

Progressive: Frequency benefits on the decline?

Progressive's January results were strong. The firm reported \$0.80 in operating EPS, up 68.2% YoY, and recorded a headline combined of 86.3% (down 5.8pts YoY). Progressive's results continue to reflect lower auto accident frequency, and strong underwriting performance continues to offset weakening NII results as interest rates remain low.

The key takeaway from January's result is that while Progressive continues to benefit from [low accident frequency](#) – with the company-wide AY ex-cat loss ratio down 7pts YoY – frequency benefits could be on the decline. The carrier reported 4.2pts of unfavorable development relating to more December claims being reported in January than previously anticipated. Will future months compensate with fewer reported claims, or is frequency on the rise?

Additionally, while PIF growth continues to excel in its direct personal auto channel, growth now appears to be stabilizing. Direct-to-consumer offerings look to remain popular given current pressures on social interaction, a tailwind that companies like [Root](#) and [Metromile](#) should be benefitting from.

Segment highlights:

Personal auto continues to perform well with the current low-frequency backdrop, both on margins and growth. The segment had 11.3% YoY PIF growth (1.3% sequentially) and a combined of 87.3%, down 5.5pts YoY.

Commercial lines continue to grow premium meaningfully at 26% YoY. Progressive [recently announced the acquisition of Protective](#) to further expand into long-haul trucking. The segment recorded a combined of 82.3%, down 7.1pts YoY.

Property registered catastrophe losses amounting to 10.1pts. The segment had a combined ratio of 80% (down 6.2pts YoY) and NWP growth of 15.9%.

Exhibit: Progressive earnings release summary

Source: Company reports, Inside P&C

(\$mn)	Progressive (PGR) monthly					
Period:	Jan-20	Oct-20	Nov-20	Dec-20	Jan-21	VAR
Operating EPS.	0.48	0.46	0.64	0.71	0.80	68.2%
NWP	3,606	3,795	2,958	2,789	4,104	13.8%
NII	84	73	75	73	67	(20.6%)
U/W income	283	288	422	468	541	91.3%
LTM ROE	29.0%	30.8%	32.4%	37.1%	37.6%	8.6pts
Cats	0.7%	2.7%	0.1%	0.1%	0.6%	(0.1)pts
PPD	2.2%	1.3%	0.5%	0.3%	4.2%	2.0pts
AY ex-cat LR	67.9%	68.4%	65.8%	63.5%	60.9%	(7.0)pts
Loss ratio	70.8%	72.4%	66.4%	63.9%	65.7%	(5.1)pts
Expense ratio	21.3%	20.2%	20.2%	21.3%	20.6%	(0.7)pts
Combined ratio	92.1%	92.6%	86.6%	85.2%	86.3%	(5.8)pts

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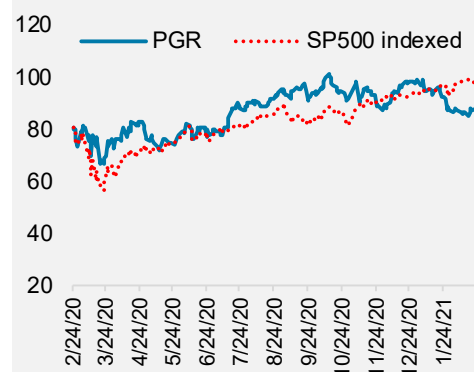
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Market cap (\$M)	51,374.7
Price	87.8
BVPS	28.26
Tang. BVPS	27.19
Price/Book	3.1 x
Price/Tang. Book	3.2 x
52-week High/Low	101.38 / 66.55
Dividend Yield	0.5%
ROE	38.4%

1YR Price Performance



Source: SNL, Inside P&C

Looking past the month, 2021 follows a strong year for Progressive which had a full year combined of 87.7%, roughly 6pts-7pts below its historical average and personal targets.

That said, interest rates have fallen, serving as a headwind to earnings. The current book yield of 1.9% is down from 3.3% in mid-2019.

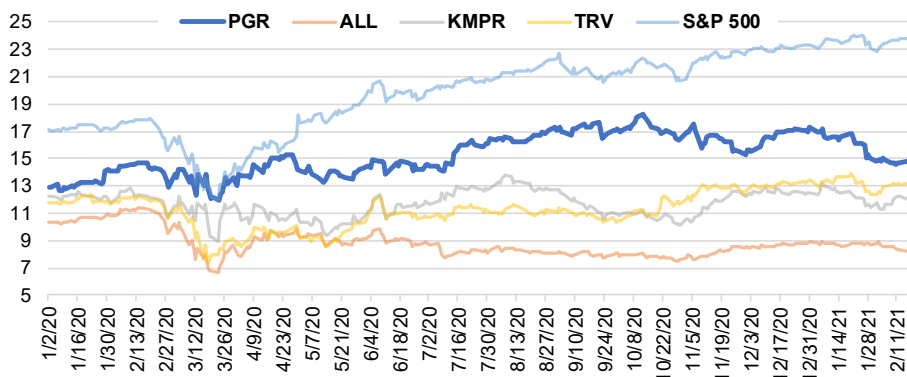
We expect margins to compress as frequency trends normalize and carriers continue to compete for share. This means Progressive will need to maintain strong profitable growth to avoid treading water on earnings.

Key trends we're focused on include [increased omni-channel competition](#) (e.g. Allstate's pivot to direct, acquisition in independent agency). For the industry, Progressive's results remain suggestive that near-term earnings and capital levels will enjoy a benefit that will provide a timely offset to any developing Covid-19 exposures.

The chart below shows Progressive maintaining its multiple vs. the peer group over 2020 and expanding it over time vs. the peer group. We might likely be running into a valuation headwind on Progressive as investors perceive rate hardening on the commercial insurance side as having some legs while anticipating increased competitive pressure on the personal auto side.

Exhibit: Progressive P/2021E against peers (1/1/2020 – present)

Source: FactSet, Inside P&C



Personal auto: Frequency on the rise?

Progressive's personal auto growth and margins have performed exceptionally well given the Covid frequency backdrop. The segment had a combined of 87.3%, down 5.5pts YoY, and PIF growth of 11.3% which was led by the direct channel.

Exhibit: Personal auto headline results

Source: Company reports, Inside P&C

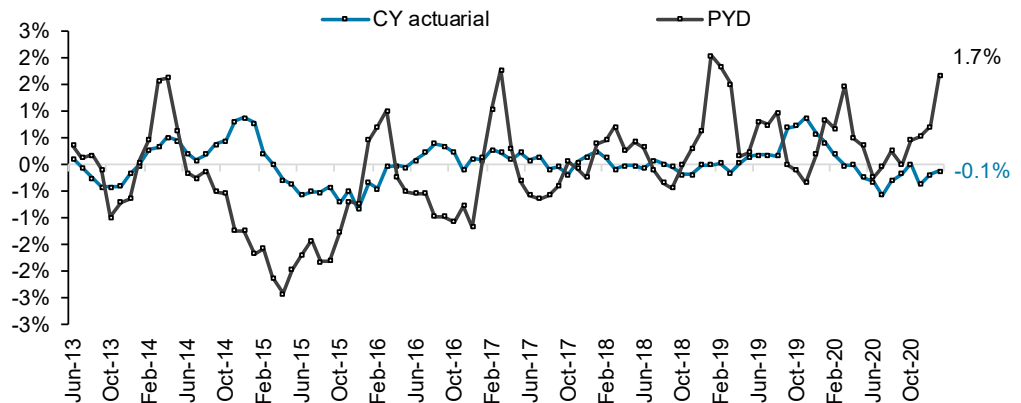
Personal (\$m)						
Period:	Jan-20	Oct-20	Nov-20	Dec-20	Jan-21	Var
PIF (k)	15,018	16,424	16,497	16,498	16,719	11.3%
NEP	3,031	3,056	2,401	2,245	3,392	11.9%
NEP	2,974	3,229	2,584	2,588	3,251	9.3%
Loss ratio	71.7%	71.5%	68.6%	65.9%	67.1%	(4.6)pts
Expense ratio	21.1%	19.9%	19.6%	20.7%	20.2%	(0.9)pts
Combined ratio	92.8%	91.4%	88.2%	86.6%	87.3%	(5.5)pts

While January marks a continuation of frequency benefits, the carrier reported 4.2pts of unfavorable development relating to more December claims being reported in January than were anticipated in its year-end reserves. Will future months compensate with fewer

reported claims, or is frequency on the rise? Going forward, calendar year adjustments will be key to watch.

Exhibit: Progressive three-month moving average PYD/CYD

Source: Company reports, Inside P&C

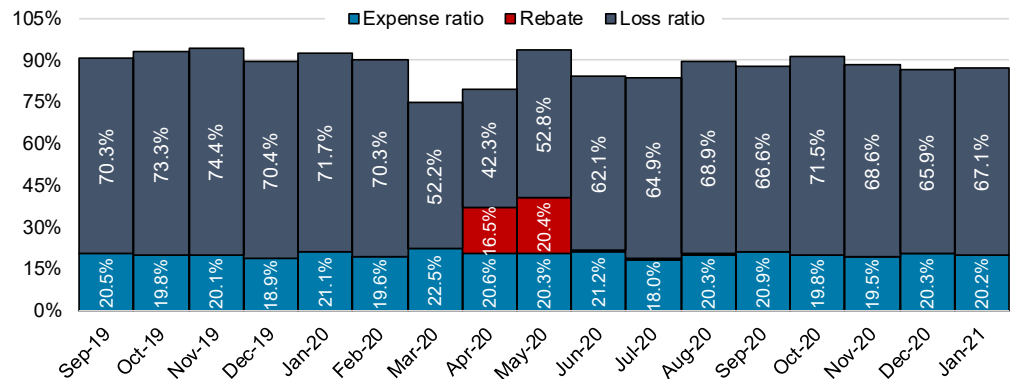


For context, [our analysis on auto-accident frequency based on state DOTs](#) pointed to a 20% and 15% reduction in January and December, up from a low of 51% in April. Benefits appear to be stabilizing, but further vaccination will likely affect current trends.

Progressive's impressive margins are rooted in its loss ratio (67.1%, down 4.6pts YoY) which has benefitted from lower accident frequency. In April 2020, loss ratios within the auto business reached a low of 42.3%. Progressive provided rebates earlier this year (April/May) to counteract the benefits of lower accident frequency. January is the first month since April of last year to report \$0 of policyholder credits.

Exhibit: Personal auto combined ratio breakdown

Source: Company reports, Inside P&C



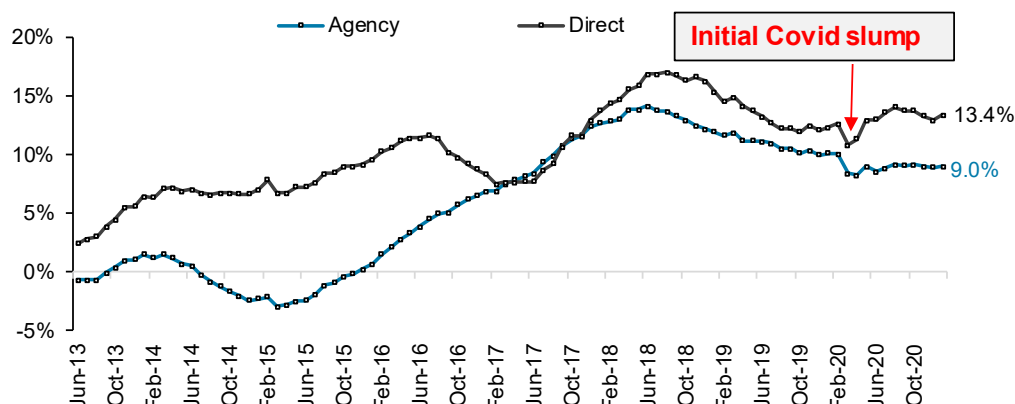
On PIF growth, the direct channel remained strong (13.4% YoY and 1.6% MoM) following an abrupt slump in March/April 2020. It's worth noting that growth relative to peers has remained superior. The result is aligned with the current economic backdrop which (1) incentivizes frugal decision making and (2) reduces in-person business capacity. Directionally, growth figures appear to have stabilized.

Exhibit: Progressive personal auto PIF summary

Source: Company reports, Inside P&C

Personal auto PIF						VAR		
Period:	Jan-20	Oct-20	Nov-20	Dec-20	Jan-21	YoY	QoQ	MoM
Direct	7,957	8,840	8,881	8,881	9,023	13.4%	2.1%	1.6%
Agency	7,061	7,583	7,616	7,617	7,697	9.0%	1.5%	1.0%
Total personal auto	15,018	16,424	16,497	16,498	16,719	11.3%	1.8%	1.3%

Exhibit: Progressive monthly personal auto PIF growth (YoY)



We have argued that the crisis will likely act as an accelerant and continue the push to direct and away from brick and mortar agency plants, in line with trends in broader retail (for background, see our [primer on the Omni-Wars](#)).

Commercial: NWP remains strong in lead up to Protective acquisition

In January, Progressive's commercial segment continued to do well with strong growth and profitability. The segment had January NWP growth of 26% to \$577mn (\$5.4bn LTM), and PIF grew 10.1% to 833k. Progressively [recently announced](#) its acquisition of Protective which if completed would expand Progressive position in the long-haul trucking business.

Exhibit: Commercial headline results

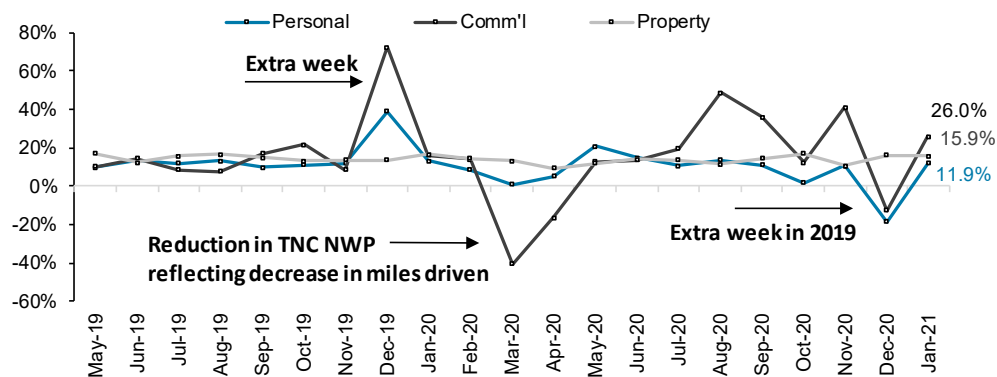
Source: Company reports, Inside P&C

Comm'l (\$m)						
Period:	Jan-20	Oct-20	Nov-20	Dec-20	Jan-21	Var
PIF (k)	757	815	819	822	833	10.1%
NWP	458	572	410	384	577	26.0%
NEP	463	509	416	418	536	15.8%
Loss ratio	69.7%	68.4%	65.6%	62.1%	62.8%	(6.9)pts
Expense ratio	19.7%	19.5%	20.5%	21.9%	19.5%	(0.2)pts
Combined ratio	89.4%	87.9%	86.1%	84.0%	82.3%	(7.1)pts

NWP has rebounded from lows in March/April when Progressive reflected a reduction in actual/estimated miles driven for transportation network companies (TNC).

Exhibit: Progressive segment annual NWP growth

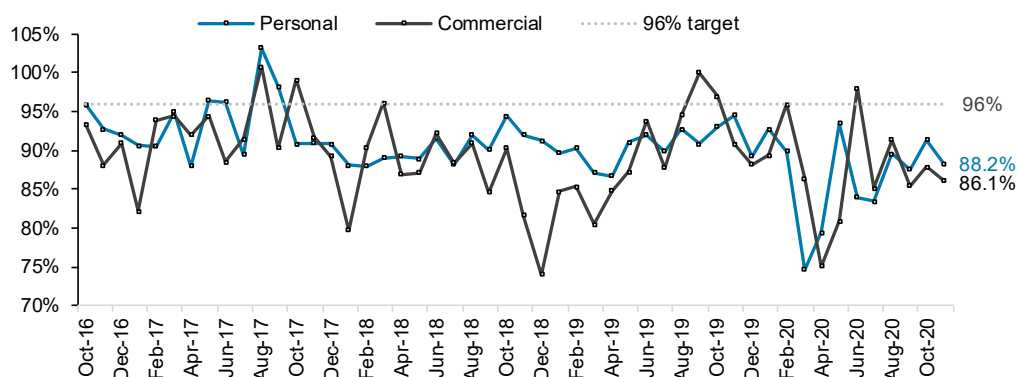
Source: Company reports, Inside P&C



January margins for the segment are strong, below historic levels for Progressive, and much better than the industry, at 82.3% (down 7.1pts YoY). The result stems from its low loss ratio of 62.8%, below its average of ~68%.

Exhibit: Progressive segment combined ratios

Source: Company reports, Inside P&C



Property: January cat losses come in at 10.1pts

January provided Progressive with continued catastrophe relief, showing only 10.1pts of cat points. This compares to the full-year 2020 figure of 24pts. January's combined of 80% is down 6.2pts YoY.

The property segment is important to Progressive as it aims to further capture share within the preferred auto segment "the Robinsons" – many of which bundle with a homeowners' policy. More generally, Progressive has had trouble pricing policies due to model error in states with high exposure to wind/hail.

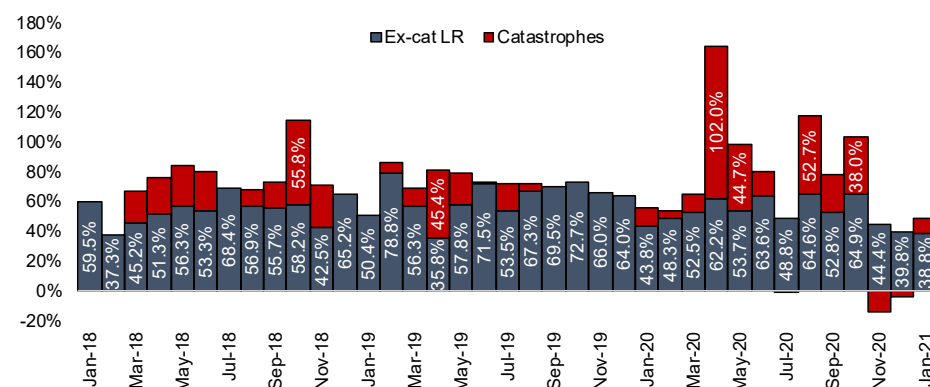
Exhibit: Property headline results

Source: Company reports, Inside P&C

Property (\$m)						
Period:	Jan-20	Oct-20	Nov-20	Dec-20	Jan-21	Var
PIF (k)	2,221	2,443	2,460	2,484	2,505	12.8%
NWP	117	167	147	160	136	15.9%
NEP	142	156	151	158	161	13.4%
Loss ratio	55.8%	102.9%	30.4%	35.9%	48.9%	(6.9)pts
Expense ratio	30.4%	29.4%	28.9%	28.8%	31.1%	0.7pts
Combined ratio	86.2%	132.3%	59.3%	64.7%	80.0%	(6.2)pts

Exhibit: Progressive property loss ratio

Source: Company reports, Inside P&C



This research report was written by Insider Publishing's Research team which includes Amit Kumar, Gianluca Casapietra, and Dan Lukpanov.

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