The Progressive Corporation NYSE:PGR

Special Call

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Call Participants

EXECUTIVES

Gary Traicoff

John Peter Sauerland
Chief Financial Officer and Vice President

Julia Hornack

Susan Patricia Griffith
Chief Executive Officer, President and Director

Trevor Hillier
Vice President of Finance

ANALYSTS

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

Amit Kumar
Macquarie Research

Brian Robert Meredith
UBS Investment Bank, Research Division

Elyse Beth Greenspan
Wells Fargo Securities, LLC, Research Division

Gary Kent Ransom
Dowling & Partners Securities, LLC

Kai Pan
Morgan Stanley, Research Division

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

Robert Ray Glasspiegel
Janney Montgomery Scott LLC, Research Division

Ryan James Tunis
Crédit Suisse AG, Research Division

Presentation

Operator

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

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

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

Julia Hornack

Thank you, Marcia. Good morning. Welcome to Progressive's Conference Call. Joining us on today's call are our CEO, Tricia Griffith; our CFO John Sauerland; and our Chief Investment Officer, Bill Cody. The call is scheduled to last 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 2016 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 risks, uncertainties and other challenges we face. These documents can be found via the Investors page of our website, progressive.com.

Before we open the call to questions, I would like to turn the call over to Tricia.

Susan Patricia Griffith
Chief Executive Officer, President and Director

Thank you, Julia. Good morning, everyone. Thank you for joining us for the first quarter call. First of all, I'm very pleased with our results for the first quarter, and we look forward to answering your questions. Before that, I'd like to outline some changes we are making starting with the second quarter call that is currently scheduled for the first week of August. We will be moving away from the Q&A format that we've been doing for quite some time. In place of solely questions and answers on the call, we will have a webcast each quarter. The webcast will begin with the presentation on a specific topic that either you have previously expressed interest in or one that we believe is relevant to this audience, while at the same time providing exposure to other leaders at Progressive. Following the presentation, we will answer your questions about both the presented topic and quarterly results. To accommodate this agenda, we will lengthen the event to 90 minutes. Our first topic will be what we call our runway project, and it will be presented by John Curtiss. He is the leader of our Personal Auto Product Development Group within our R&D Department. We know that there is a great deal of interest in the opportunities and challenges that evolving vehicle technology presents. John plans to discuss the industry trends, including long-term frequency and severity. In addition, he will outline what information we are collecting, both internally and through third parties, regarding vehicle technology trends and how that data might influence our future product design. We truly hope this format will provide you with more current information, the topic that interests you, rather than a once a year annual investor relations meeting. Details on how to access that webcast and conference call lines will be provided during July.
At this time, Marcia, we're ready to take our first question.

Question and Answer

Operator

[Operator Instructions] The first question comes from Elyse Greenspan of Wells Fargo.

Elyse Beth Greenspan
Wells Fargo Securities, LLC, Research Division

My first question is just about your exiting your ex-CAT loss ratio. As the new business that you guys rolled last year's season and loss costs, just for the industry, appear to be moderating, as we think about the balance of the year from here, do you expect to see continued improvement in your underlying ex-CAT exit in your loss ratio?

Susan Patricia Griffith
Chief Executive Officer, President and Director

Well, we -- a lot of it has to do with the business that we're bringing on the books and that will be reflected in our loss ratio. We are bringing on, as noted in the queue as well as my letter, a much more -- a higher percentage of preferred customers, which frequently costs for less losses. So while we can't predict what will happen from a loss perspective, we are working continually and diligently to bring on more of our preferred customers from both how we align our product and, of course, our auto and home bundles.

John Peter Sauerland
Chief Financial Officer and Vice President

I'd add to that, that we have raised rates a good deal in 2016, and that is in the process of what we could call earning into the book. Took about 5.5 points of rate in our auto programs, about 9.5 in our Commercial Lines programs. And we've continued to raise rates at a bit slower clip, but still materially raise rates through the first quarter. So that obviously helps the loss ratio throughout the rest of the year as well.

Elyse Beth Greenspan
Wells Fargo Securities, LLC, Research Division

Great. And then my second question on -- in terms of following up on the bundling concept, can you provide some disclosure or numbers on how have you seen a pickup in terms of your customers that are purchasing both the auto and home products? And information just on the penetration of the Platinum product? And then also just where the bundling stands today within your book compared to when you announced that ASI acquisition and the potential additional bundling from here?

Susan Patricia Griffith
Chief Executive Officer, President and Director

Absolutely, Elyse. So first and foremost, we call our bundled customers with auto and home Robinsons, we refer to that internally and I think a lot of you are familiar with that. Our new business Robinsons quarter-over-quarter are up 50%, our PIPs are up 25% year-over-year. And as noted and really very exciting to us is the retention on the Robinsons cohort is up over 25%. So we filled Robinsons in 3 different areas. Let me focus first on Platinum in the agency brand. So initially when we rolled out Platinum, it really was about integrating the sales force from ASI and making sure we could really accommodate the changing needs of this product and help our agents make sure that they knew both our auto and our home to bundle that. So we continue to move forward. And I think I said in a couple earlier calls that, with moving a little bit slower and integration took longer, we've gotten over that hurdle and we feel really positive about our ability to continue to roll out the Platinum product. ASI, we're in 41 states, 35 of those we have Platinum agents. We plan to double Platinum agents this year as well. So we feel very positive about the momentum and the relationships that we have with these agents and really their commitment to quarterly results. And we know when they don't meet those results that we talk about that with them, change course, determine what they need. John Sauerland has talked about, in the October meeting, how we're really focusing on whether it'd be in each area, each state, I should say, is the auto product competitive, is the home product competitive -- -- and where we find that they're not, we make accommodations to possibly broaden coverage and to be able to sell a great bundled product. So while we're not sharing specific results in terms of percentages, the momentum continues as planned, and I'm really excited about that. On the direct side, we have, what we call, our Progressive Advantage Agency. And they have been really doing an incredible job. Now, of course, we write more than ASI in the direct channels. So these are customers that have our auto, and they call in -- it's our inside agency. They call in and we fit them with the product that best suits their home. So it could be with ASI, and we have 9 other unaffiliated partners. We have grown our Advantage Agency, our in-house agency, by several hundred in the last couple of years. So that's gained a lot of momentum, and we feel very positive about that continuing. Just recently, we rolled out what we call, home quote explorer and that is consistent with our customers' lines by where, when and how philosophy. And this is a very slick online process where you can get a quote and will match you up with the company that is best for you with your home and then currently you make a call at the end of that process online to bind in our in-house agency. That is just up and running. We have 8 states. We continue to learn from that, and our plan is to roll out many more states throughout the year. So we certainly have a trifecta. Platinum is really going well in the agency brand, and we're seeing that momentum really gain speed. The Progressive Advantage Agency has done actually even above what we kind of planned, and we're excited about that. And now we have the online version. So while we don't share right now the percentage, but we will get to that at some point when we believe it's meaningful. And I imagine, at some point, the overall home product and Robinsons will be a topic for one of those quarterly webcast because that's, I think, of interest to all of you, so possibly a future topic to go into a little bit more detail on the metric.

Operator

The next question comes from Kai Pan of Morgan Stanley.

Kai Pan
Morgan Stanley, Research Division

The first question on catastrophe losses that we have seen rising frequency with severity of the weather events, and I just wonder how do you thinking about managing the volatility as well as your cost of the capital,as specifically is at 2.4 points CAT load in 2016, a new normal for you guys given the business mix change towards property lines.

Susan Patricia Griffith
Chief Executive Officer, President and Director

Well, we -- clearly, we've been -- we watch the weather, and we look on -- at a 10-year look back, and then obviously, we continue to look at that more frequently to see what type of CAT load we put in. CATs were not unexpected in first quarter, and I'm not too dissimilar to first quarter of 2016 even a little bit less. So we put that load in. And obviously, we watch for it. And when we think of -- you don't know what's going to happen with weather, so we do our best to make sure that, One, we are ahead of pricing when we need to make -- take rate actions and that we're, more importantly, ready to handle those claims when they happen. So although CATs can be very -- we can't plan them, we can't plan how to react to them. On the home front, as you know, we have purchased an aggregate stop-loss on coverage from the CAT. Home is much more, obviously, volatile and expensive when CATs happen than autos. And I can have Trevor Hillier talk a little bit more about that -- or John Sauerland because they we're involved in this. But for the most part, we're really trying to cap our losses when we went into this aggregate stop-loss agreement. So we decided to do this after our Gator Re bond had expired. And what we really wanted to do was to limit our down sides. So we already have the named storms taken care of, but we wanted to have additional protection with perils such as winter storm, which, of course, happened this first quarter; earthquakes, fires; things like that. And that agreement is caps are loss in LAE non-named storms in liability to a 63 combined ratio. So we feel really -- I'm sorry, loss ratio. So we really think that was a good play for us to make sure, especially as we diversify throughout the country to more and more states, to cap our exposure on the home side. Trevor, do you want to add anything on that?

Trevor Hillier
Vice President of Finance

No, I think you summed it up well, but the aggregate stop-loss, it helps quite a bit. Just as Tricia mentioned, the Gator Re aggregate contraction was limited to just severe thunderstorm. So it does add those additional perils that we're seeing, especially as we expand our footprint across the country. And as we did it, we're looking at our -- as a percentage of our premium in terms of reinsurance cost, we can get a very reasonable deal for the additional coverage that we're getting.

Kai Pan
Morgan Stanley, Research Division

Great. A follow-up is on your PIF growth in the direct channel. It's been slowing sort of like decelerating like indiscernible] 2016. And recently, in your report, in your letter, Tricia, you mentioned increasing media spending, are we going to see acceleration of like PIF growth? And will that becoming sort of like a drag on the other hand on the so-called new business penalty?

Susan Patricia Griffith
Chief Executive Officer, President and Director

The slowdown in fourth quarter of advertising was very deliberate. So we make a commitment to our shareholders that we will try to reach to 96. We will reach to 96 and grow as fast as we can. And when we had a really heavy CAT year last year. We were taking measures to make sure that we reach that 96. And so we did purposely -- purposefully reduced our advertising in the fourth quarter. So the reduction in new apps on the direct side was very deliberate, and it's exactly what we've planned. We are in a different position. Coming into 2017, we've increased our spend. With increase in spend, normally that will increase prospects, sales and, ultimately, the big PIF conversion. We are seeing that starting to happen, and I can't tell you exactly how that will turn out, but we feel confident and comfortable in our spend in advertising and that it will have a positive impact on our business in direct growing in terms of new business apps and, ultimately, PIP. For media spend, like I said, we are back in full-bore. And we look at media spend really, what we call, targeted acquisition cost, and we want to make sure that our targeted acquisition cost is -- and our cost per sale are in alignment and as long as we feel like we are spending money and getting the sales at the right cost, we'll continue to spend and do it as inefficiently as we can -- as efficiently as we can, sorry.

Kai Pan
Morgan Stanley, Research Division

Do you worry about the increase in new business penalty?

Susan Patricia Griffith
Chief Executive Officer, President and Director

I don't because we -- when we bring new business on, we look at our new business targets, and we know that those flow through. And if we're over our new business targets then we slo wdown or we take action in terms of either ratings or underwriting action. But we believe if we can bring our new business at or below targets, then they play out. I talked about this in the October IR meeting. It's really about the economics of bringing new business. It's very different. So to answer that question, it's dependent on -- and how we look at the economics is very dependent on channels and segments. And if you recall, bringing in new business on the direct side is very expensive in the first term because we front load all those acquisition costs, but if we're bringing that right business and they stay, that second term is substantially down, and we ultimately get to our both calendar year and lifetime 96, a little bit different on the agency side. And then, of course, the next tranche would be -- it's very different on the direct side if you're looking at Sam or Robinsons. So we are -- we calculate what the sort of new business drag should be and when that will fall off, and it's really all about getting the right business in at or below our targets.

Operator

Your next question comes from Robert Glasspiegel of Janney.

Robert Ray Glasspiegel
Janney Montgomery Scott LLC, Research Division

Progressive, I'm excited about your new format and hope you can dodge the AIG, [indiscernible] kerfuffle next quarter with the 90-minute call, which will be much appreciated. My questions are on the Commercial Auto side of the ledger. Tricia, you seem to have a bounce in your step -- in your letter commenting that you're now positioned to grow that business again. You came in under 90 combined in the first quarter with March having a weather impact I suspect. Where are you in Commercial Auto cycle relative to your competitors? They need to take price presumably. Other people are seeing pressures that you saw earlier. Are you in position to get back to double-digit growth in that business with where you -- the rate that you've taken?

Susan Patricia Griffith
Chief Executive Officer, President and Director

Thanks, Bob. We are excited about our commercial growth. So as you know and we were part of that, third quarter, last year, we saw frequency increased substantially. We took a step back and took some rate action in September. About 9% in aggregate. Now across the book, it was very different depending on our business marketing tier to get what we needed. So that is still earning in because clearly you do a rate revision for each day, and we also have annual policies. So we believe we have the right rate and we're going to keep ahead of trend. So that was very exciting. And then the second thing we did just to understand and get more enhanced in our segmentation in each of those segments in Commercial is we had some underwriting restrictions for that time period until the end of March. About mid-March, we made a decision at the end of March to lift many of those underwriting restrictions because we really believe we have the right rates and the right segmentation to bring on that business at or below our targets. So we are positive about our growth. We saw pretty immediately and we believe we have the right rate, once we lifted those underwriting restrictions, new app growth start up again. The great thing about Progressive is that we do react to rate need very quickly. So even in a channel that take a little bit longer to earn in than our auto is -- as a majority is fixed on policies, we feel very positive that we got ahead of trend quickly as we saw those frequency trends increase. So we're seeing a very hard market. We obviously watch the competition closely, and people are getting a lot of rate. We feel very good, very positive about our growth in commercial.

Robert Ray Glasspiegel
Janney Montgomery Scott LLC, Research Division

I think you averaged under a 90 over the last decade in that segment and have a dominant market share along with Travelers. How do you think about what your goals are in this segment because it doesn't seem like it operates with the same 96 parameter that your auto -- your Personal Auto business does?

Susan Patricia Griffith
Chief Executive Officer, President and Director

Yes, definitely, Commercial can be more volatile and especially when you have annual policies, if you don't react quickly, you caught behind rapidly. So how -- we're #1 in the Commercial Auto, and we're very proud of that. We also know that there is lot of opportunity out there, so we are creating a business auto policy to be able to really delve deeply into the commercial part of the company as much as we have on the auto. So think of how we outlined, several years ago, our Destination Era on the auto part. We're doing very similar things on the Commercial part, where we're really thinking about that small business owners and their needs. And so John Barbagallo and his team are working on the addressable market they have not just the auto, but other products, whether we manufacture them or not, we will be manufacturing the BOP products, but to enhance that what you'd almost consider the Commercial Auto Destination Era. It's a $300 billion opportunity, and along with the $300 billion opportunity on the auto and home, we feel like we're really positioned across the company for a long runway and a lot of growth. So we're going to continue to try to be #1 in Commercial Auto because we are proud of that, but we know we need to do more for our customers that expect more. So again, we're going to have the products and services they need not unlike what we rolled out in auto a few years ago.

Robert Ray Glasspiegel
Janney Montgomery Scott LLC, Research Division

Can I squeeze in one more or might [indiscernible] now?

Susan Patricia Griffith
Chief Executive Officer, President and Director

Go ahead. Take one more.

Robert Ray Glasspiegel
Janney Montgomery Scott LLC, Research Division

Okay. Does this fit in to Uber and carpool strategy as well to have this business segment?

Susan Patricia Griffith
Chief Executive Officer, President and Director

Yes. But let me talk about how I think about Progressive in the future in terms of that. So what I just described right now, I think about in horizon, 3 horizons. So well, I just described in both the auto and commercial segments are really surgically executing on things we know we can do well right now. So picture now in the next 4 or 5 years. And I want our focus to really be on our ability to capitalize on having great rates, great service, improved retention and the products and services our customers need. When I think of Uber and the sharing economy and other things, we're clearly working on those right now for that next horizon. Think maybe 4 to 8 or 4 to 10 years. And we just recently renewed our Uber contract, actually in April, with our commercial business in Texas. And so we are enthusiastic to continue to learn more and work with Uber. In addition, on the Personal Auto side, we continue to add endorsements in many, many states to cover the Uber drivers during the time that they're working. So I see Uber, sharing economy, think of all that type of things where there's some knowns and some unknowns that we should be working on now in the R&D portion of the company to roll things out probably more aggressively in that horizon 2. And then horizon 3, which we'll touch on a little bit during the August webcast is really about autonomous. So whether it's autonomous vehicles, autonomous commercial vehicles, autonomous TNC vehicles, how we think about that, how we are working with third parties to gather data and understand how we need to continue to set up the company to be an enduring business.

Operator

The next question comes from Adam Klauber of William Blair.

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

A couple of questions around bundling. One, you mentioned that bundling capabilities up and running in 35 states today. What was that roughly a year ago?

Susan Patricia Griffith
Chief Executive Officer, President and Director

I have to check on that.

John Peter Sauerland
Chief Financial Officer and Vice President

To be clear that was in the 8 independent agency channels, and then in direct channel, we are mostly countrywide.

Susan Patricia Griffith
Chief Executive Officer, President and Director

Yes, direct channel we have been doing for a while, and that was we are in 41 states. The Platinum was in the 35. So we actually do have auto in 40 -- sorry, homes with ASI on -- in the agency channel in

41 states. I would check on that number because I hate to guess, and I'm sure we'll have that readily available and I can let you know that.

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

Okay, okay. And as for as Snapshot, around how much of your, I guess, policy in force or your policy base has or is currently using Snapshot today versus a year or 2 years ago?

Susan Patricia Griffith
Chief Executive Officer, President and Director

It's different in the direct channel and agency channel. Much higher in the direct channel. I think [indiscernible] about 1/3. I think it's up 35% or maybe 33% indirect. So a fair amount. From the Snapshot perspective, I wrote in my letter that we rolled out our Snapshot Mobile. And so we did that in 4 states in December. And then as of today, this morning, we rolled out another 22 states. So we are excited about mobile for a couple of reasons. one, because it just fits with the changing technology environment. Two, it's much less expense on our side. And three, we believe and I'm not in the position right now to talk too much because it's still early on, but talk too much about segmentation enhancements that we believe we will garner from the mobile as a device. So in terms of talking on the phone, handheld, whether you're on a phone or on an application, so we believe that we're going to get. We are seeing already some interesting data on the mobile as a device. So we are excited about that. Adam, to answer your first question, we were in 16 states with Platinum a year ago.

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

Okay, okay that's helpful. And then also back to the bundling, not asking for exact number, but you're clearly growing a lot in the Robinsons. You have given us some good statistics. Is that more in the agency channel than the direct channel?

Susan Patricia Griffith
Chief Executive Officer, President and Director

No, it's actually in both channels. And I think that's -- our approach was really to be available when, where and how. And so the agency channel, I would so to say, last year, had not gained the momentum that we're starting to see now. And our direct channel was a little bit easier because our customers already have the auto with us, and they were interested in home, so we were able to have ASI and many other carriers help them. Whereas in the agency channels, it's a little bit different because there may be a customer that doesn't have a Progressive or an ASI product they were coming in, and so it's new to some of these agents and the whole process is new. So I would say, we're happy about both channels as well as our ability to roll out the online version.

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

Okay. And just one more follow-up. So online, you mentioned you're quoting homeowners now. You put up a new system. Are you actually quoting a bundle online? Or is that something quoted separately?

Susan Patricia Griffith
Chief Executive Officer, President and Director

You are able to do that at the end. So yes, that's the whole theory to be able to be in one place at one time. The only caveat is that we -- you don't -- you are not able to buy into the home part online and so you talk to our agents in the Progressive Advantage Agency currently.

Operator

The next question comes from Ryan Tunis of Crédit Suisse.

Ryan James Tunis

Crédit Suisse AG, Research Division

I just had a couple of follow-ups and then a broader question, but I guess, on that last -- on the last question about Snapshot and this may have been something you guys have touched on in the past, but is there a meaningful difference in frequency between a driver who isn't on Snapshot and endorses Snapshot.

Susan Patricia Griffith
Chief Executive Officer, President and Director

A very little.

Ryan James Tunis
Crédit Suisse AG, Research Division

So there is not like someone's watching me in the backseat type of thing that would make someone a more careful driver?

Susan Patricia Griffith
Chief Executive Officer, President and Director

We have -- we do have the ability to alert you to let you know when you are doing things like hardbraking and things like that, that can influence it, so you know what we're looking at. Ultimately, there is sort of your DNA as a driver, and usually -- and we believe that we are able to gather the type of driver you are and ultimately, how that will lead to loss costs pretty early on just with what we've looked at in terms of time a day, hardbraking, et cetera.

Ryan James Tunis
Crédit Suisse AG, Research Division

Okay. And then just following up on Kai's question on the media spend. Is there a way we can think about -- I don't know if it's year-over-year in terms of the expense ratio, what was that you're thinking the higher media spend will have or perhaps just a percent increase that you kind of have in your mind in terms of what you're thinking you might spend on media over the entire year?

Susan Patricia Griffith
Chief Executive Officer, President and Director

We always do. We don't necessarily share this. We do a budget at the beginning based on all of our models of how we believe the year and several years will roll out. And what we look at from our expense ratio is, we look at it, we bifurcate it. We look at our overall expense ratio and then we look at our nonacquisition expense ratio. And so that way, we can firm up activities that we do on the efficiency side as well as advertising spend. We truly look at advertising with the caveat that we do have a stated goal for our shareholders to grow at a 96 or less, and so we look at advertising as --if we can get it efficiently and our targeted acquisition cost -- our cost per sale at less than our targeted acquisition cost, then we will increase our spend. And so we buy a majority of our media in-house, and we are very in tune with how much to spend, when we think the incremental spend is worth it. And actually, we're working on more recently just the lifetime value of different customers coming in the door and how much we think we should spend on each of those customers and getting much more detailed on that. So the short answer is, we'll spend as much as we can at the right -- with the right amount, knowing that we have promises that we have made to our shareholders in terms of profitability. And it is all about getting things at or below the targets that we set.

Ryan James Tunis
Crédit Suisse AG, Research Division

Got it. And then, I guess, my last one was just on the competitive environment in general today versus 6 or 12 months ago because I think we've seen some competitors that have, I guess, started to lean in on rates more recently. Others that had been doing it, maybe, 24 months ago that seem to be coming back to the marketplace. Would you say it's more competitive today than it was 6 or 12 months ago or are you still benefiting from either a new business or attachment standpoint from a lot of competitors taking rate?

Susan Patricia Griffith
Chief Executive Officer, President and Director

From our competitive intelligence, we are seeing a pretty hard market. We're seeing people take a fair amount of rate. Like Johnson, we took about 5.5 points last year. This quarter, we took a little bit over 1, but we are seeing shopping. So we do believe that we're benefiting from one having a competitive product, a competitive price and more consumer shopping.

Operator

The next question comes from Meyer Shields of KBW.

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

I just wanted to follow up on your response to Kai because if I understood you correctly, what you were saying is that you pulled back advertising spend and whatever sort of long-term value creation was associated with that because of sort of short-term capacity losses, which seems a little bit surprising for me. Am I thinking about that the wrong way?

Susan Patricia Griffith
Chief Executive Officer, President and Director

No. We sometimes -- because we have that commitment to 96, we sometimes will take a short-term, not be able to take advantage of something very short-term to get to our long-term goal. We make that commitment. We're very public about that. For me, it's about making sure that we care as much about bottom line as the top line. So yes, we were -- it was very deliberate when we pulled back advertising. We knew that, that might -- we might have some missed short-term opportunities, but we really take our commitment to shareholders very seriously, and we did what we could to make sure we took -- we got to that 96. So there are a couple of ways you can do that. We felt like we had the right rate, and we made so much movement on retention that we didn't want to just raise rates and have people leave because of that. We felt like we were in a good position, pulled back a little bit. Obviously, we care a lot internally about expenses as well. So we made some changes internally on the expense ratio side and the loss adjustment ratio side. But yes, that was -- we knew that we might have some short-term opportunities missed, but very much in keeping with our philosophy of making at least $0.04 of underwriting profit.

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

No, I completely get it. How should I put it? I trust you enough to say, maybe, the commitments that you changed, not that you're doing anything inconsistent with what you said. Second question is completely unrelated. Does the current sort of [indiscernible] when used our pricing? Is that something that's going to affect underwriting results in the near term?

Susan Patricia Griffith
Chief Executive Officer, President and Director

I don't know if I could really able to speculate on that. I think it's really dependent on -- it really ends up being losses, and I guess, in terms of severity on the collision or PD side, we'll start to see that and will react to that when we see it. I wouldn't want to speculate it, but we obviously are keeping our eyes on both new car sales as well as used car prices and salvage prices.

Operator

The next question comes from Brian Meredith from UBS.

Brian Robert Meredith
UBS Investment Bank, Research Division

Just couple of quick questions here for you. First, just to follow up on that -- the severity increase that you saw in the quarter. BI severity up 6, PD up 7. Anything to read into that? I believe the BI was just -- versus a pretty tough comp?

Susan Patricia Griffith
Chief Executive Officer, President and Director

Yes. And I think we're seeing things not unlike what the industry is seeing. So -- and I will say we're seeing a little bit more attorney rep at time of loss. So we know that will equate to possibly higher payments, and we're baking that into our pricing indications. On PD as well, we -- where everyone, I think, is looking at paying the right amount. And so when we talk about share liability, we're seeing that a little bit on the PD side. But again, we have put that into our pricing indications. And Gary, do you want to add anything on that?

Gary Traicoff

Sure. This is...

Susan Patricia Griffith
Chief Executive Officer, President and Director

Gary Traicoff, our Chief Actuarial.

Gary Traicoff

Sure. Brian, I think to your point when we look BI severity, in the last quarter, we're about 6%. Our paid severity is little bit lower than that. So we know it's lagging a little bit, to Tricia's point about the attorney repped inventory going up a little bit. When we still look at our overall severity on a trailing 12-month calendar basis over the prior 12 months, we're up about 4% on BI. And to Tricia's point, we've built that into our pricing and reserving. Overall, we feel pretty comfortable where we are at with that as well. On the PD side, we were up this last quarter. A part of that was just closures and some inventory shifting. On an accident period basis, we see PD more in the 5% range and that's pretty close to what you see riding on the long-term calendar period as well.

Brian Robert Meredith
UBS Investment Bank, Research Division

Right. And then, Tricia, just a quick question on the mobile app with Snapshot. Is the difference in cost -- one, the difference in cost significant enough that we would see it actually in your expense ratio over time here? And then I'm also just curious on that the mobile app, can you detect distracted driving and that -- will that give you some better insights into distracted driving?

Susan Patricia Griffith
Chief Executive Officer, President and Director

Great questions, Brian. Yes, and that's one of the reasons why years ago, we knew after certain period, 360 days, that we were able to identity driving trends of our EBI drivers. So that was a big difference in terms of the dongle device. Then as we go to mobile, it's even less expensive and, ultimately, look at that data from the cars. So yes, you'll -- we will see that as part of our expense ratio. As far as distracted driving, yes, we need to live on the road. As I'm driving I'll see someone and I'm like what are they doing, you'll drivepast and you'll see them on the phone or on an app, and it's frustrating, but we really like to make sure we have the data to confirm things. So anecdotally, we all think that, but the mobile device will give us much more insight into actual distraction and whether that's I'm talking on the phone hands-free or I'm holding my phone or there is an app open, we'll be able to if something correlate that to loss cost. So we believe that distracted driving more than likely has influencing on losses, but we want to be able to have that data to confirm it. So we're excited about gathering that data. It will take some time, but as we gather more and we feel more confident in that, we'll let all of you know what we find.

Brian Robert Meredith
UBS Investment Bank, Research Division

If there is a mobile app collect the same data that you collect with the dongle, like I know, there was like 3 or 4 things that you collected, they kind of determine the rate? Or is there more stuff that you'll be collecting to determine the rate?

Susan Patricia Griffith
Chief Executive Officer, President and Director

It collects the same thing, the hardbraking, the time of day, miles driven. And we do have and we put this in a while ago, we also collect, and this is only for research and development. At this point, we collect GPS.

Operator

[Operator Instructions] The next question comes from Gary Ransom of Dowling and Partners.

Gary Kent Ransom
Dowling & Partners Securities, LLC

I would like to ask about frequency. If I look back at all your frequency disclosures, you did see a little bit of a bump in frequency increases back in '15 and maybe into the early '16, which seems to, at least, leveled off or become more moderate. What are you thinking about frequency going forward? Are we at a new normal level? Are you building in continued increase into your pricing? What do you see right now?

Susan Patricia Griffith
Chief Executive Officer, President and Director

Well, the last quarter we actually saw a 4% decrease in frequency. And I -- we're not going to react to one quarter, because there are so many inputs that go into frequency, whether it's mix of business or macroeconomic data. On a trailing 12, we're about a half a point up. And -- so we really -- we obviously collect things like miles driven, gas prices, macroeconomic data to understand long-term frequency trends. And we also internally create hypotheses to try to understand why frequency goes up or down. So just recently, with the downtick in frequency, we have a couple of hypothesis that we're thinking about: one, we don't believe it actually is influenced by the weather. We do believe as we bring on a more preferred mix of business that those customers specifically result in lower frequency. We're also seeing higher miles driven with our UBI customers and a greater mix of trips that are longer trips that we define as over 15 miles. In addition to that, and the data is very thin, but it's interesting, we're seeing less hard brakes per participant. So our theory is that some of our UBI customers or UBI customers in the aggregate are driving more highway, longer trips, which could result in lower frequency versus a congestion in sort of the city. Again, that's a hypothesis. We'll continue to gather data on that. We -- obviously, the last several years with our products, models, we've been -- we've a much more enhanced segmentation and with our underwriting as well, and we believe that allows us to put business on the book that aligns with our ability to reach our profit goal. So we have some facts about frequency and some theories and hypotheses that we will continue to watch the data. Again, frequency, we can react to, but I don't want to predict it because there are so many things that can come into play at any given time.

Gary Kent Ransom
Dowling & Partners Securities, LLC

Okay. Well, that's helpful. Another question on the catastrophe reinsurance, the stop-loss. Is the way the accounting works, I just want to be sure, I have it right, that as long as you're in the band and, barring all the things that are not included -- the named storm's liability, the loss ratio will basically be 63 or thereabout until as long as you're inside the band of coverage. Is that true for them every month going forward?

Susan Patricia Griffith
Chief Executive Officer, President and Director

Correct. Yes, on a calendar year.

Gary Kent Ransom

Dowling & Partners Securities, LLC

Okay. And then on last year's Gator Re bond, some of the press is saying that it's all the $35 million has been returned, and I wondered if any of those losses have developed beyond that. I wonder if you could give us any insight as to what was going on there?

Susan Patricia Griffith
Chief Executive Officer, President and Director

I'll let Trevor take that one.

Trevor Hillier
Vice President of Finance

Yes, all $35 million hasn't been collected yet, but we have let investors know that the losses is above that number. It's slightly above that number. Really the development is, we're seeing a lot more late reports than we had seen in our previous history and continue to see them and -- so it just caused a little bit adverse development there, but it's not a turnover of the $35 million.

Gary Kent Ransom
Dowling & Partners Securities, LLC

Is that -- does the fact that can happen, where you may not actually collect as much as you're supposedly dued? Does that make you shy away from CAT bonds at all in the future?

Trevor Hillier
Vice President of Finance

No, no, not at all. It was just we had adverse development that we weren't entirely expecting. So it's not anything in the mechanics of the CAT bond. It was just we had development that we didn't originally expect.

Operator

[Operator Instructions] The next question comes from Amit Kumar of McMurray.

Amit Kumar
Macquarie Research

Two quick follow-ups. So one is going back to Meyer's question on new cars and used cars declining. If I were to ask this another way, has the average age of the automobile you insure, has that changed over the period of 5 years or has it remained somewhat staticky at, let's say, 11 or 12 years of age?

Susan Patricia Griffith
Chief Executive Officer, President and Director

I would say, not much. We look at our fleet every year and I would say it has not changed dramatically.

Amit Kumar
Macquarie Research

And is that number like a 11, 12 or is that different from that?

Susan Patricia Griffith
Chief Executive Officer, President and Director

I'm sorry?

Amit Kumar
Macquarie Research

Is that the number, the average age is at 11 years or something like that or is it...

Susan Patricia Griffith
Chief Executive Officer, President and Director

It's like a 11.5. Yes

Amit Kumar
Macquarie Research

Okay, got it. The other question going back to the discussion on mobile app. In the letter you talked about the penetration, I think, it's in 4 states right now. Have you talked about some sort of timeline as to how we should think about the expansion? And is this sort of concurrent with the dongle or does it, at some point, replace the dongle, that timeline would be very helpful.

Susan Patricia Griffith
Chief Executive Officer, President and Director

This is for -- these are for new business. And -- so we rolled out 4 states in December. We rolled out 22 states today. So we're in 27 states, and we intend to roll out the mobile device for new business throughout the country in 2017. So pretty aggressive timeline for that. We -- our customers that have the dongle, we recycle those fairly quickly. So at some point, the majority of our customers will have mobile or we will have had the information on their loss characteristics or their driving characteristics, I should say, from the snapshot device.

John Peter Sauerland
Chief Financial Officer and Vice President

And just to be clear, today, the mobile device is an option for consumers. They can also opt into the dongle, but additionally, in the future, we would expect more and more of this data to come directly from the vehicles. And as you noted, our October presentation, we talked about an effort with GM and vehicles -- GM vehicles, I believe, model year 2016 and newer have the ability to send the data that we collect similar to the data we collect with the dongle or the mobile device to us directly from vehicle. So we have been running a pilot whereby GM customers opt into sharing their data with us, and we calculate a rate based on the data they share with us, and then we sell them a new policy with that discount incorporated at inception. It's been in pilot mode, and, actually, this month, we'll sort of flip over to more active mode. So we think the volume in that area is going to increase, albeit it's just vehicles 2016 or newer, but the longer-term model there we see migrating actually to vehicles delivering the data.

Amit Kumar
Macquarie Research

That is very helpful. If I could just sneak a followup to that. Do you have plans to talk to other auto manufacturers? Or are you in advanced stages in terms of rolling out this sort of pilot program with them too or is this an one-off thing?

Susan Patricia Griffith
Chief Executive Officer, President and Director

You were always interested in talking to the OEs about opportunities that we wouldn't be able to talk about any of that would be in -- we're always interested in learning more and being a part of advancing, what we think, is really a great pricing algorithm in a variable for pricing, so yes. Gary, I had one correction. I said calendar year 63 for the aggregate stop-loss, I meant to say accident year.

Julia Hornack

And we actually have no other questions at this time. So that concludes our call. I'll turn it back over to you, Marcia, for the closing script.

Operator
That concludes the Progressive Corporation's Investor Relations Conference Call. An instant replay of the call will be available through Friday, May 19, by calling 1 (800) 964-3773 or it can be accessed via the Investor Relations section of Progressive's website for the next year.