S&P Global
Market Intelligence

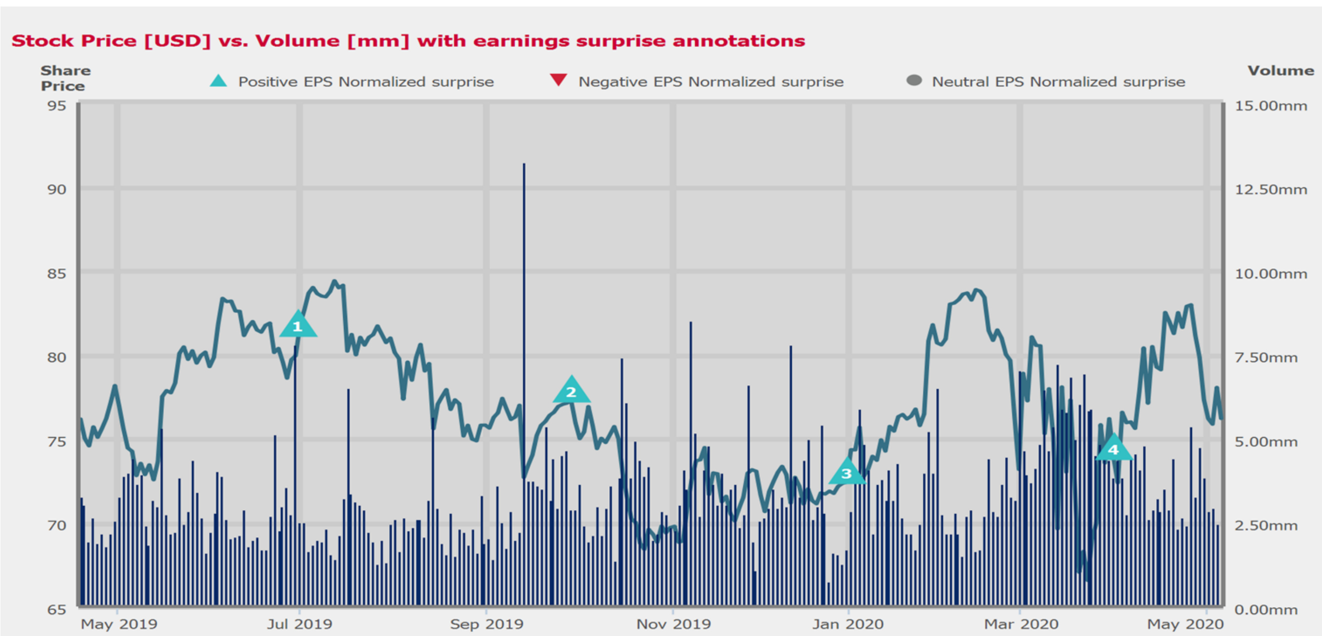
The Progressive Corporation NYSE:PGR
FQ1 2020 Earnings Call Transcripts

Wednesday, May 06, 2020 1:30 PM GMT

S&P Global Market Intelligence Estimates

	-FQ1 2020-			-FQ2 2020-	-FY 2020-	-FY 2021-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	1.46	1.93	▲32.19	2.00	6.29	5.40
Revenue (mm)	10277.10	9871.30	▼(3.95 %)	8946.40	38900.36	42507.51

Currency: USD
Consensus as of May-05-2020 9:06 AM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ2 2019	1.41	1.43	▲1.42 %
FQ3 2019	1.30	1.33	▲2.31 %
FQ4 2019	1.13	1.29	▲14.16 %
FQ1 2020	1.46	1.93	▲32.19 %

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John Peter Sauerland
VP & CFO

Jonathan Bauer;Chief Investment Officer

Julia Hornack
Investor Relations Contact

Patrick K. Callahan
President of Personal Lines

Susan Patricia Griffith
President, CEO & Director

ANALYSTS

Brian Robert Meredith
UBS Investment Bank, Research Division

Elyse Beth Greenspan
Wells Fargo Securities, LLC, Research Division

Julia Hornack
The Progressive Corporation

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Michael Wayne Phillips
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Philip Michael Stefano
Deutsche Bank AG, Research Division

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Anchor Capital Advisors, LLC

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Presentation

Operator

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

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

Julia Hornack
The Progressive Corporation

Thank you, Jake, and good morning. Although our quarterly Investor Relations events typically include a presentation on a specific portion of our business, we will instead use all of the 60 minutes scheduled for today's event for a question-and-answer session with our CEO, Tricia Griffith; our CFO, John Sauerland; Personal Lines President, Pat Callahan; Commercial Lines President, John Barbagallo; Chief Investment Officer, Jonathan Bauer; and the General Manager of our Property business, Dave Pratt. Call-in participants may ask questions via the telephone. Dial-in instructions may be found at investors.progressive.com\events.

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 on our 2019 annual report on Form 10-K and our first quarter quarterly report on Form 10-Q, 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. In particular, note that our quarterly report on Form 10-Q includes discussions of the risks and uncertainties arising directly and indirectly from the COVID-19 pandemic. These documents can be found on our website, investors.progressive.com.

Before going to our first question from the conference call line, our CEO, Tricia Griffith, will make some introductory comments. Tricia?

Susan Patricia Griffith
President, CEO & Director

Good morning. Before we open up for your Q&A, I'd like to make just a few remarks of how Progressive has responded to COVID-19 because I'm extraordinarily proud of my team and the nearly 43,000 people that make Progressive the incredible company and culture that we all enjoy.

As you know, with our incredible growth over the past several years, I've had the opportunity to welcome thousands of new people into Progressive. I take an hour to meet with new hires and talk about our core values and our culture. I sometimes struggle describing our special culture because it is somewhat indescribable. So I usually say that it becomes crystal clear when something really great happens or when there is a crisis. This unprecedented situation has allowed all of our Progressive family to visibly live our core values and concretely understand why this is such a unique place. The actions we have taken for both our employees and customers have absolutely created and reinforced their loyalty to Progressive.

Let me walk you through a few specifics. We immediately determined the needs of each of our constituents and started to develop plans forming teams to address each party. We've named the program, the Apron Relief Program, a nod to our brand icon that symbolizes protection and strength. Let me start with our employee base. We knew we needed to get the majority of our employees home to be able to work and take care of our customers. We immediately put into play our business continuity plan to protect our people. Currently, 95% of our workforce is working from home and for the employees that need to continue to come into the office, we've adjusted the workspaces to increase social distances, and we've intensified our cleaning measures.

We also knew that even though every Progressive employee has a job, that many of them have spouses and significant others that aren't as fortunate. In order to help our employees have financial confidence, we paid our nonequity

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employees a portion of their annual gain share bonus in April. We also have created and committed $2 million to The Progressive Employee Relief Fund to assist our employees experiencing hardships.

Our employees have really appreciated the communication from every level of leaders at Progressive. I send a weekly video from my home and have literally received thousands of notes from our employees. I'll share one that will give you a sense of the sentiment.

"In a time of uncertainty, I wanted to let you know your videos in Progressive have been so encouraging and uplifting. I have never been prouder to be part of our Progressive family. I bleed blue and orange, but all that we are doing during this most difficult time to help each other and others is inspiring. Thank you for taking the time to be so honest and for opening your home and family to all of us. It's refreshing seeing you and your family's experiences are similar to ours. I love your journey through the years of Progressive and how approachable and friendly you've always been." I know we try to be not what you expect in an insurance company for our customers. But I'm very grateful and proud that it is also for our employees, and I received so many of those.

The customers that we're privileged to serve need us now more than ever. We are providing premium credits of 20% to personal auto policies in force at the end of April and May, which amount to approximately $1 billion. In addition, we temporarily suspended cancellations and nonrenewals on personal and commercial lines policy, paused collection activities and have deferred some deductibles. We also provided delivery meals for our for-hire trucking customers, first responders and health care providers. I'll share one of the many comments we've received from the first responder.

"I'm so impressed with Progressive in what they are doing about the COVID situation. You guys are really helping our customers and even providing food to our table. Thank you. These kinds of things make you want to stay with the company forever."

For our communities, we've given $8 million of donations to charities focused on hunger, health and homelessness. I recently received a call from Claire, the CEO of Feeding America, and she was so thankful that we are providing meals to so many who need them now more than ever. I also recently received a letter from Gail, the CEO of the American Red Cross, I'll read a short excerpt.

"I wanted to reach out to you with a personal note to express my most sincere appreciation for The Progressive Insurance Foundation's recent and truly impactful gift to the Red Cross, empowering the continued delivery of our life-saving mission nationwide amidst the coronavirus outbreak. As our humanitarian organization continues to adapt to meet the new challenges presented by this pandemic, your generosity ensures that Red Cross is there to provide vital blood and disaster relief services to people around the U.S. who rely on us when health can't wait."

We also care immensely about our partners in helping them get through this trying time. For our body shops and independent agent partners, it's about loyalty but it's also about minimizing the disruption of our supply chain as we get on the other side of this crisis. For our more than 35,000 independent agents, we are partnering with agent associations to provide over $2.5 million in grants to help agents address new challenges presented by the virus, and we're also administering an internal fund to provide additional target relief to our agents. Additionally, we've made over $40 million available to agents by advancing performance bonus payments to more than 4,500 of our agents. While the opportune period is still open, to date, we've had over 1,600 agents opt-in for a total of $20 million.

In addition, we spent $1,000 to each of our network body shops to use as they saw fit. We saw this as another opportunity to help when they needed it most to show them how much we value them. One shop owner called in tears to tell us how much that was appreciated.

Lastly, we aren't sitting still and have our eyes focused on the future. In fact, we formulated 3 distinct scopes of work outlined under a construct we call resolve, return and reimagine.

Resolve. First and foremost, we are addressing the immediate challenges COVID-19 presents to our workforce, customers, agents, communities and other stakeholders. Return. Next, we are creating detailed plans to return business back to scale quickly as the virus evolves, lasting impacts are more understood and effects become clearer. Reimagine. Lastly, we have formed several teams under this category and the goal is to understand how the environment may shift and reimagine the next normal and how we can position ourselves to flourish.

All of this to say, our shareholders should feel very comforted that we've got this covered for the short, medium and long term. Our resilience is shining brighter than ever, and we will come out of this stronger. That, I'm confident in.

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Thank you. And now I'll take the first question.

Julia Hornack
The Progressive Corporation
Jake, please go ahead with the remainder of the script.

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Question and Answer

Operator

[Operator Instructions]

Julia Hornack
The Progressive Corporation

But -- so I'll get started with the first question, which is, can you talk about the current shifts in automobile usage and potential shifts in automobile usage as the COVID-19 restrictions are lifted, and the resulting impact to Progressive?

Susan Patricia Griffith
President, CEO & Director

Absolutely. Well, let me start with our usage-based insurance data because it is -- it continuous to evolve as the shelter-in-place orders are lifted. So we saw abrupt declines in miles driven in mid-March. And by the end of the month, the daily driving for vehicle mile traveled was 40% lower than pre-COVID baseline. And then, in the first few days of May, we started to see some broad-based increase in driving, and I'll give you a little bit more on that. So last weekend, we actually saw driving only down 14% countrywide versus pre-COVID. Now that changes and even up to this Monday, we saw around 20%, 25%.

So we are definitely seeing in states where the shelter-in-place has lifted, we're seeing driving continue to be -- to increase. And we're really following it on a daily basis. So I would say, the level of data that -- I normally don't show this level of data, but we're really literally watching it state-by-state and day-by-day to understand driving behavior.

The reductions we're seeing are almost entirely due to changes in number of trips and not the length of trips. And I think, overall, I can't tell you what will happen in the future because these times are so uncertain. But the fact that we have this knowledge of the driving behavior, I think, has been really important for us as we understand sort of long-term trends.

John Peter Sauerland
VP & CFO

I'd just add to that. Obviously, everyone is wondering how fast this comes back, does it come back to the same level of miles traveled as pre-COVID? And we're obviously trying to assess that as well. We believe there may be some trends around lower usage of public transportation over the longer term.

We also think there might be some substitution effect from air travel to vehicle travel for longer trips. And we'll be watching this carefully over time. And if we continue to see opportunities to give credits to our customers, we'll do that. But we are going to take it on a sort of a month-by-month in a geographically-specific basis. Obviously, our product managers at Progressive are a huge competitive advantage for us. While we've taken a broad swath to date, we think the right path forward is likely a more surgical approach to any further credits.

Operator

Our first question comes from Michael Phillips with Morgan Stanley.

Michael Wayne Phillips
Morgan Stanley, Research Division

Trish, you guys have done a great job over the years of -- this is a non-COVID question, a great job over the years of kind of becoming more efficient and lowering this -- your nonacquisition expense ratio. And I guess, just curious, over the longer term, how much do you see -- think is left in that to continue to improve that?

Susan Patricia Griffith
President, CEO & Director

Well, it's hard to give a certain percentage, Michael, but we will care deeply to continue to care about cost because we know this is -- it's a competitive environment that has always been 1 of our 4 pillars when we talked about our strategy of becoming consumers' #1 choice. So we'll continue to care about costs.

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And from a media perspective, we will spend media when we think it's efficient. This has been sort of a strange time because a lot of our media spend has -- is normally in live sports, et cetera. So obviously, in March, it went down a little bit because of that. But from an efficiency perspective, we are constantly thinking of ways to take unnecessary costs out of the system to be able to have competitive prices for our customers. I can't tell you the exact amount, but we talk about it all the time on my team.

Michael Wayne Phillips
Morgan Stanley, Research Division

Okay. Follow-up is just, I guess, curious to hear your thoughts on how you think the -- just the overall market, personal auto market price environment would be once we get out of COVID and kind of back to normal, maybe 2021 or whenever that is, but what you think the impact of this would be on the normal state back into the auto pricing market.

Susan Patricia Griffith
President, CEO & Director

I wish I had that crystal ball. I think all the good companies are thinking about, right now, getting consumers back, some of the money from the premiums because of the reduction in driving. Again, we're seeing that reduction go to less levels than we saw initially in March, so we'll price to that. And one of the reasons that we did credits was because of the fact that we care a lot about segmentation and making sure that all our variables that we use were priced right.

And so we didn't want to kind of mess up that. And I think all the good companies will do that, and we will be competitive. And we will think about all the things that are important in terms of continued segmentation. So even during this time, whether it's on the personal lines side or the commercial lines side, we have been focused on continuing with our product models, understanding rate to risk, understanding our cost structure, making sure our brand has evolved. And all those things together, I believe, I can only speak on behalf of Progressive. I think we will come out of this stronger and be able to continue to capture share as we've had in the last 3, 4 years.

Operator

We have a question from Mike Zaremski with Crédit Suisse.

Michael David Zaremski
Crédit Suisse AG, Research Division

Yes. In the last earnings release, and I believe in the Q2, you talked about a couple hundred thousand policyholders electing the billing leniency option as of March 31. Do you expect that number to increase a lot? And I assume that number was correlated with the kind of uncertain -- I can't believe -- I can't recall what you called it, but kind of maybe the potential bad debt expense you also charge -- you took in your March results.

Susan Patricia Griffith
President, CEO & Director

Yes. So a lot of that is from the leniency. And then we -- through March 15, we didn't cancel for nonpay. So that -- we will expect that to increase. We're not going to share the exact amount. But here's what we're really trying to do and I think this is an important piece, Mike. In John Murphy's CRM organization, they're really working closely to personalize it with each customer. And we're trying to make sure that if they couldn't pay for a certain period of time, how do we get them back on track?

We want people to be legal. We want people to have insurance. We want to be really flexible with each and every customer that, that happens to. So we have those 200,000 customers that the payments will start to come due, we'll work with them to try to design coverage that they're able to stay insured and stay insured with Progressive. And John Murphy's team is working literally many, many hours and many days just to think about this and his team.

And in fact, the CRM organization has been quite busy because we're doing a lot of personalization, a lot of consultation with our customers at this time when they really need to understand how they can stay legal. And we actually have a couple hundred people from our claims organization who had worked at CRM at one point moving over to be able to counsel those customers. So retention is going to be as important as ever.

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We don't know how many people we will lose or that won't have insurance for a while. There's so many different variables in terms of what is happening in our customers' lives. But our goal is to keep as many as we can and we are going to do that as much as we can, and then put so much work into that to make sure that our retention stays the same.

John Peter Sauerland
VP & CFO

Mike, I would just add that, clearly, the 200,000 is through the end of March and that leniency goes through May 15. So we won't cancel anyone for nonpayment or not renew them through May 15. Starting May 15, customers will be getting bills that will be for the balance outstanding for the period, in which we've granted that leniency as well as the upcoming months. So we will be working very hard, as Tricia [indiscernible] -- our customer relationship management organization to make sure we keep those customers.

But if you're trying to estimate what bad debt write-outs would be through April, through May, that's a fair thing to do for sure. We're not providing numbers in terms of additional people that we are providing leniency to at this point, but it's safe to assume that it is more than the 200,000 as of end of March. And it would be a difficult challenge, frankly, to us to make what portion of that we won't collect. This is unprecedented, of course. We normally have bad debt expense routines on exposed premium. Those really don't apply in this case. It's very different situation. So we will be making some estimates. And the good news is, since due to our monthly releases, you will have clarity around that for April in just a couple of weeks.

Susan Patricia Griffith
President, CEO & Director

May 20. Yes. I mean we've watched the hardships kind of unfold and so we care a lot about that. I have to tell you a story that just came to me yesterday, and this is back to my culture comment, Mike. So a woman from CRM was talking to one of our customers that couldn't pay for May, and we're talking -- she was talking through leniency. And our CRM rep, and I don't always want this to always happen, but I think this is a beautiful story. Our CRM rep paid her premium for May, out of her own pocket, which, to me, is like, that's an incredible tribute to our culture and having somebody listening to a customer and then doing the right thing. Now of course, so I don't want that to happen all the time, but it's an extraordinary example. But I think it's a good example of our culture, and we're going to do whatever we can to make sure that we understand the hardships going forward. And the most important thing is to make sure that people stay legal and have insurance, and we help them at Progressive.

Michael David Zaremski
Crédit Suisse AG, Research Division

Understood. That's helpful. And it's amazing that your colleague did that. Lastly, Tricia, I think you mentioned the gain share factor earlier. It's clearly a very important metric for your colleagues when they kind of think about their potential bonuses. It's also been an important metric for investors to gauge Progressive success. And I don't think it's disclosed anymore. Kind of curious, why is that the case?

Susan Patricia Griffith
President, CEO & Director

We disclosed it publicly because it was correlated with our dividend policy, so we've had it internally forever. When we changed the dividend policy to have that reflected in our gain share score as a piece of the formula, we shared it publicly. So we started not doing that when we changed the dividend policy last year. So what we did this year was we looked at the gain share for the quarter. We took a conservative estimate.

So we didn't go to the full -- a number that we thought it would be basically to make sure that we gave the employees that needed it most, some of their bonus that we believe is not at risk. Of course, again, we don't know what will happen at the end of the year. Lots of things can happen. But yes, we won't share the gain share publicly going forward, especially since we have monthly earnings release. And we've also even gotten more disclosures on that in terms of CATs and our approach to how we look at CATs on a monthly basis.

Operator

We have a question from Elyse Greenspan with Wells Fargo.

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Elyse Beth Greenspan
Wells Fargo Securities, LLC, Research Division

My first question is on new business. When you guys reported your March results, you had pointed to a good slowdown kind of in the back half of the month as individuals weren't shopping on even during kind of the COVID situation. Have you seen any change in April? And then, I guess, maybe combined with that question because it's also a new business, we've seen others in this space kind of elect to give their refund related to COVID in different ways, right? Some just sending money in the mail and some waiting until business comes up for renewal. Do you think that, that kind of difference of kind of the refund, when it's given, will also have an impact on new business? Not just for Progressive, maybe that's more just an industry comment as well.

Susan Patricia Griffith
President, CEO & Director

Those are great questions, Elyse. So we have seen -- and I'll have Pat Callahan add in a little bit on this and, John Barbagallo, if you want to as well because it's a little bit different during -- depending on the business marketing tier in commercial. But we have seen some uptick in shopping. Usually during disruptive times, you'll start to see that. Again, there's so many variables going on. So we know that a cohort of people in America have gotten some portion of their tax refund or their tax benefit from COVID.

We've always seen shopping in times like this. But we're watching it closely on the private passenger auto side. And in commercial, it's very different if you're talking about business auto versus trucking, and I'll have John Barbagallo talk a little bit about that. But the uptick hasn't been extraordinary, but we are seeing it. So we're taking every data point to understand how -- during this disruptive time, we can have competitive prices.

Pat, you want to add in some more detail on that?

Patrick K. Callahan
President of Personal Lines

Sure. We've definitely seen a rebound from the immediate lows during the shutdown or the shelter-in-place. We have seen a different recovery by channel as well, where we've seen a faster recovery on the direct side of the business. Then we have an agency because we expect that agents' offices are still somewhat disrupted, and we do see just a lower recovery from our agency channel.

Susan Patricia Griffith
President, CEO & Director

Yes. John, do you want to -- John B.?

John Andrew Barbagallo
President of Commercial Lines

Yes, sure. Elyse, on the small business side, the demand function is pretty well correlated with what's going on in the economy. So we saw a very definite demand shock and similar to personal auto, we are starting to see that come back nicely, but are still on a year-over-year basis below where we would expect to be, especially given what is normally a peak season. This is somewhat seasonal business. But we are seeing recovery. The other thing is -- and Tricia alluded to this. Different businesses were affected very differently by COVID.

So I'll give one example in our trucking space where we have good telematics data through our Smart Haul Program. About 1/3 of our truckers actually saw an increase in miles driven and then they tend to be kind of drive freight, agriculture, livestock hauling. But about 7%, 8% of them completely shut down. So if you're an auto haul, you're not real busy right now. And so that -- we monitor kind of not only kind of on the state level, on a BMT level, but we even go down through kind of industry class codes, and we see things very differently. And then, we'll respond to that as the data continue to emerge.

Susan Patricia Griffith
President, CEO & Director

And for your question on sort of policy credits on our customer accounts. We -- obviously, we have those April and May, and we're always assessing. I went through the UBI data. We're assessing that more now on a state-by-state basis

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because of the different shelter-in-place orders and what will happen. And so going forward, I think it will be key for us to do what we do best in terms of by state, by channel, by product to understand the differences that have happened from COVID-19 and then react to those. So it's hard to say what will happen from an industry perspective because I think different companies handle it differently. But we'll go back to -- I'm really trying to understand it on a more granular level depending on the state, the channel, the product.

Elyse Beth Greenspan
Wells Fargo Securities, LLC, Research Division

Okay. That's helpful. And then my second question, you guys gave some good data in terms of seeing miles driven right down around 14%. Last weekend, I think you said, relative to kind of the pre-COVID levels and then Monday, 20% to 25%, right? So still varying, but not down as much as, I guess, like the tail end of March. Did you see April kind of in line with the end of March? Or did you start to see, I guess, some of this -- not like return to pre-COVID levels, but a little bit of a bounce back in driving levels? Did you see that towards the end of April? Or is this something that you just started to see in May?

Susan Patricia Griffith
President, CEO & Director

That bounce back started about mid-April, mid- to late April started the bounce back to about 25%. And right now, we think we're between 20% and 25%. That 14% was specifically just to kind of show you like the detail that we look at for a weekend. So take Monday's date of this past Monday, that was 21%. So we're right around that point. And again, it varies widely depending on the states, in terms of their restrictions. So if you look at in New York, it's very different than in Georgia. And so that's really how we're looking at it.

You can -- The New York Times puts out sort of the -- what's happening with restrictions being lifted, and we look at that, and it seems to mirror some of the things we see. And of course, we don't have all the data that's in there. But we believe that's a correlation. So we think this next 2 weeks, 3 weeks will be really interesting because so many states are starting to live, starting to open up, and of course, depending on what happens with cases and testing, that may change.

But I mean, just anecdotally, I was talking to Dan Mascaro, our Chief Legal Officer, on Monday, and he went to hike in the Metro Parks in Cleveland, and he said it was so crowded. So you start to see the rare sunshine in Cleveland and people get out and they start to drive.

And like John said, we have a lot of theories that we play around with on my team to think about. Okay, this summer, will people -- will you drive to grandma's house or to wherever versus fly? Could there be an increase in those longer trips? And of course, that has different frequency as well. So yes, I would say, anywhere between right now, we're seeing 20% to 25%, but we started to see that mid-April.

Operator

Our next question comes from Meyer Shields with KBW.

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

I had a question about the premium median fees. Because I remember in the past, tracking nonpayment of premium was itself an underwriting tool. And I'm wondering whether that visibility is being dampened by obviously, I think, necessary great period extensions.

Susan Patricia Griffith
President, CEO & Director

I'm not sure if I understand your question. John, do you want to take that?

John Peter Sauerland
VP & CFO

I can try. And my -- if I'm off base on what you're trying to get to, please redirect. So we do perhaps look at payment patterns on current and incoming customers as a portion of a set of data that we look at when we are underwriting both new business as well as renewals. Is that the direction you're taking the question?

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

Yes. In other words, is it less predictive now?

John Peter Sauerland
VP & CFO

Yes. So that's a great question. And similarly, with our snapshot data, patterns have changed dramatically relative to fairly normal and very predictable data sets over time. So yes, that will be a challenge for us. We are making exceptions in our underwriting today around new business, especially where we are. We can pull data sets from common sources that the industry contributes to, to look at previous insurance ownership patterns.

And yes, that's been disrupted. And in the near term, I think it's fair to say that there would be a period where we probably have to exclude it over the longer-term run. I think the snapshot or vehicle usage-based data will fall into the same camp. So it's really difficult to read right now. But you're right. That is an underwriting variable that we have used, and I would say, in the interim, we are redirecting a bit. But over the long term, we think we will continue to use that as -- the underwriting we've done, we think, has been a huge benefit to us in terms of avoiding new business that we probably aren't going to price accurately.

Susan Patricia Griffith
President, CEO & Director

Yes. Sorry about that, Meyer. I wasn't sure. But yes, I think we'll continue to use that. And I think it's also only one variable that we use when we look at the sort of holistic rate to risk. But again, during these times, there's going to be a lot of data that will skew things, that we'll have to kind of understand as we think about pricing and risk going forward.

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

I wasn't clear, so that's very helpful. The second question, as we're seeing the claims frequency decline, is there any offset in terms of maybe the gap between pre-virus average speeds and how people are driving that?

Susan Patricia Griffith
President, CEO & Director

I've seen a lot of data around speed and anecdotally, driving here today, there was a lot of people that were going really fast because there weren't very many on the highway. So I kind of made a note of that. What we've observed is -- so we look at hard brakes per 100 miles driven and the percentage of trips with time with their phone in their hands. We've seen that increase about 10% to 15% after the post COVID-19. So it could suggest that the miles are riskier. We are not seeing that in the claims data yet. So we're going to be watching that closely.

Operator

[Operator Instructions] Our next question comes from Brian Meredith with UBS.

Brian Robert Meredith
UBS Investment Bank, Research Division

Trish, a couple of questions here for you. First, I'm curious -- I know it's a real new product here for you, but the Atlas product, does it have business interruption coverage in it? And if so, do you have virus exclusions in there as well? And does this situation at all make you think about the design of your product and potentially changing it?

Susan Patricia Griffith
President, CEO & Director

Yes. So I think what you referred to is our BOP product. Atlas is sort of the system behind it. Yes. Well, so for our BOP product, we have less than 200 of those policies that have business interruption insurance. And we have an exclusion for damages caused by virus or bacteria in those. So we use the ISO verbiage. So we feel like our risk is very, very low, less than 200 policies, and we have the exclusion.

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But I do want to say, as long as we're talking about this, that as a leader in the U.S. P&C marketplace, we are very actively involved in ensuring the COVID pandemic doesn't result in legislative or regulatory actions that permanently damage the voluntary insurance market and slow our nation's economic recovery. The U.S. market's heavily regulated, and we want to ensure carriers provide essential products that comply with the applicable regulations.

So when they're developing and filing these programs, the voluntary insurance market relies heavily -- we rely heavily on contract sanctity, and that's a really important piece that we believe in. And we have to ensure that so that we have adequate prices for all included exposure. So when you think about the economic damage that is tragic for small business, we don't believe that fabricating coverage that doesn't exist on insurance policies is the right solution for this problem. That said, we have a little exposure, if any, but as an industry, we feel very passionate about the fact of contract sanctity.

Brian Robert Meredith
UBS Investment Bank, Research Division

Great. And then another quick question here. With respect to your homeowners product, I'm just curious, how do you deal with the situation where the insurance payment is tied with the mortgage, and with respect to mortgage forbearance, so it may not be your decision with respect to when ultimately the insurance payment comes in? Could be that just the bank extending mortgage forbearance.

Susan Patricia Griffith
President, CEO & Director

Yes. I don't know if I have a specific answer to that. Normally, when it's part of the mortgage, it's less likely to not be paid because it has to be part of that. And so, yes, so it's just a pass-through.

John Peter Sauerland
VP & CFO

Yes. It's generally paid upfront in the mortgage. So while the forbearance might postpone payment to the bank, generally speaking, the insurance has been paid upfront in that situation.

Brian Robert Meredith
UBS Investment Bank, Research Division

No, I get that. But I mean, if it's part of -- you would get -- you wouldn't necessarily -- if the mortgage forbearance happen, you may not necessarily get your premium?

John Peter Sauerland
VP & CFO

Well, the premium, again, is, generally speaking, paid upfront. So then the payment from the customer to the bank, the bank would be, in that case, short on the money because the bank is generally afforded the entire insurance premium to us at the inception of that policy.

Brian Robert Meredith
UBS Investment Bank, Research Division

Got you. So the bank will continue to pay you?

Patrick K. Callahan
President of Personal Lines

[indiscernible] Right.

Susan Patricia Griffith
President, CEO & Director

Yes. Pat, go ahead.

Patrick K. Callahan
President of Personal Lines

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Yes. They would have collected it via escrow and put a year of homeowners insurance aside exactly for these types of either late payments or forbearance. So we're [hitting to pay the new bill] the escrow directly.

Brian Robert Meredith
UBS Investment Bank, Research Division

Perfect, perfect. And just one quick one. How do you think about UIM in these types of situations?

Susan Patricia Griffith
President, CEO & Director

Well, we just have to watch it. We have a lot of history, but no history is like this. And so we look back in times like when -- during the financial crisis, et cetera. And so we'll just have to follow the trends and then react to them.

Julia Hornack
Investor Relations Contact

Yes. If you could let Yaron Kinar into the next question, please.

Operator

Thank you. Mr. Kinar, your line is open.

Yaron Joseph Kinar
Goldman Sachs Group Inc., Research Division

A couple of questions. One, you mentioned that frequency has started to pick up from its mid-March to mid-April trough. Have you seen any change in severity corresponding to that change?

Susan Patricia Griffith
President, CEO & Director

Yes. The severity has been a little bit different for us. First of all, we report incurred trends instead of paid trends. So for frequency, the incurred is more responsive. And for severity, both incurred and paid are more impacted by sudden changes in data. And so that may not be a true reflection of our trends. So my opinion on severity, right now, I can't necessarily tell, partly because of the incurred counts distort the severity trend.

Let me give you an example. So our property damage for the quarter was about 14% on the severity trend. We think about 9 points of that had to do with trends that we've been seeing in the past, total loss repairables. What we think -- the other 5% is really applied to supplement dollars that came in, in March from prior months, subrogation dollars from other companies from prior months. And when you apply those to March, they increase the incurred severity. So we think that trend is a little bit different during the times where we have less incoming volume because of the mix change. So we do think that it distorts it a little bit.

John Peter Sauerland
VP & CFO

I'm sorry. It would distort that the bodily injury severity even more generally speaking, as our inventory ages, our reserving factors are such that we increased the expected cost of an injury claim the older it gets. And we put those dollars into the incurred loss dollars each month, and we're dividing by the incurred accounts for that month. So to the extent more -- the volume coming in is lower and we continue to have inventory aging, all else equal, our bodily injury incurred severity trend is going to look higher.

Susan Patricia Griffith
President, CEO & Director

Right. So if you look at the quarter for bodily injury, it was about 9% and through February, was 5%. We know that in March, fewer incoming, which increased the age, like John said, there were more attorney, but less lawsuit. So we think, without average age increasing, incurred severity would be better than February.

Yaron Joseph Kinar
Goldman Sachs Group Inc., Research Division

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Okay. So maybe I'll try off for a different angle. As miles driven or increase, your number of trips is increasing again from the mid-March trough, are you seeing speeding decreasing and maybe distracted driving decreasing?

Susan Patricia Griffith
President, CEO & Director

Well, I talked about the hard braking and the phone in hand. So we have seen that increase, but -- about 10% to 15%, but we have not seen that result in greater claims costs.

Yaron Joseph Kinar
Goldman Sachs Group Inc., Research Division

Okay. And then my follow-up is on new business. I think you mentioned in the Q that you saw a significant drop-off in new business in even the direct channel and then the COVID environment. Has that surprised you? And would you expect that to maybe pick up as people -- maybe as the environment stabilizes?

Susan Patricia Griffith
President, CEO & Director

Yes. It didn't surprise us. We didn't really know how deep the initial decrease would be, but we've already seen it pick up from pre-COVID and specifically in the direct channel.

Operator

Our next question comes from Stephen Mead with Anchor Capital Advisors.

Stephen Mead
Anchor Capital Advisors, LLC

What do you see in terms of post-COVID from the standpoint of distribution, either direct or through the agency channel? And do you see that this period is going to, in a sense, hurt the agency side of distribution? And what kinds of adjustments are you looking at?

Susan Patricia Griffith
President, CEO & Director

Yes. So we are a big advocate of the agency channel. It's half our business on the auto side, more so on the commercial side. Part of it -- part of the decrease and then a little bit slower, the increase in the agency channel, it just has to do with a lot of times, people want to go in, sit knee to knee, talk with their agents. On the small businesses, a lot of the society, what's going on with COVID-19, but we are very supportive. And that's why we've been trying to fund grants for the industry and then grants for our individual agents that call us. So we -- because we obviously have social distancing, our sales reps are making calls daily to our agents, making sure they have what they need. We responded to get some of them computers and printers and things they need to work out of their homes. So I think they will try to get back to business as soon as the shelter-in-place are lifted in their areas. I can't tie it if there'll be people that don't actually last through this. We certainly hope they do and we're going to do everything we can to support that channel and all of our 35,000 independent agents.

John Peter Sauerland
VP & CFO

I'm sorry. On the direct side, as we've pointed out on the Q, advertising was up a lot for January, February, I believe, 28%. Down a bit in March, and Pat can maybe comment a bit more. We are a large advertiser on live sports and, obviously, spend there dropped through virtually nil overnight. And so that is part of the reason our advertising spend for March, as we reported, was down 2% relative to the previous March. That said, we desire to grow in the direct channel and we'll spend to what we call allowables, and I think are continuing to find opportunities.

Patrick K. Callahan
President of Personal Lines

Yes. I would build on that and just say that in the direct side, specifically, we are constantly evolving our media mix and testing and measuring into what's efficient and effective driving demand. So while we did see that trough, as folks appropriately so focused on other things than car insurance, we are shifting to some more over-the-top and streaming

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services as people spend more time at home, some more digital than necessarily the mass media, and finding select programming that we see significant spikes in viewership that we want to have Progressive's brand positioned well.

Now on the agency channel, I think everything that Tricia said was absolutely spot on. The other thing to recognize is that agents, for the most part, are small businesses, and the disruption to small businesses can't be overestimated. And we do expect that the agency channel will come back just as strong as it was previously. And I think some of the digital capabilities that Progressive has invested in to help agents both service customers, and in the case of our snapshot usage-based insurance program, control their costs or match their cost to their driving, will potentially position us well to benefit from that rebound in the agency channel over time.

Susan Patricia Griffith
President, CEO & Director

And the great part of our CRM organization is that they take service calls on behalf of the agents. And so even if they're at home, we're able to talk to those agent customers through the same sort of situations as our direct customers.

Stephen Mead
Anchor Capital Advisors, LLC

Okay. That's helpful. And just shifting gears. Any change or what's your sort of view of the investment side of your portfolio in terms of asset allocation or your approach to the fixed income side of investment? I'd be curious what you're doing, if anything.

Susan Patricia Griffith
President, CEO & Director

Yes. I'll let Jonathan Bauer, who's our PCM President, talk a little bit more about this, okay? But we've talked a lot about their ability to protect the balance sheet and to get a total return that is compared to our index group. So that has not changed. Our philosophy on investing hasn't changed. Jonathan has been able to take advantage of sort of what's been happening in the economy, and I'll let him give you a little bit of detail of -- and when I say risk, it's slight any risks that we've added during this situation. John?

Jonathan Bauer;Chief Investment Officer

Yes. Thanks very much for the question. So as Tricia mentioned, for us, the focus is always, number one, to protect the balance sheet so that the operating business can grow as fast as it wants to grow. And then after that, to earn the best total return that we can. We are fortunate to come into the year with a very conservative portfolio. The Group 1 measure that we use for our riskiest assets, which is things like stocks and high-yield bonds, was at its post-crisis lows.

So when this started to happen in late February into March, we began to invest in things, as you saw in the 10-Q, high-quality corporate bonds. The municipal bond market, which we, due to tax changes in the corporate tax rate, had not found very attractive over the last 2 or 3 years. As that market faced some outflows, we were able to buy some very high-quality municipal bonds.

And then sprinkled in some securitized products as well. So we decided to add within what we would label as high quality and the fixed income throughout the month of March, starting in late February. We think our position is still incredibly conservative in our portfolio, but we think that we got some great total return opportunities. And I think we stand in a really strong place as we head in through the second quarter.

Operator

Our next question comes from Phil Stefano with Deutsche Bank.

Philip Michael Stefano
Deutsche Bank AG, Research Division

Yes. I wonder if you could talk a little more about the operating expenses. Maybe we can put aside the advertising spend because it feels like that's been pretty well-covered. But are there discretionary expenses in the business or levers that you can pull down at a time like this to maybe help support the expense ratio improvements that may come back next year? Or at least, to offset some of the increases in allowance for doubtful expenses or other things like that to maybe neutralize the upside expense pressures you might be seeing?

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Susan Patricia Griffith
President, CEO & Director

I think we always have different levers. And I think you've seen in the past when things that have happened where we've gotten closer to our 96. We've done that. We're really not in that position now because of the margins. And like we talked about, we have the expense for the 0.8 points for the doubtful accounts, and we'll watch and see how that continues to impact us through April. We're always looking at expenses, how to do more with less, et cetera. This is an odd time. But I think once we get through this and things are back to normal and claims frequency is back to normal, we will continue with our expense management.

A lot of this, we've learned about how many people work from home. And so initially, before the COVID happened, we probably had maybe about 10,000 of our employees of our 43,000 employees working from home. Now we have 95%. As we think about returning, there could be an advantage for real estate because many of those people will be very efficient and effective working from home, may be better for them.

So there's all the things like that, that we will look at. And when I talked about that sort of that third tranche of how we think about the future, we have 5 different teams working out what we call reimagine. And one of those is based -- is it really talks about expenses and people and the workforce. And so we will look at all these things that happen, and then figure out how to come out on the better end.

As an example, when I was -- when during the financial crisis, I was the President of Claims. And we have the same situation where the frequency had diminished during that time frame. And that's when we start learning about being able to do things virtually, that you didn't have to be sitting necessarily in every office. And we really started to consolidate and have right file, right rep, right time. I believe we will learn a lot from these to continue to be more efficient, and we care about that immensely.

Philip Michael Stefano
Deutsche Bank AG, Research Division

Got it. And switching gears a bit to thinking about the ridesharing business. Have there been any interesting lessons that have come out of the decline in frequency broader? Had the economics of the ridesharing business changed at all?

Susan Patricia Griffith
President, CEO & Director

I have to let the people that run the ridesharing companies talk about that. We continue to be very happy with our relationships. And as you saw, we had a decrease in net premium written of about over $110 million on the commercial side. That wasn't as surprising because we look at miles driven during a given policy period, and then we kind of true that up with actual miles.

And it's just clear right now. And in fact, those companies are saying, you shouldn't necessarily drive. So I think we'll watch and see if that comes back. And it really all depends, I think, on how quickly, once the shelter-in-place orders are lifted and people feel comfortable -- and more importantly, a vaccine. So I can't predict the future, but I'm not surprised that the decreases based on the restrictions in the states.

Julia Hornack
Investor Relations Contact

Great. So Jake, we'll go ahead and take our next question from Mike Zaremski.

Michael David Zaremski
Crédit Suisse AG, Research Division

My question, and if I missed this, just please tell me, was on telematics. Are you seeing any changes in adoption rates? And also, does your telematics data give you any kind of potential competitive advantages with filings as we kind of come out of this in certain states that might allow you to bake in telematics data to kind of be more precise or agile in your filings in the future?

Susan Patricia Griffith
President, CEO & Director

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Pat, you can weigh in on this, and John B., even on your -- with your Smart Haul, but we've seen the adoption. I think people are more willing to adopt UBI because they realize they may be driving less, and that would be a good program for them. So we're hoping that, that continues because we believe this is a really powerful variable. There are some states that we are not able to use it, but those -- it's only a few. So we'll continue to have usage-based insurance, and we'll continue to learn from it. So we're not sitting still and saying we're going to stop at UBI 2.0. We're going to continue to evolve that as we do everything.

On the commercial side, it has been great. Like John Barbagallo said, we're able to understand that 1/3 of our truckers are driving more, some are driving none, and we're able to work with them to kind of get through this. And we're able to help support those truckers and give them the discounts they deserve with that program. Or we're continuing to evolve that program as well with something we call PROVIEW that we'll be rolling out in this quarter. So yes, we are very bullish on telematics across our entire company on both the private passenger, auto and commercial side. So do you have anything to add, Pat?

Patrick K. Callahan
President of Personal Lines

Sure. On the personal lines side, exactly as you mentioned, that we have a lot of monitoring that's in place. And we've seen some survey data that indicates that people are now more open to usage-based insurance. So that potentially will drive adoption and help primarily in the agency channel where we still lag behind our direct channel adoption.

But beyond that, we've also seen a higher take rate within our quoting funnel. So not surprising that people are looking to think a little bit more about getting a benefit from driving less. And if they are thinking and looking forward to working from home for an extended period of time, they may think of Progressive, as a leader in usage-based insurance, as a good choice for them as they think about their future insurance needs.

Now from the state level filing perspective, one of the toughest decisions we have to make is with the uncertainty, how we're pricing policies on a going-forward basis. And I think Tricia highlighted some of the detail-level data that we have. Our Snapshot program gives us hundreds of thousands of daily monitored drivers across the country. And what that gives us at the state and DMA level is visibility into not only how is the recovery actually taking place, but then correlating those miles traveled with our actual claims data.

And that's a really important thing to understand because the ramp down of miles was so quick that we saw them highly correlated when they ramp down. What we need to watch is on the recovery side, does the time of day and day of week of those vehicle miles traveled correlate with higher frequency events, so that we can price policies accurately going forward.

Susan Patricia Griffith
President, CEO & Director

Thanks, Pat. And John, will you talk a little bit about Smart Haul and...

John Andrew Barbagallo
President of Commercial Lines

Yes. So Mike, I would say on the commercial side, we're still fairly early in the adoption phase of both of our telematics products. Smart Haul has been out there longer. It has been very well-received and had been doing [Europe] very well. I can't, at this point, say, has the adoption rate increased due to COVID. But I think one of the things we're learning with this pandemic is truckers are affected very differently by what's happening. And this actually gives us the ability to kind of proactively have a conversation with them about making a usage-based adjustment to their rate. And we think that's something that has marketing power beyond just what we're going through right now. So we're excited about that.

SNAPSHOT PROVIEW, very early in the adoption phase. That's more than just telematics-based pricing that brings with it a host of additional services. We're pleased with how that's going as well. Of course, overall demand has dropped, as I mentioned earlier. But again, nothing there to suggest it would interfere with the adoption on that program. But again, I couldn't tell you it's going to accelerate at this point in time. But we'll be curious to see how that plays out.

Julia Hornack
Investor Relations Contact

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That would appear to have been our final question actually. So that concludes our event. Jake, I will hand the call back to you -- back over to you for the closing script.

Operator

Thank you, ma'am. That concludes The Progressive Corporation's First 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.

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