to ASI, it is more difficult to have a strong relationship in the agency channel that works, one that has the capacity, one that has the knowledge of what agents want. And ASI for us was just a perfect match of that. And we are delighted to have not only them as a strong partner, but we could use them in other ways. But for right now, that gives us something in the agency channel that we simply haven't really cracked into. We have been more successful in creating the bundles on the direct side than we have on the agency side. And if we don't come to the market, which is a huge part of our business, with something that agents truly want to sell and makes sense, then we don't really have that part of the marketplace, that 40%, we're not really attacking it. And that seems to be, for me, a major opportunity for growth. And that's pretty much why now. We're very, very comfortable with the other parts of our business that are growing well. We're very comfortable with our traditional niche in the monoline auto. We're very comfortable with our special lines. We're very comfortable with our brand. We're very comfortable with our direct. In addition, we want to provide more to our agents and to the extent that ASI is a viable player in the direct channel, we'll [ph] consider that as time goes on.

**Brian C. Domeck**
*Former Vice President*

Yes. just to add to that, I think it's -- we saw the success that we had with Progressive Home Advantage in the direct channel, where we had many companies. And we saw the success of having our auto policyholders take a property product, the benefits of the PLE extension and the like. And we wanted to have a similar entry into the agency market for that same type of customer who wants to bundle or have both of our products together. And so the ARX transaction was an investment in the agency channel to give us a vehicle to have agents and consumers in the agency channel also have that opportunity. And prior to this investment and acquisition, the penetration in the agency channel was pretty modest. And so this is an investment to get to a higher share of those customers in the agency channel. Our belief was we are in the direct channel, we have multiple companies. A multi-company approach in the agency channel will be difficult to achieve. So we've worked with ARX, ASI for a number of years. We love what they do in terms of their discipline and their results and their management. And so that's why we thought now would be a good time because we need to have a viable product offering that can suit the needs of the agents and consumers in that segment.

**Glenn M. Renwick**
*Non-Executive Chairman*

And just one more comment on this, so we don't perhaps lose the focus, and I stated this fairly clearly in several places. It is ultimately our goal to retain the customers that we bring on. We lose customers, some don't pay. There's lots of reasons you lose customers early in their tenure. The last thing I want to do is lose a customer who has been with as for a reasonable period of time and has no dissatisfaction with our service or our product simply because they need more product. We'll find that and meet that need for them, even if we don't manufacture it.

**Joshua David Shanker**
*Deutsche Bank AG, Research Division*

That's perfectly reasonable. The one follow-up I'd have is, how should the investors think about Progressive's long-term commitment to returning earnings to shareholders in light of this change?

**Glenn M. Renwick**
*Non-Executive Chairman*

I don't see any change. I'm trying to comment, but I don't see.

**Brian C. Domeck**
*Former Vice President*

I don't think it's changed at all in terms of...

**Joshua David Shanker**
*Deutsche Bank AG, Research Division*

Your ability is unchanged, you believe?

**Brian C. Domeck**
*Former Vice President*

Well, in terms of the ability, I think, well, we have always said is we will return underleveraged capital, if you will, to shareholders, right? And so to the extent that we have sufficient capital and more capital than we need, our commitment is returning that extra capital back to shareholders, whether it be via dividends or shareholders. So that philosophy of returning underleveraged capital hasn't changed at all. How much capital is generated and the like, certainly we believe this acquisition helps us retain some of our auto customers longer, which should generate more capital. And we also have expectations based upon ARX's historical results that we can generate capital there as well. Certainly, the capital requirements of the homeowners business will be different. It's unlikely that we can write at a 3:1 ratio for homeowners. But the philosophy of returning underleveraged capital to shareholders hasn't changed at all.

**Operator**

The next question is from Meyer Shields with KBW.

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

Glenn, I was hoping you could clarify the comments made in your letter about Commercial Auto. The way it sounded to me is that you're now optimistic about achieving satisfactory growth without really sacrificing the very strong margin that you've been putting up. I just want to make sure I was getting that correctly.

**Glenn M. Renwick**
*Non-Executive Chairman*

Yes. I think you're getting that correctly. Let me put a little color on it. That Commercial Lines group is really quite a phenomenal group, and they do really great work. The last couple of years has been a lot more bouncy, and John Barbagallo clearly gave some indications that where we got behind the 8 ball in a couple of places, and they've worked very hard to get caught up. So my commentary there, sort of the audit [indiscernible]. We get profitability, but no growth, no growth profitability. It's been a little rockier than you would take the long-term history of that group. Where I truly believe they are now is having found a very nice combination of pricing and profitability. The reported numbers that you're seeing in profitability are great when you get them. Don't assume that we price to those and that if all our pricing decisions are as rational as we hope them to be, those margins will close to some degree but they will still be very attractive. And a good way to think about that is that in the last 3 months or thereabouts, rate changes in commercial have been sort of plus or minus 0.5 point. So while we have over the last couple of years been taking bigger swings, those swings now have moderated significantly, and to me that's really finding the equilibrium. So not only are we positioned very well in our own internal perspective of where we need to be, but the markets coming to us a little bit as well. So try not to do too many forward-looking statements that I might live to regret, but I feel very good about commercial and hopefully that was the general intent of the paragraph in the annual report, notwithstanding that has definitely been a lot more rocky for the last couple of years. My expectation is that we are on a much better glide path now.

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

Okay, that's very positive. On a related note, you talked a little bit earlier about the relationship between gas prices and frequency and so on. Is there any similar relationship on the commercial side?

**Glenn M. Renwick**
*Non-Executive Chairman*

We -- I mean I have to say, better not to answer that because I really don't know with any specificity. We do have an arrangement right now where we actually have in-truck monitoring. But it's a fraction, small, small fraction of anything we have on the auto side, so I don't really have good indications to that. We, as an organization, may have information that I'm not up to speed on. I just don't know. I think freight miles are probably a lot more indicative of supply and demand in supermarkets and other retail and all the rest of it. Fair question. Let's see if we don't have a better answer for you in May. But I don't have the level of insight that we do, vis-à-vis 5-passenger auto.

**Operator**

[Operator Instructions] The next question is from Paul Newsome from Sandler O'Neill.

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

I was hoping you could give us your most recent thoughts on -- at the aggregators in the direct channel, there's been a lot of talk about various websites trying to aggregate the direct channel more. And just maybe talk a little bit about how you see barriers and opportunities within that particular market segment.

**Glenn M. Renwick**
*Non-Executive Chairman*

Yes. Fair question, Paul. We're always very well aware of that. We talk to a lot of them, so I'm going to be a little bit hedging on my comments because those conversations are sort of ongoing. For the most part, I would tell you that we concentrate a lot on our own brand and bring new people directly to us, rather than intermediation that may or may not be value-added. That's not a commentary on their site. I'm just saying that we would prefer consumers to understand our brand, respect our brand, know what we can do for them and come directly to us. That's a model that works best for us. I think the -- it's pretty clear that the other major player in the direct space probably feels the same way. I don't know. So aggregators don't always get a fair representation of competitors relative to market share. So that's always the challenge for aggregators. It might sound attractive to some consumers that I have X, but if X doesn't necessarily include the major suppliers, that can be awkward. So we're going to focus primarily on our own brand from a direct perspective. We're very well aware of aggregators in the agency arena as well. Aggregators in the direct arena, we -- I think it's no great surprise that Google has interests in things and where they can clearly consult with us. We're never exactly certain of time frames on that one. So lot of things going on. Ultimately, we know best product, best price is going to be a big win. And we feel very good about our ability to get that message out. If I were in a different position and didn't have a consumer brand, my answer to this might be quite different.

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

That leads me to a follow-up question. I know you folks have looked outside the U.S. at different markets and had some experiments there. And my sense, and please tell me if I'm wrong, is that the U.S. market is different, and that brand has different impact in the U.S. versus other markets. Is that right? Have you seen evidence of that? And is there any way to kind of think about or quantify that from our perspective?

**Glenn M. Renwick**
*Non-Executive Chairman*

I think you are right, Paul. And the conference call would not be the right setting to get into it. But for example, I know the U.K. market, I think, quite well. And the differences, I think, are quite notable. And what necessarily or what might work in one market may or may not work in another market. I'm sure that's a healthy debate with everybody having sides in that. But we do think we understand the U.S. market very well. We like our positioning in it. That will be our focus. So while we look outside United States, we always look to get different ideas. But for the most part, our focus is close to 100% here.

**Operator**

[Operator Instructions] The next question is from Brian Meredith from UBS.

**Brian Robert Meredith**
*UBS Investment Bank, Research Division*

Yes. A couple of quick questions here for you. First one, Glenn, just curious, with respect to getting better growth in your agency segment, the homeowners going in, hopefully that helps out. But what about commission rates? I mean, is there a need here, you think, to raise commission rates to get that preferred customer, particularly maybe on package business and stuff?

**Glenn M. Renwick**
*Non-Executive Chairman*

The answer to that, Brian, is maybe, we are very comfortable with our commission rate that we provide relative to our monoline auto and so on and so forth. And we recognize where that is in many respects, relative to others. The but on that is we think we're providing agents with a, effectively, a cost structure that is very close, if not sort of modeled off what we see in our direct structure. To the extent that we are trying to do something quite different with bundled, treat agents very differently, do what I said before, really have them feel great about the product, commissions and other things will be on the table. And I'm not sure if you caught the very beginning, but those are very active conversations going on right now. So rather than sort of get ahead of those when the decisions haven't been made, but do I think commissions may be a part of that when the agent is doing considerably more work, to package things together, maintain that relationship? Yes, absolutely. It's not an aversion to paying more commission. It's just trying to make sure that we've got a product that is priced well overall for the consumer that's buying it and wants to stay with that combination for a long period of time.

**Brian Robert Meredith**
*UBS Investment Bank, Research Division*

Great. And then the next question, just because you all do a terrific job using Big Data for risk selection, pricing and analytics and stuff. I'm just curious, from a technology perspective, any thoughts on kind of using that for value-added services to customers, be it through risk mitigation, loss mitigation for customers when they're driving or homeowner’s products and that kind of things?

**Glenn M. Renwick**
*Non-Executive Chairman*

None yet. None yet. We have a pretty long list of things that we're very interested in doing internally, which I sort of laugh on that because it's fun, it's exciting, but none yet. I suspect there will be other opportunities for us to do things. You mentioned risk mitigation in homes. We're all very well aware of sort of the daily articles about autonomous cars and driverless cars and the like. Clearly, what excites me about that, I get excited about is the technology journey that will get us there. I don't necessarily opine exactly what the end outcome might be, but the technology journey that will get us there. We've said very publicly that we expect our long-term trend on frequency to be down. So far that has been matched or more than matched by a severity change. But I think that same trend will happen in homes. While homes don't drive themselves, they certainly could put out their own fires before anyone knew. And technology will have a great deal of influence in the home. And while we are not homeowner-savvy per se, ASI certainly is. And as we match our own Big Data competencies, those are sort of opportunities that while will not be next week by any stretch of the imagination, you should think of Progressive as continuing to leverage its fundamental strengths around data analysis and segmentation, as we create some additional options for ourselves as well.

**Operator**

[Operator Instructions] The next question is from Mike Zaremski with Balyasny.

**Michael Zaremski**

I just have a question about frequencies. One of the largest auto writers in the U.S. on uptick in frequencies are relative to their expectations late in 2014. I was curious if you guys experienced that phenomenon as well? I believe, Glenn, you spoke earlier about being able to, I think you were talking about being able to react faster than the past through the data you have garnered from Snapshot.

**Glenn M. Renwick**
*Non-Executive Chairman*

That's true. That would be more pricing for frequency. So we should see the same frequency. I think I understand the company you're referring to, and that's fine. Different companies will see different things. But on a frequency basis, we actually saw flat to even slightly negative in the very latter part of the year. Always tricky to take any one measurement in any one quarter. But if we looked at the whole year, we probably have a slightly negative frequency in BI that doesn't necessarily match with some other numbers that I've seen. That's just data. So we're looking at a flat frequency right now. And as we think about the future, gas price could very well have an effect on future frequency. Employment, while we cannot always say what's causative, we definitely have correlations between employment and frequency, or unemployment and frequency, whichever way you want to look at that. So there are several things -- we believe frequency, long-term is declining. And that is based largely on vehicle technology. But there'll always be some short-term variations based on more micro events in the economy, gas prices, employment. And those are things that are very hard to forecast with any accuracy. But as of right now, we're seeing a more mitigated frequency than some of our competitors apparently.

**Julia Hornack**

It looks like that was the last caller. So that concludes our call today. Wendy, I will turn it back over to you for the closing script.

**Operator**
Thank you. That concludes the Progressive Corporation's Investor Relations Conference Call. An instant replay of the call will be available through Friday, March 20, by calling 1 (800) 285-8790 or can be accessed via the Investor Relations section of Progressive's website for the next year. Thank you for joining. You may disconnect at this time.