

## Progressive shows Root what a winning growth model looks like

**Progressive's September results were strong.** The firm reported \$0.57 in operating EPS, up 48.7% YoY, and saw a headline combined of 88.3% (down -4pts YoY). The result brings Progressive back to a trend of strong margins and excess earnings, following last month's result which almost looked normal due to high catastrophe losses in the property segment. The strong underwriting performance offset weakening NII results as interest rates remain low.

The key takeaway from September's result is that Progressive continues to benefit from [low accident frequency](#) (company-wide ex-cat LR down 5.4pts YoY), and that PIF growth continues to excel in its direct personal auto channel. On a QoQ basis following Covid, Progressive saw 4.7% and 3.1% growth in direct PIF for Q2:20 and Q3:20. Interestingly, this far exceeds numbers revealed by "high growth" InsurTech [Root](#) which saw 0.04% QoQ growth in Q2:20 – a figure worth monitoring for Q3:20. Generally speaking, direct-to-consumer offerings remain popular given current pressures on social interaction, a tailwind Root 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 saw 11.5% YoY PIF growth (0.6% sequentially) and a combined of 87.6%, down 3.2pts.

**Commercial lines** benefitted from both new and renewal Transportation Network Company (TNC) policies that increased NWP \$114mn (compared to \$88mn) last year. Additionally, it saw substantial growth in its for-hire trucking business, reflecting higher demand for shipping services – a Covid-related development. The segment saw a combined of 85.5%, down 14.6pts YoY.

**Property** saw relatively low catastrophe losses (25.1pts) relative to previous months this year. Cats reflected Hurricane Sally and west coast wildfires. The segment saw a combined of 107.7% (up 9.3pts YoY) and NWP growth of 14.4%).

### Exhibit: Progressive earnings release summary

Source: Company reports, Inside P&C

(\$mn)	Progressive (PGR) monthly					
Period:	Sep-19	Jun-20	Jul-20	Aug-20	Sep-20	VAR
Operating EPS.	0.38	0.61	0.91	0.38	0.57	48.7%
NWP	3,024	3,202	4,109	3,438	3,468	14.7%
NII	84	77	75	80	75	(10.1%)
UW income	216	396	624	229	363	68.3%
LTM ROE	24.4%	29.3%	30.9%	32.2%	31.6%	7.2pts
Cats	0.0%	2.0%	0.5%	5.9%	2.6%	2.6pts
PPD	(1.6%)	0.6%	(0.1%)	0.3%	(0.2%)	1.4pts
AY ex-cat LR	72.9%	61.3%	63.9%	65.3%	64.4%	(8.5)pts
Loss ratio	71.3%	63.9%	64.3%	71.5%	66.8%	(4.5)pts
Expense ratio	21.0%	23.0%	19.2%	21.1%	21.5%	0.5pts
Combined ratio	92.3%	86.9%	83.5%	92.6%	88.3%	(4.0)pts

Looking past the month, we continue to press the level of over-earning at the company in 2020. The firm's all-in combined ratio YTD stands at 87.5%, around

## Inside P&C Research

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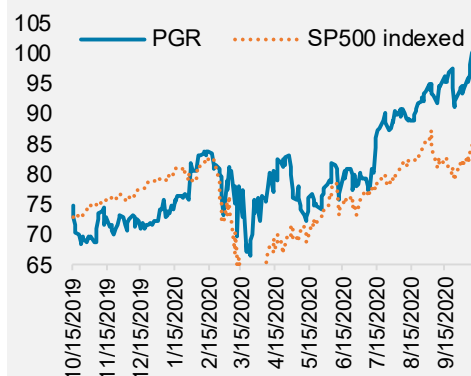
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Market cap (\$M)	58,355.0
Price	99.7
Price/Book	3.3 x
Price/Tang. Book	3.4 x
52-week High/Low	101.38 / 66.55
Dividend Yield	0.4%

### 1YR Price Performance



Data as of 10 / 14 / 2020

Source: SNL, Inside P&C

5-7 points below its target range or about \$1.7bn of excess pre-tax profit in 9 months. And note, this comes after a 2019 all-in combined ratio well below target levels at 90.9%. We expect margins to compress as frequency trends normalize and carriers continue to compete for share. This means Progressive will need to maintain strong growth to avoid trading water on earnings.

Key trends we're focused on include increased omni-channel competition (e.g. Allstate's pivot in direct, acquisitions in the independent agency space). 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 developing Covid-19 exposures that will partially limit "stress" at an industry level.

### Personal auto: Still benefitting from low accident frequency

Progressive's personal auto growth and margins have performed exceptionally well given the Covid frequency backdrop. September marks a continuation of this trend with an auto combined of 87.6% (down 3.2pts YoY) and PIF growth of 11.5% (0.6% MoM).

For context, our [analysis on auto accident frequency based on state DOTs](#) pointed to an 11% & 13% reduction in September and August, up from a low of 51% in April. As frequency trends appear to be normalizing, we look forward to upcoming Q3 management commentary on frequency trends. Over the mid-long term, we expect any lasting benefits to be priced away as carriers compete for new business.

### Exhibit: personal auto headline results

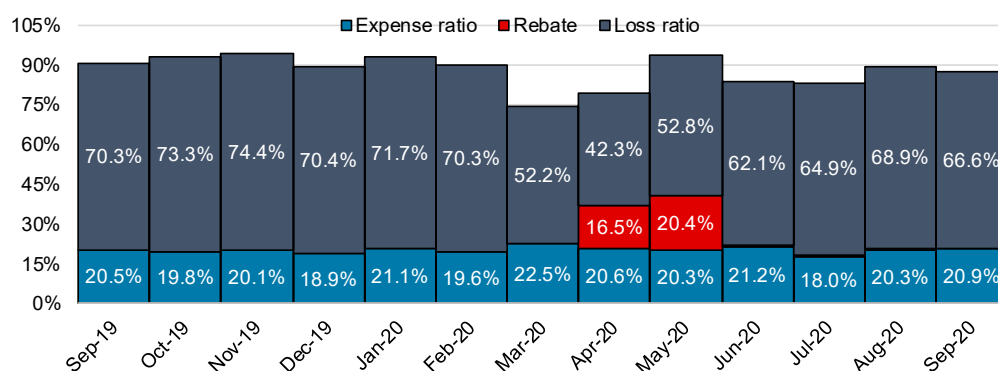
Source: company reports, Inside P&C

Personal (\$m)						
Period:	Sep-19	Jun-20	Jul-20	Aug-20	Sep-20	Var
PIF (k)	14,620	15,870	16,070	16,201	16,301	11.5%
NEP	2,447	2,611	3,413	2,758	2,713	10.9%
NEP	2,326	2,528	3,177	2,564	2,571	10.5%
Loss ratio	70.3%	62.1%	64.9%	68.9%	66.6%	(3.7)pts
Expense ratio	20.5%	21.9%	18.5%	20.7%	21.0%	0.5pts
Combined ratio	90.8%	84.0%	83.4%	89.6%	87.6%	(3.2)pts

The impressive margins are rooted in Progressive's loss ratio (66.6%, down 3.7pts YoY) which has benefitted from lower accident frequency. Earlier in the year, loss ratios within the auto business reached a low of 42.3% (April). Progressive provided rebates earlier this year (April/May) to counteract the benefits of lower accident frequency.

### Exhibit: personal auto combined ratio breakdown

Source: company reports, Inside P&C



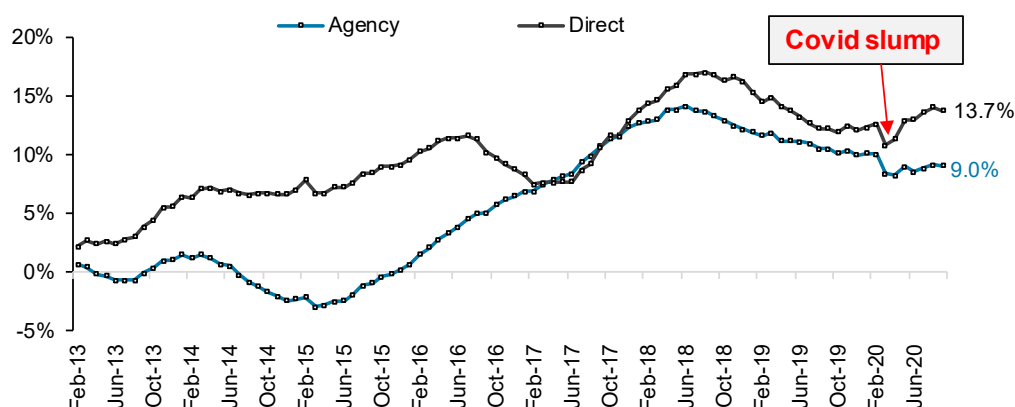
On PIF growth, the direct channel continues to shine (13.7% YoY and 0.7% MoM) following an abrupt slump in March April (worth noting growth relative to peers was still very impressive). The result is aligned with both the current economic backdrop which (1) incentivizes frugal decision making and (2) reduces in-person business capacity. It also matches management commentary during both Q1 and Q2 calls.

### Exhibit: Progressive personal auto PIF summary

Source: Company reports, Inside P&C

Personal auto PIF						VAR		
Period:	Sep-19	Jun-20	Jul-20	Aug-20	Sep-20	YoY	QoQ	MoM
Direct	7,716	8,508	8,634	8,714	8,774	13.7%	3.1%	0.7%
Agency	6,904	7,363	7,435	7,487	7,527	9.0%	2.2%	0.5%
<b>Total personal auto</b>	<b>14,620</b>	<b>15,870</b>	<b>16,070</b>	<b>16,201</b>	<b>16,301</b>	<b>11.5%</b>	<b>2.7%</b>	<b>0.6%</b>

### 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 gets a boost from TNC and for hire trucking

In September, Progressive's commercial segment was characterized by strong NWP growth (+36% YoY to \$591mn). This was driven by new/renewal TNC policies and substantial growth in the for-hire trucking business. Management pointed to Covid-related demand for shipping services.

### Exhibit: commercial auto headline results

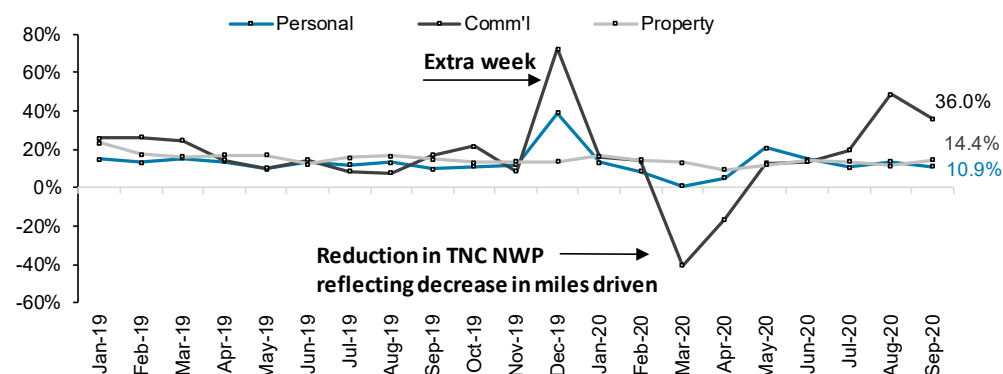
Source: Company reports, Inside P&C

Comm'l (\$m)						
Period:	Sep-19	Jun-20	Jul-20	Aug-20	Sep-20	Var
PIF (k)	749	776	786	795	804	7.4%
NWP	435	407	521	498	591	36.0%
NEP	345	354	454	375	386	12.2%
Loss ratio	78.3%	69.9%	65.4%	70.8%	63.9%	(14.4)pts
Expense ratio	21.8%	28.1%	19.7%	20.6%	21.6%	(0.2)pts
<b>Combined ratio</b>	<b>100.1%</b>	<b>98.0%</b>	<b>85.1%</b>	<b>91.4%</b>	<b>85.5%</b>	<b>(14.6)pts</b>

NWP has largely rebounded from lows in March/April when Progressive reflected a reduction in actual/estimated miles driven for TNC.

### Exhibit: Progressive segment annual NWP growth

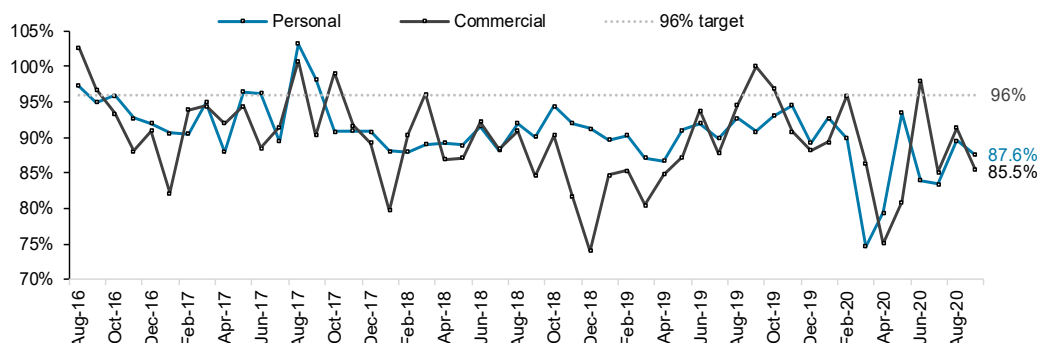
Source: Company reports, Inside P&C



September margins for the segment are strong, albeit still within historic levels (for Progressive, much better than industry) at 85.5% (down 14.6pts YoY). The result stems from a return to its average loss ratio of roughly ~68% at 63.9%

### Exhibit: Progressive segment combined ratios

Source: Company reports, Inside P&C



### Property: Catastrophes remain an issue for Progressive

September marked another month of significant catastrophes for Progressive's property segment at 25.1pts, bringing its combined up to 107.7% (up 9.3pts YoY). Losses for the month stem from Hurricane Sally and wildfires on the west coast.

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.

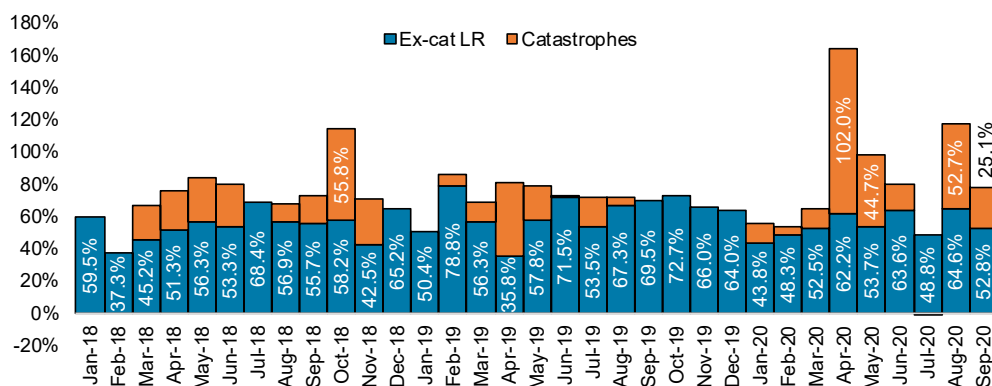
Property (\$m)						
Period:	Sep-19	Jun-20	Jul-20	Aug-20	Sep-20	Var
PIF (k)	2,144	2,336	2,368	2,395	2,421	12.9%
NWP	143	184	175	182	164	14.4%
NEP	130	141	150	151	146	12.2%
Loss ratio	69.5%	79.6%	48.1%	117.3%	77.9%	8.4pts
Expense ratio	28.9%	30.5%	32.3%	29.8%	29.8%	0.9pts
Combined ratio	98.4%	110.1%	80.4%	147.1%	107.7%	9.3pts

Progressive recorded a reinsurance recoverable of \$65mn under its aggregate excess of loss reinsurance program as 2020 cat losses in the property business now exceed its \$375mn retention threshold.

Excluding catastrophes, the loss ratio of 52.8% is down 16.7pts YoY.

## Progressive property loss ratio

Source: Company reports, Inside P&C



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

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