

THE PROGRESSIVE CORPORATION



Progressive's Advertising Cast ([Cleveland Business Journal](#))

Progressive is the third largest private passenger automobile insurer in the United States. The company also has a major specialty operation and is the number one insurer of motorcycles and one of the largest insurers of recreational vehicles and boats. Since 2015, Progressive has also offered homeowners and renters insurance. The company offers insurance directly to customers over the internet as well as through a nationwide network of over 40,000 agents.

Over the past decade, Progressive has increased its market share in private passenger auto insurance from 7.9% to 13.7% while posting underwriting profits every year. In 2021, underwriting operations posted a combined ratio of 95.3% with revenue of \$44.4 billion and pre-tax profits of \$2.1 billion. As of September 30, 2022, insurance operations provided management with \$29.3 billion of policyholder float which funded the majority of the company's \$52.3 billion investment portfolio.

Progressive has faced challenging conditions in 2022. Although underwriting operations have remained solidly profitable, rising interest rates have resulted in unrealized losses in the company's large fixed-income portfolio while the smaller equity portfolio has been severely impacted by the stock market decline. This report examines Progressive's history, competitive position, and future prospects.

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Table of Contents

INTRODUCTION	4
THE AUTO INSURANCE INDUSTRY	6
TYPES OF COVERAGE	6
PRICING AND RISK	8
DIRECT VS. AGENCY MODEL	9
COMPETITIVE LANDSCAPE	10
BUSINESS MODEL AND OPERATING HISTORY	12
PERSONAL LINES.....	13
COMMERCIAL LINES	13
PROPERTY LINES.....	13
SEGMENT RESULTS	14
INVESTMENTS	16
LOSS DEVELOPMENT	18
CAPITAL STRUCTURE.....	20
CAPITAL ALLOCATION	22
PROGRESSIVE VS. GEICO	24
CONCLUSION.....	28
FINANCIAL DATA	29
BALANCE SHEETS.....	29
INCOME STATEMENTS	30
SEGMENT DATA	31
CASH FLOW STATEMENTS	32
INVESTMENT PORTFOLIO.....	33
NOTES.....	34

Introduction

Joseph Lewis and Jack Green founded Progressive in 1937 to write automobile insurance. The company experienced several years of growth driven by innovations such as allowing customers to pay premiums in installments rather than annually. In 1955, Joseph Lewis died and Jack Green became CEO. Joseph's son, Peter Lewis, became involved in the company and began to write auto insurance for higher risk drivers in 1956.

In 1965, Peter Lewis gained control of Progressive and he served as CEO for the next 35 years before retiring in 2000.¹ In 1987, Cleveland Magazine described how Peter Lewis acquired control of the company and developed the business over the two decades that followed:

"In 1965," Lewis says, "my mother and I made a deal." What they did was form the Progressive Corporation as a mechanism to buy out Progressive Casualty. Jack Green, who controlled Progressive Casualty, was starting to slow down. The Lewises got 80 percent of Progressive Casualty from Green in exchange for 20 percent of the new corporation and \$3 million dollars. The deal was leveraged entirely by Mrs. Lewis's stock (which is what Lewis means when he says that his mother bought him his job). When all was said and done, Lewis and his mother - who died several years ago, after remarrying - controlled Progressive Casualty through the Progressive Corporation, and Peter became CEO.

Thus began Progressive's phenomenal growth. In 1965, Progressive had net premium sales of \$6 million. It went public in 1971, and by 1977, the company logged its net premiums at \$77 million. In 1984, the figure hit \$308 million. Last year, it skyrocketed toward the billion dollar mark. Since Peter Lewis became CEO, Progressive has multiplied its sales 130 times. ²

Over the past three decades, Progressive has grown from a small player in the auto insurance industry into one of the market leaders and an intensely formidable competitor. In Progressive's 1993 annual report, the company reported \$1.8 billion of net written premiums and management estimated that its market share was 1.5% which put the company in ninth place. Fast forward to 2021: Progressive posted net written premiums of \$46.4 billion and market share was 13.7% which put the company in third place, only slightly behind Berkshire Hathaway's GEICO division and State Farm which has long held the number one position in auto insurance.

Progressive has a history of innovation. The company was the first to allow customers to purchase insurance over the phone in 1993 and started to offer 24/7 customer service the same year. In 1995, Progressive was the first auto insurer to create a website and by 1997 customers could purchase insurance policies online in real-time. Progressive created an advertising sensation in 2008 with the introduction of Flo and began to aggressively promote usage based insurance pricing. In recent years, Progressive has aggressively rolled out telematics which has been branded as the Snapshot program since 2011. Customers who agree to install a device in their vehicle or to use a mobile app that monitors how they use their vehicle can potentially qualify for discounted rates.

Progressive has not been alone in making rapid market share gains in auto insurance. Berkshire Hathaway's GEICO subsidiary has been making strides for decades right along with Progressive. While Progressive has a

direct operation in which insurance is sold to customers without an agent acting as an intermediary, the company also sells insurance through a network of agents. GEICO has long been the leader in the direct channel. As a result, GEICO has been able to keep its expenses very low and has rapidly gained market share. State Farm still holds the number one position but seems likely to lose that status over the next few years. At this point, it is not certain whether Progressive or GEICO will emerge as the industry leader.

This report begins with a description of the automobile insurance industry that outlines the type of coverage available to customers, how insurers approach pricing and risk, the evolution of the direct and agency distribution channels, and the overall competitive landscape. Progressive's business model and operating history are then discussed in detail with a description of the different lines of coverage that are offered, segment results, the investment portfolio, and how management deals with loss estimation. We then cover the company's capital structure and capital allocation practices. Finally, given the intense competition between Progressive and GEICO, we present a comparison of the companies over the past two decades in an effort to better understand their strengths and weaknesses and attempt to glimpse into what the future might hold.

The Auto Insurance Industry

The United States is heavily dependent on automobiles for daily transportation. In 2020, there were nearly 276 million registered vehicles, of which 253.1 million were light duty vehicles and 8.3 million were motorcycles. The balance was comprised of heavy duty trucks and buses.³ With just over 332 million people in the United States at the beginning of 2022, we can get a sense of the scale of the vehicle fleet relative to the size of the population.⁴ Vehicles are truly ubiquitous, with 91.7% of U.S. households having access to at least one vehicle.⁵

While many people in metropolitan areas do not need a vehicle, it is nearly impossible to participate in the modern economy without one in suburban and rural areas. For example, 54.5% of households in New York City do not have access to a vehicle. This is possible because of a dense public transportation network. In contrast, only 4.9% of households in mostly rural South Dakota lack access to a vehicle. Many people who could afford a vehicle in New York City choose not to own one. But it is safe to say that the vast majority of people in North Dakota who do not own a vehicle are either physically unable to drive or lack the required financial resources.

Automobile ownership represents a major financial cost for most people. There is no ordinary consumer purchase other than a home that is more expensive than an automobile, both in terms of the initial cost of acquisition and the cost of fueling and maintaining it over time. Most vehicles are financed. The average loan in October 2022 was \$41,665 for new vehicles and \$28,506 for used vehicles with monthly payments topping \$700 for new vehicles despite an average loan term of nearly six years.⁶

Given the high costs involved and the importance of having access to a vehicle, most owners wish to protect themselves from losses due to natural disasters, accidents, thefts, lawsuits, and other mishaps. It is safe to say that no one enjoys purchasing auto insurance, but insurance is rightly viewed as a non-discretionary purchase by most consumers. For those tempted to take their chances, it means breaking the law in most states. With very few exceptions, states have minimum liability coverage requirements that cover injuries and property damage to others caused by a driver who is found to be negligent.⁷

Premiums vary widely based on characteristics of the driver, the vehicle, location and many other factors, but the expense represents a significant budget line item for most people, with one study estimating the average annual cost at \$1,771 for full coverage and \$545 for minimum liability coverage in December 2022.⁸ Recent rapid inflation in the cost of used automobiles has influenced the cost of claims settlement related to repairs and vehicle replacements for total losses. Claims frequency has also increased as drivers return to regular commutes after working from home during extended pandemic lockdowns.

Types of Coverage

Automobile insurance is best thought of as a collection of coverages that are usually purchased in a standard bundle. If you contact an auto insurer or agent for a quote, you'll be asked for information regarding your vehicle, where it is normally parked, and how it is used. The insurer will also need information about all members of your household who drive the vehicle. In most states, the age, gender, marital status, driving

record, and credit history of the customer will heavily influence the quote. The insurer feeds this information into pricing models that will generate a quote based on a standard set of coverages and the level of risk involved. While many consumers are unaware of the details regarding specific coverages included in a standard quote, it is possible to add or drop specific coverage and to assume more or less risk by adjusting deductibles.

The following types of coverage are included in most standard quotes:

- **Bodily injury** coverage is protection for costs associated with injuring another person if the insured driver is at fault. Most states require a minimum level of bodily injury coverage to legally operate a vehicle. For example, the state of Connecticut mandates a minimum of \$25,000 of bodily injury coverage per person and \$50,000 of bodily injury protection per accident.⁹
- **Property damage** coverage pays for costs associated with damaging or destroying another person's property if the insured driver is at fault. Most often, this would be another person's vehicle. Most states require a minimum level of property damage coverage to legally operate a vehicle. For example, Connecticut mandates a minimum of \$25,000 of property damage coverage per accident.
- **Uninsured motorist** covers costs associated with an accident if the other driver is at fault but does not have insurance or has coverage limits that are too low to pay for the insured party's damages. Some, but not all, states require uninsured motorist coverage. In the case of Connecticut, the state requires uninsured motorist coverage that pays \$25,000 per person or \$50,000 per accident for bodily injury.
- **Collision** coverage provides payments to repair damage to the insured driver's vehicle due to collisions with other vehicles or objects, such as a collision with a fixed object on the highway or a building. Collision coverage is not mandated by states but is usually required by lenders who have an interest in protecting the underlying collateral of a loan. Naturally, the cost of collision coverage will vary greatly based on the projected cost of repairing or replacing the insured vehicle.
- **Comprehensive** coverage is protection for damage to a vehicle for non-collision causes such as theft or natural disasters. Comprehensive coverage is not mandated by states but is usually required by lenders to protect the collateral. Comprehensive premiums vary based on the value of the insured vehicle.
- **Medical payment** coverage helps to pay for costs associated with injuries sustained in an accident even if the driver is at fault. This is not a substitute for having health insurance, but can pay for out of pocket costs such as deductibles and services not covered by health insurance. This is an optional coverage.
- **Personal injury protection** coverage can pay for medical costs but also covers lost wages and other costs, such as childcare, that are related to being unable to conduct regular activities due to injury.

It is obvious that state-mandated minimum liability coverage is woefully inadequate except in the case of fender-bender type accidents where property damage is minimal and there are no serious injuries. A standard automobile policy typically has a *maximum* bodily injury liability coverage of \$500,000. For individuals who have

a net worth exceeding the maximum auto liability coverage, it is common to purchase an **umbrella policy** that covers damages in excess of auto insurance limits. For example, consider a driver with a net worth of \$2 million who is at fault in an accident and is sued for \$1.5 million due to severe injuries suffered by others. If the driver has an auto policy with \$500,000 maximum liability coverage, he would be liable for an additional \$1 million out of pocket. However, by purchasing an umbrella policy, such damages would be covered.

Although an umbrella policy is not included as part of a standard auto policy, higher net worth drivers often add an umbrella policy when buying auto insurance. Umbrella policies also cover non-auto related costs, such as injuries to people on your property, as well as damages in defamation lawsuits, legal fees, and court costs. Standard umbrella policies are typically issued with coverage levels ranging from \$1 million to \$5 million.

Pricing and Risk

There are many factors involved in setting the price of automobile insurance. To build a sustainable business, it is necessary to charge premiums that are sufficient to pay expected claims and provide an acceptable level of underwriting profitability. Underwriting profits represent the difference between earned premiums and the funds that need to be paid out to cover losses and operate the business. It is usually possible to capture a higher market share by charging low premiums, but this comes at the cost of sustaining underwriting losses. Similarly, an insurer can charge relatively high premiums but will be left with a smaller market share.

One of the fundamental problems facing any insurance company involves information asymmetry. The automobile owner has far more information about how he or she uses the vehicle and the risks that are routinely assumed. Insurance companies have typically used questionnaires along with examining factors such as a driver's record, demographics, and credit scores to set premium prices. However, there is always the risk of adverse selection and moral hazard when it comes to setting prices using traditional methods.¹⁰

In recent years, technological advances have made it possible to deploy vehicle telematics that could reduce information asymmetries and make it possible to match premiums more accurately to risk. While there are legitimate privacy concerns to contend with, the ability to monitor how a vehicle is used allows insurers to adjust premiums if actual usage patterns diverge from the representations made by a driver upon application for coverage. Drivers who engage in riskier behavior would pay higher premiums than drivers who make efforts to reduce risk. Relying on the age of the driver and other broad demographic factors are crude indicators in comparison to technology deployed in vehicles that can transmit real time information to insurers.¹¹

Progressive has aggressively deployed telematics using its Snapshot technology. Snapshot can be deployed as a wireless device connected to an onboard diagnostics port that accesses a vehicle's computer system. Alternatively, Progressive offers a mobile app for both Apple's iOS and Google's Android operating systems. Snapshot captures information about the time of day a vehicle is operated, vehicle speed, sudden changes in speed, such as fast acceleration or braking, and whether the driver is using a mobile phone while driving. According to Progressive, drivers opting to use Snapshot save an average of \$156 per year. Only two out of ten drivers end up paying higher premiums due to using Snapshot.¹²

Auto insurance is usually subject to deductibles that can significantly influence the premium. For example, a driver who is willing to agree to a \$1,000 deductible for comprehensive coverage will pay a lower premium than a driver who wants a \$500 deductible. The more risk a driver is willing to personally assume, the lower the premium will be. While the quotes provided by many insurers can be opaque, the breakdown of costs between all of the coverages listed above are available for policyholders who ask for it.

Some insurers take pricing transparency even further. For example, Progressive has a “Name Your Price” tool that allows customers to specify the price they are able to pay for insurance and the system generates a package of coverage and deductible levels to meet that price, although obviously the premium is subject to state mandated minimum coverages.¹³

Direct vs. Agency Model

Auto insurance is sold to consumers directly by insurance carriers as well as through long-established agency channels. Insurance is a relatively complicated product and historically agents have played a large role in serving customers by understanding their unique needs and obtaining quotes for automobile and homeowners coverage. Insurance agents typically built their business through local community connections, referrals, and advertising. Agents strive to project an image of acting in a fiduciary capacity for customers, much like other professional service providers such investment advisors, tax accountants, or estate planning specialists. In exchange for their services, agents receive a commission when they sell insurance policies.

The idea of marketing auto insurance directly to customers is not new. Leo and Lillian Goodwin founded GEICO in 1936 to market auto insurance to government employees, a group that exhibited more stability and better risk characteristics than the population at large.¹⁴ During the twentieth century, direct marketing involved advertising the product to consumers who would respond either by mail or over the telephone. The direct channel cut out agency middlemen and was able to reduce costs for the consumer by eliminating commissions.

The internet has been a boon for reducing information asymmetries and establishing direct relationships between insurers and customers. The internet makes it much easier to compare prices across insurance carriers and to research different types of coverage. While only a small number of consumers were comfortable enough to buy products over the internet in the 1990s, this has completely changed over the past quarter century, particularly with the proliferation of broadband and connected mobile devices.

State Farm, Allstate and Progressive have long used an agency sales force, although Progressive’s direct channel overtook its agency model in 2018 in terms of revenue. The advantage of reducing or eliminating agent commissions has played a major role in increasing the market share of GEICO and Progressive in recent years.

Warren Buffett, Chairman and CEO of Berkshire Hathaway, has long recognized the value of being a low-cost producer of non-discretionary products, acknowledging that GEICO has “a very tough competitor in Progressive, because they’ve seen how well our model works, and they, in effect, have shifted over. I mean, they’re not totally shifted over, but they’ve moved toward a direct operation and away from an agency operation.”¹⁵

Competitive Landscape

The private passenger automobile insurance market is highly competitive despite having a relatively high degree of concentration which has increased in recent years. To better understand the competitive landscape, it is helpful to see how the market has evolved over the past decade. Let's start by taking a look at the market share statistics published by the National Association of Insurance Commissioners (NAIC).¹⁶ Rewinding back to 2011, here is what the private passenger auto insurance market looked like for the top ten industry players:

2011 TOP 25 GROUPS AND COMPANIES BY COUNTRYWIDE PREMIUM By Line of Business Total Private Passenger Auto

RANK BY PREM	GROUP/COMPANY CODE	GROUP/COMPANY NAME	DIRECT PREMIUMS WRITTEN	DIRECT PREMIUMS EARNED	DIRECT LOSS TO EP RATIO ¹	DIRECT LOSS & DCC TO EP RATIO ²	MARKET SHARE %	CUMULATIVE MARKET SHARE %
1	176	STATE FARM GRP	31,488,620,037	31,414,073,131	76.04	78.76	18.62	18.62
2	8	ALLSTATE INS GRP	17,451,278,899	17,513,979,497	61.70	65.26	10.32	28.95
3	31	BERKSHIRE HATHAWAY GRP	15,346,176,564	15,020,919,245	69.11	71.97	9.08	38.02
4	155	PROGRESSIVE GRP	13,423,204,913	13,245,280,959	61.89	63.18	7.94	45.96
5	212	ZURICH INS GRP	9,972,073,872	9,894,676,673	61.11	63.31	5.90	51.86
6	200	UNITED SERV AUTOMOBILE ASSN GRP	7,778,763,692	7,631,945,708	74.04	76.28	4.60	56.46
7	111	LIBERTY MUT GRP	7,684,231,087	7,423,234,616	60.12	62.77	4.54	61.01
8	140	NATIONWIDE CORP GRP	6,855,293,147	6,884,690,572	71.05	72.58	4.05	65.06
9	3548	TRAVELERS GRP	3,526,738,412	3,469,872,943	76.96	79.34	2.09	67.15
10	473	AMERICAN FAMILY INS GRP	3,042,992,183	3,090,271,869	62.59	65.38	1.80	68.95

Source: [NAIC Report dated March 19, 2012](#)

A decade ago, State Farm was the dominant player in the private passenger auto insurance market with market share of 18.6%, far surpassing Allstate's 10.3% share. Berkshire Hathaway's GEICO subsidiary had less than half of State Farm's volume at the time. Progressive was a distant fourth place with less than 8% market share. We can also see that the industry was quite concentrated with cumulative market share of the top ten competitors at nearly 69%. The top twenty-five companies had total market share of 83%. The exhibit below shows how the competitive landscape changed between 2011 and 2021.

PROPERTY AND CASUALTY INSURANCE INDUSTRY 2021 TOP 25 GROUPS AND COMPANIES BY COUNTRYWIDE PREMIUM States, U.S. Territories, Canada, and Aggregate Other Alien Total Private Passenger Auto

RANK	GROUP/COMPANY CODE	GROUP/COMPANY NAME	DIRECT PREMIUMS WRITTEN	DIRECT PREMIUMS EARNED	DIRECT LOSS TO EP RATIO ¹	DIRECT LOSS & DCC TO EP RATIO ²	MARKET SHARE %	CUMULATIVE MARKET SHARE % ³
1	176	STATE FARM GRP	41,665,754,230	40,762,346,529	72.19	75.46	15.93	15.93
2	31	BERKSHIRE HATHAWAY GRP	37,422,557,592	36,702,802,445	75.02	77.33	14.31	30.23
3	155	PROGRESSIVE GRP	35,852,921,113	35,095,518,997	66.97	68.91	13.71	43.94
4	8	ALLSTATE INS GRP	27,221,928,278	27,114,004,762	67.26	68.14	10.41	54.34
5	200	UNITED SERV AUTOMOBILE ASSN GRP	15,731,646,068	15,750,713,106	73.57	75.72	6.01	60.36
6	111	LIBERTY MUT GRP	12,774,289,952	12,416,811,095	60.83	63.83	4.88	65.24
7	69	FARMERS INS GRP	12,441,182,108	12,430,956,009	61.12	63.29	4.76	70.00
8	140	NATIONWIDE CORP GRP	5,565,737,353	5,616,771,081	63.00	64.91	2.13	72.13
9	473	AMERICAN FAMILY INS GRP	5,488,676,661	5,468,412,243	61.16	63.70	2.10	74.22
10	3548	TRAVELERS GRP	5,328,114,931	5,205,239,858	60.66	63.29	2.04	76.26

Source: [NAIC Report dated April 4, 2022](#)

For overall context, direct premiums earned for the entire industry increased from \$167.8 billion in 2011 to \$258.4 billion in 2021, a 54% increase over a decade. Over the same timeframe, State Farm's earned premiums increased by 29.8%, trailing the growth of the overall industry. On the other hand, earned premiums at GEICO and Progressive increased by 144% and 165%, respectively. Industry consolidation increased with the market share of the top ten companies at 76.3%.

In his 2015 letter to Berkshire Hathaway shareholders, Warren Buffett extolled the advantages of GEICO, which has been a wholly owned subsidiary of Berkshire since 1996:

"With the price advantage GEICO's low costs allow, it's not surprising that several years ago the company seized the number two spot in auto insurance from Allstate. GEICO is also gaining ground on State Farm, though it is still far ahead of us in volume. On August 30, 2030 – my 100th birthday – I plan to announce that GEICO has taken over the top spot. Mark your calendar."¹⁷

Both GEICO and Progressive have made significant market share gains in recent years and it appears that State Farm could very well lose its top position in the private passenger auto insurance market several years before Warren Buffett's goal of 2030. It would not be surprising to see State Farm displaced within five years. However, it is an open question whether GEICO or Progressive will take the top spot.

The intense competition between GEICO and Progressive warrants further consideration. Rather than delving into the competitive details at this point, however, it seems better to reserve that discussion until we have examined Progressive's business model and track record in more detail.

Business Model and Operating History

The basic business model in the insurance industry is to provide coverage for risks in exchange for premiums that are adequate to cover expected losses as well as the costs of running the business. If premiums more than cover losses and expenses, the insurer earns underwriting profits. However, it is not uncommon for insurers to underprice insurance which can result in underwriting losses. Although most of the premiums will eventually have to be paid out to cover losses and the costs of running the business, there is a period of time that elapses between accepting premiums and paying out losses and expenses..

Float represents funds that are held by an insurance business between the time when policyholders submit payment and when funds are eventually paid out to settle claims.¹⁸ As long as underwriting practices are sound, float represents an attractive means of funding investments. Exceptional insurance businesses routinely generate negative cost float. Progressive is an example of an insurance company with exceptional results:

Figures in Millions	9/30/22	12/31/21	12/31/20	12/31/19	12/31/18	12/31/17	12/31/16	12/31/15	12/31/14	12/31/13	12/31/12
ESTIMATED FLOAT											
Unearned Premiums	17,796.9	15,615.8	13,437.5	12,388.8	10,686.5	8,903.5	7,468.3	6,621.8	5,440.1	5,174.5	4,930.7
Loss and loss adjustment expense reserves	30,631.8	26,164.1	20,265.8	18,105.4	15,400.8	13,086.9	11,368.0	10,039.0	8,857.4	8,479.7	7,838.4
Less:											
Premiums receivable	(10,867.7)	(9,399.5)	(8,160.1)	(7,507.3)	(6,497.1)	(5,422.5)	(4,509.2)	(3,987.7)	(3,537.5)	(3,310.7)	(3,183.7)
Reinsurance recoverables	(6,306.8)	(4,980.5)	(4,019.4)	(3,378.9)	(2,696.1)	(2,273.4)	(1,884.8)	(1,488.8)	(1,231.9)	(1,090.2)	(901.0)
Prepaid reinsurance premiums	(367.5)	(457.6)	(368.1)	(626.5)	(309.7)	(203.3)	(170.5)	(199.3)	(85.3)	(74.9)	(66.3)
Deferred acquisition costs	(1,585.2)	(1,355.6)	(1,237.2)	(1,056.5)	(951.6)	(780.5)	(651.2)	(564.1)	(457.2)	(447.6)	(434.5)
Estimated Float	29,301.5	25,586.7	19,918.5	17,925.0	15,632.8	13,310.7	11,620.6	10,420.9	8,985.6	8,730.8	8,183.6
Combined Ratio	96.5%	95.3%	87.7%	90.9%	90.6%	93.4%	95.1%	92.5%	92.3%	93.5%	95.6%
<i>A combined ratio under 100% indicates a negative cost of float</i>											

Source: Progressive's 10-K and 10-Q reports

Not only has Progressive grown float at a rapid pace over the past decade, but the float has been obtained while earning underwriting profits every year. Progressive's management is very skilled at pricing insurance at a level that can attract new business while also generating underwriting profits. This is a difficult task because there is usually a trade-off between growing float and earning underwriting profits. In competitive markets, an insurer can grow float by cutting prices, but this comes with the risk of accepting underwriting losses.

Progressive is primarily an auto insurer but also provides motorcycle, boat, and recreational vehicle coverage through its special lines operations. Commercial auto insurance is also offered. Since 2015, Progressive has also offered residential property and renters insurance. The following exhibit shows Progressive's policies in force over the past decade broken down by segment:

	9/30/22	9/30/21	2021	2020	2019	2018	2017	2016	2015	2014	2013	2012
POLICIES IN FORCE DATA												
Policies in Force (figures in thousands)												
Personal Lines												
Agency - auto	7,600.3	7,973.6	7,879.0	7,617.0	6,994.3	6,358.3	5,670.7	5,045.4	4,737.1	4,725.5	4,841.9	4,790.4
Direct - auto	9,823.8	9,613.1	9,568.2	8,881.4	7,866.5	7,018.5	6,039.1	5,348.3	4,916.2	4,505.5	4,224.2	4,000.1
Total personal auto	17,424.1	17,586.7	17,447.2	16,498.4	14,860.8	13,376.8	11,709.8	10,393.7	9,653.3	9,231.0	9,066.1	8,790.5
Total special lines	5,558.0	5,282.4	5,288.5	4,915.1	4,547.8	4,382.2	4,365.7	4,263.1	4,111.4	4,030.9	3,990.3	3,944.8
Total Personal Lines	22,982.1	22,869.1	22,735.7	21,413.5	19,408.6	17,759.0	16,075.5	14,656.8	13,764.7	13,261.9	13,056.4	12,735.3
Total Commercial Lines	1,039.8	952.7	971.2	822.0	751.4	696.9	646.8	607.9	555.8	514.7	514.6	519.6
Total Property business	2,835.5	2,735.0	2,776.2	2,484.4	2,202.1	1,936.5	1,461.7	1,201.9	1,076.5	-	-	-
Companywide Total	26,857.4	26,556.8	26,483.1	24,719.9	22,362.1	20,392.4	18,184.0	16,466.6	15,397.0	13,776.6	13,571.0	13,254.9

Source: Progressive's 10-K and 10-Q reports

Personal Lines

The bread and butter of Progressive's business is the personal lines segment which writes insurance for personal automobiles in all fifty states. In addition to selling standard automobile insurance, the personal lines segment also sells insurance for motorcycles and other recreational vehicles which are referred to as special lines. As mentioned in the auto insurance industry section of this report, Progressive currently ranks third in market share in the private passenger automobile insurance market based on written premiums. Progressive has been the market share leader in motorcycle insurance since 1998 and is one of the largest providers of recreational vehicle and boat insurance. In 2021, the personal lines segment accounted for 78% of Progressive's net written premiums. Personal auto insurance represented 94% of the personal lines segment in 2021.¹⁹

Within personal lines, Progressive reports results separately for the direct and agency channels. Historically, the agency channel was dominant. However, the direct channel has been growing rapidly in recent years and overtook the agency channel in 2018 in terms of revenue. The agency business is comprised of over 40,000 independent insurance agents throughout the United States who are authorized to place business with Progressive based on underwriting standards determined by the company. The direct channel is written by Progressive via the internet, over the phone and through the mail.

Commercial Lines

The commercial lines segment accounted for 17% of Progressive's net written premiums in 2021. While this segment primarily writes liability and physical damage insurance for automobile related risks, it also writes workers' compensation, general liability, and property insurance primarily for small businesses. In 2021, Progressive acquired Protective Insurance Corporation for \$313.2 million, net of cash acquired. Protective provides liability and workers' compensation coverage for trucking and public transportation fleets. Commercial lines policies are written primarily through the agency channel which accounted for 90% of the business in 2021. Progressive had the highest market share in the commercial auto insurance market in 2020.

Property Lines

Progressive entered the residential property and renters insurance market in 2015 when it acquired a 69.2% controlling interest in ARX for \$765.3 million, net of cash acquired. Between 2018 and 2020, the remaining 30.8% interest in ARX was acquired for a cumulative total of \$551.1 million.²⁰ The primary business of the property segment is to write residential property and rental insurance primarily through agency channels. The property segment accounted for 5% of total net written premiums in 2021.

From reading Progressive's statements regarding the property segment, it is apparent that a major motivation to enter this business in 2015 was to deepen relationships with customers by offering bundles of products including auto and homeowners or renters coverage. The company's "Destination Era" strategy also offers insurance products written by unaffiliated third parties. In general, customers who opt to purchase multiple products tend to remain with Progressive for longer than customers who just have a single policy. In 2021, 21% of customers had more than one product with Progressive, including 13% who bundled auto and home policies.

Segment Results

The following exhibits display Progressive's revenue and pre-tax profits by segment over the past decade. As we would expect based on the strong growth in policies-in-force and float presented earlier, segment revenue has grown across the board during this period:

Revenue Summary	9ME 9/30/22	2021	2020	2019	2018	2017	2016	2015	2014	2013	2012
Personal Lines											
Agency	13,131.7	16,881.0	15,789.5	14,904.1	13,017.2	11,177.6	9,791.7	9,108.6	9,087.0	8,601.5	8,103.9
Direct	14,776.9	18,492.3	16,830.6	15,305.9	13,017.5	10,769.6	9,396.5	8,185.9	7,474.0	6,740.1	6,264.2
Total Personal Lines	27,908.6	35,373.3	32,620.1	30,210.0	26,034.7	21,947.2	19,188.2	17,294.5	16,561.0	15,341.6	14,368.1
Commercial Auto	6,749.5	6,945.2	4,875.8	4,427.6	3,610.9	2,793.9	2,421.3	1,995.9	1,837.5	1,761.6	1,649.0
Property	1,689.6	2,042.5	1,765.7	1,554.8	1,287.7	988.8	864.5	609.1	-	-	-
Other indemnity	2.0	7.7	-	-	-	-	-	(0.4)	-	0.2	0.9
Total underwriting operations	36,349.7	44,368.7	39,261.6	36,192.4	30,933.3	25,729.9	22,474.0	19,899.1	18,398.5	17,103.4	16,018.0
Fees and other revenues	531.9	691.8	603.5	563.7	472.2	370.6	332.5	302.0	309.1	291.8	281.8
Service businesses	230.5	271.4	226.4	195.0	158.5	126.8	103.3	86.3	56.0	39.6	36.1
Investments	(971.2)	2,370.1	2,566.6	2,071.2	415.0	612.7	530.0	567.3	632.6	740.4	749.8
Net gain on extinguishment of debt	-	-	-	-	-	(1.0)	1.6	(0.9)	(4.8)	(4.3)	(1.8)
Property - Goodwill Impairment	-	-	-	-	-	-	-	-	-	-	-
Interest expense	-	-	-	-	-	-	-	-	-	-	-
Consolidated Total	36,140.9	47,702.0	42,658.1	39,022.3	31,979.0	26,839.0	23,441.4	20,853.8	19,391.4	18,170.9	17,083.9

Pre-Tax Profit Summary	9ME 9/30/22	2021	2020	2019	2018	2017	2016	2015	2014	2013	2012
Personal Lines											
Agency	507.6	992.1	2,236.5	1,673.2	1,435.7	839.6	492.8	713.2	683.0	542.9	338.9
Direct	389.4	619.2	2,076.5	1,181.4	1,088.5	683.7	412.2	403.4	423.4	473.9	289.5
Total Personal Lines	897.0	1,611.3	4,313.0	2,854.6	2,524.2	1,523.3	905.0	1,116.6	1,106.4	1,016.8	628.4
Commercial Auto	683.5	767.8	634.8	458.8	478.6	214.1	155.2	318.3	315.8	114.1	86.3
Property	(289.6)	(312.3)	(125.1)	(26.1)	(88.7)	(50.3)	32.5	61.3	-	-	-
Other indemnity	(9.3)	(1.4)	-	-	0.9	(0.2)	(1.6)	(1.0)	(11.9)	(10.8)	(5.8)
Total underwriting operations	1,281.6	2,065.4	4,822.7	3,287.3	2,915.0	1,686.9	1,091.1	1,495.2	1,410.3	1,120.1	708.9
Fees and other revenues	-	-	-	-	-	-	-	-	-	-	-
Service businesses	9.0	18.6	20.9	16.1	24.4	17.3	11.3	8.8	5.1	0.8	-
Investments	(988.6)	2,344.6	2,546.6	2,046.6	390.7	588.8	507.6	544.5	613.7	721.6	734.4
Net gain on extinguishment of debt	-	-	-	-	-	(1.0)	1.6	(0.9)	(4.8)	(4.3)	(1.8)
Property - Goodwill Impairment	(224.8)	-	-	-	-	-	-	-	-	-	-
Interest expense	(180.4)	(218.6)	(217.0)	(189.7)	(166.5)	(153.1)	(140.9)	(136.0)	(116.9)	(118.2)	(123.8)
Consolidated Total	(103.2)	4,210.0	7,173.2	5,160.3	3,163.6	2,138.9	1,470.7	1,911.6	1,907.4	1,720.0	1,317.7

Source: Progressive's 10-K and 10-Q reports

As we can see from the pre-tax profit summary, the majority of Progressive's underwriting earnings are attributable to the personal lines segment. However, rather than examining pre-tax profits in dollar terms, it is important to look at the combined ratios for each segment which are provided in the exhibit below:

Combined Ratios:	9ME 9/30/22	2021	2020	2019	2018	2017	2016	2015	2014	2013	2012
Personal lines agency	96.1%	94.1%	85.8%	88.8%	89.0%	92.5%	95.0%	92.2%	92.5%	93.7%	95.8%
Personal lines direct	97.4%	96.7%	87.7%	92.3%	91.6%	93.7%	95.6%	95.1%	94.3%	93.0%	95.4%
Personal lines - Total	96.8%	95.4%	86.8%	90.6%	90.3%	93.1%	95.3%	93.5%	93.3%	93.4%	95.6%
Commercial lines	89.9%	88.9%	87.0%	89.6%	86.7%	92.3%	93.6%	84.1%	82.8%	93.5%	94.8%
Property	117.1%	115.3%	107.1%	101.7%	106.9%	105.1%	96.2%	89.9%	n/a	n/a	n/a
Total	96.5%	95.3%	87.7%	90.9%	90.6%	93.4%	95.1%	92.5%	92.3%	93.5%	95.6%

Source: Progressive's 10-K and 10-Q reports

The combined ratio is the sum of the loss ratio and the expense ratio. The loss ratio represents the percentage of earned premiums that are paid out to policyholders for losses and includes both actual amounts paid during a year as well as estimates for claims that are yet to be paid out. The expense ratio represents all of the costs associated with running the business. Posting a combined ratio of under 100% indicates that an insurance business is providing underwriting profits and that float is cost-free.

Progressive's goal is to write insurance at a combined ratio of 96%, a level that it has surpassed over long periods of time. When we look at the combined ratio on a segment basis, the property group sticks out like a sore thumb given that it produced combined ratios well in excess of 100% since 2017. This means that float generated by the property group has come at a significant cost to Progressive relative to the cost-free float produced by other segments. However, in absolute terms, the property group is the smallest segment and its underwriting losses have been muted in comparison to the strong underwriting profits generated elsewhere.

The following exhibit shows Progressive's overall combined ratio for the past decade for all segments:

	9 Months Ending on		Fiscal Years Ending on December 31									
	9/30/22	9/30/21	2021	2020	2019	2018	2017	2016	2015	2014	2013	2012
Insurance Ratios - (All Insurance Subsidiaries)												
Underwriting Losses as % of Premiums	77.8%	75.6%	75.8%	64.0%	70.4%	70.2%	73.1%	75.1%	72.1%	72.3%	72.9%	74.6%
Expenses as % of Premiums	18.6%	20.0%	19.6%	23.7%	20.5%	20.4%	20.3%	20.0%	20.4%	20.0%	20.5%	21.0%
Combined Ratio	96.5%	95.6%	95.3%	87.7%	90.9%	90.6%	93.4%	95.1%	92.5%	92.3%	93.5%	95.6%

Source: Progressive's 10-K and 10-Q reports

Progressive's loss ratio tended to fall in the low 70% range and the expense ratio was in the low 20% range for several years. However, the pandemic that began in the first quarter of 2020 resulted in a much lower than normal loss ratio for 2020 as policyholders dramatically reduced mileage driven amid widespread lockdowns. Since losses are correlated with miles driven, losses were far below normal in 2020. However, Progressive and other auto insurers ended up providing rebates to customers in 2020 in recognition of lower automobile usage and this caused the 2020 expense ratio to be higher than normal. Progressive's 2020 expense ratio includes \$1,077.4 million in policyholder credits which inflated the expense ratio by 2.7%.

It is worth pointing out that Progressive and other auto insurers rely heavily on advertising to generate business. Progressive has disclosed advertising costs in annual reports dating back to 2011. In the exhibit below, total advertising costs are displayed along with advertising costs as a percentage of earned premiums.

Figures in Millions	9 Months Ending on		Fiscal Years Ending on December 31										
	9/30/22	9/30/21	2021	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011
Advertising costs	<i>Not Disclosed in 10-Q</i>		2,139.5	2,175.7	1,837.3	1,422.4	1,005.4	756.2	748.3	681.8	619.3	546.8	543.0
<i>A component of policy acquisition costs, expensed as incurred</i>													
<i>Disclosed in Note 1 of the financial statements</i>													
<i>Advertising costs as % of earned premiums</i>			4.8%	5.5%	5.1%	4.6%	3.9%	3.4%	3.8%	3.7%	3.6%	3.4%	3.6%

Source: Progressive's 10-K and 10-Q reports

We can see that advertising is a very significant component of the expense ratio for Progressive. Anyone who is familiar with American television has no doubt seen Progressive's commercials featuring Flo and other well-known quirky characters who are usually engaged in humorous antics designed to generate customer interest.

While State Farm and Allstate also have regular advertising campaigns on television, GEICO's Gecko character is especially ubiquitous. This highlights one of the tradeoffs in the auto insurance business related to the agency and direct business models. While the direct business model cuts out the agency middleman, it also requires heavy advertising expenses to generate brand awareness since consumers must seek out quotes on the internet or over the phone. The agency channel, in contrast, must pay commissions to middlemen but can also rely on agents to handle some marketing on their own as well as generate business through community relationships, often aided by national brand awareness campaigns.

Investments

Progressive's investment portfolio was valued at \$52.3 billion as of September 30, 2022. Management's asset allocation policy is to maintain 0% to 25% of the portfolio in what is referred to as "Group I" securities which include common stocks and certain preferred stocks. 75% to 100% of the portfolio is allocated to "Group II" securities which include short-term securities as well as all other types of fixed-maturity securities. As of September 30, 2022, 10.4% of the portfolio was allocated to Group I securities and the remaining 89.6% was allocated to Group II securities.²¹

The following exhibit shows the size and allocation of Progressive's investment portfolio over the past decade:

Figures in millions	9/30/22	12/31/21	12/31/20	12/31/19	12/31/18	12/31/17	12/31/16	12/31/15	12/31/14	12/31/13	12/31/12
Fixed maturities:											
U.S. government obligations	22,405.5	18,488.2	12,740.0	13,251.1	9,916.5	6,645.9	2,870.1	2,429.2	2,667.1	3,662.2	2,896.5
State and local government obligations	1,925.5	2,185.3	3,221.8	1,713.3	1,649.1	2,297.1	2,502.6	2,721.4	2,139.2	2,256.0	1,964.4
Foreign government obligations	15.3	17.9	-	-	-	-	24.5	18.6	14.2	15.6	-
Corporate debt securities	9,228.4	10,692.1	10,185.2	7,067.7	8,694.3	4,997.7	4,550.9	3,691.6	2,836.7	2,926.6	3,113.0
Residential mortgage-backed securities	723.0	790.0	509.5	627.5	734.4	836.7	1,458.7	1,726.7	1,658.5	1,127.9	428.2
Agency residential pass-through obligations	-	-	-	-	-	-	40.6	89.3	-	-	-
Commercial mortgage-backed securities	5,087.9	6,535.6	6,175.1	5,076.2	3,301.6	2,758.6	2,253.4	2,653.2	2,315.6	2,160.5	2,048.7
Other asset-backed securities	4,605.9	4,982.3	3,784.6	5,179.5	3,577.3	2,454.7	2,351.1	1,767.9	1,638.7	1,077.7	948.6
Redeemable preferred stocks	181.6	181.7	194.7	195.0	238.3	211.0	191.9	234.3	279.2	313.9	374.7
Other debt obligations	-	-	-	-	-	-	-	-	-	-	-
Total fixed maturities	44,173.1	43,873.1	36,810.9	33,110.3	28,111.5	20,201.7	16,243.8	15,332.2	13,549.2	13,540.4	11,774.1
Equity securities:											
Nonredeemable preferred stocks	1,254.4	1,639.9	1,447.9	1,038.9	1,033.9	803.8	853.5	782.6	827.5	711.2	812.4
Common equities	2,665.3	5,058.5	4,053.0	3,306.3	2,626.1	3,399.8	2,812.4	2,650.5	2,492.3	2,530.5	1,899.0
Total equity securities	3,919.7	6,698.4	5,500.9	4,345.2	3,660.0	4,203.6	3,665.9	3,433.1	3,319.8	3,241.7	2,711.4
Short-term investments	4,237.6	942.6	5,218.5	1,798.8	1,795.9	2,869.4	3,572.9	2,172.0	2,149.0	1,272.6	1,990.0
Total portfolio	52,330.4	51,514.1	47,530.3	39,254.3	33,567.4	27,274.7	23,482.6	20,937.3	19,018.0	18,054.7	16,475.5

Source: Progressive's 10-K and 10-Q reports

We can see that fixed maturity securities have historically been the predominant investment, with the equity portfolio playing a fairly minor role. The majority of Progressive's equity portfolio is indexed to the Russell 1000 index, with the company holding 791 out of 1,016 of the common stocks in the index as of September 30, 2022. This accounted for 95% of the total market capitalization of the index.²² The Russell 1000 index is comprised of primarily larger companies with a median market capitalization of \$13.6 billion.²³

Automobile insurance is what is known as a "short-tail" because most claims made by policyholders are settled quickly. This is particularly true for property damage, which is known very soon after loss events occur, but even liability coverage, including bodily injury claims, generally play out within a couple of years. For this reason, the duration of Progressive's fixed-maturity portfolio is quite short, as we can see in the following exhibit:

Duration Distribution	9/30/22	12/31/21	12/31/20	12/31/19	12/31/18	12/31/17	12/31/16	12/31/15	12/31/14	12/31/13	12/31/12
1 year	19.3%	22.0%	19.5%	23.9%	19.4%	19.8%	25.9%	28.4%	36.1%	26.9%	29.8%
2 years	19.1%	18.8%	18.7%	11.8%	17.0%	15.7%	13.4%	15.6%	19.4%	24.9%	17.7%
3 years	23.1%	23.5%	24.9%	20.6%	27.0%	27.0%	24.2%	18.1%	15.0%	23.4%	28.4%
5 years	20.4%	17.6%	18.5%	23.1%	22.8%	24.1%	21.4%	27.7%	23.8%	22.2%	17.8%
10 years and up	18.1%	18.1%	18.4%	20.6%	13.8%	13.4%	15.1%	10.2%	5.7%	2.6%	6.3%
Total	100.0%										
Fixed Income portfolio duration, years	2.7	3.0	2.9	3.0	2.8	2.5	2.2	1.9	1.6	2.0	1.9

Source: Progressive's 10-K and 10-Q reports

One of the benefits of a fixed-maturity portfolio with a short duration is that quoted declines in security prices will be less severe than for a high duration portfolio. The downside of a short duration portfolio is that interest rates are not “locked in” for long periods of time and during normal times, the yield curve typically slopes upward with longer duration securities offering higher interest rates. During 2022, interest rates increased dramatically. Progressive’s fixed-maturity portfolio suffered declines, but the short duration limited the damage.

The following exhibit shows the credit quality distribution of the fixed-maturity portfolio. As of September 30, 2022, the weighted average credit quality of the portfolio was AA and the duration was 2.7 years.

Credit Quality Distribution of Fixed Income Portfolio	9/30/22	12/31/21	12/31/20	12/31/19	12/31/18	12/31/17	12/31/16	12/31/15	12/31/14	12/31/13	12/31/12
AAA	63.2%	54.7%	53.3%	60.8%	50.5%	45.8%	35.7%	37.2%	45.5%	50.8%	54.1%
AA	6.7%	8.7%	9.8%	9.9%	10.8%	13.6%	19.1%	14.2%	13.2%	12.7%	12.2%
A	7.1%	8.6%	11.1%	7.9%	8.4%	12.2%	15.3%	15.3%	10.2%	8.2%	4.0%
BBB	19.1%	21.7%	22.9%	19.5%	25.9%	23.2%	24.3%	24.7%	18.4%	18.2%	21.3%
Non-rated/other	3.9%	6.3%	2.9%	1.9%	4.4%	5.2%	5.6%	8.6%	12.7%	10.1%	8.4%
Total	100.0%										

Source: Progressive’s 10-K and 10-Q reports

The following exhibit shows Progressive’s investment returns over the past decade:

Investment Returns	9/30/22	12/31/21	12/31/20	12/31/19	12/31/18	12/31/17	12/31/16	12/31/15	12/31/14	12/31/13	12/31/12	12/31/11
Pretax recurring investment book yield	2.2%	1.9%	2.4%	3.1%	2.8%	2.4%	2.3%	2.4%	2.4%	2.6%	2.9%	3.2%
Fully tax equivalent (FTE) total return:												
Fixed-income securities	-7.6%	-0.1%	6.7%	6.0%	1.5%	3.0%	2.9%	1.7%	3.2%	1.7%	5.5%	3.4%
Common stocks	-24.0%	33.4%	24.3%	30.5%	-4.4%	21.8%	12.8%	0.8%	12.6%	32.8%	16.7%	2.5%
Total portfolio	-9.0%	2.6%	7.9%	7.9%	1.2%	5.2%	4.0%	1.6%	4.5%	5.4%	6.8%	3.2%

Source: Progressive’s 10-K and 10-Q reports

The damage caused by market declines is evident based on year-to-date results with the overall portfolio declining by 9%. Rising interest rates were the primary cause of the fixed-maturity portfolio declining by 7.6%. Given Progressive’s strategy of indexing its equity portfolio to the Russell 1000, a broad-based index of large capitalization stocks, the 24% decline during the first three quarters of the year is not surprising.

In the pre-tax profit summary exhibit provided on page fourteen, we see a line item for Investments which represents that effect of the investment portfolio on Progressive’s income statement. It is important to break down the results of the investment portfolio so we can better understand how results impact net income as well as other comprehensive income which is a component of shareholders’ equity.

The following exhibit provides a breakdown of Progressive’s investment results for the past decade:

Figures in Millions	9 Months Ending on		Fiscal Years Ending on December 31									
	9/30/22	9/30/21	2021	2020	2019	2018	2017	2016	2015	2014	2013	2012
INVESTMENT SEGMENT SUMMARY												
Investment income	868.2	639.8	860.9	936.6	1,042.0	820.5	563.1	478.9	454.6	408.4	422.0	443.0
Net realized gains (losses) on securities:												
Net realized gains (losses) on security sales	430.0	607.8	614.3	914.7	334.6	170.7	115.7	155.8	136.5	232.1	324.5	314.8
Net holding period gains (losses) on securities	(2,262.9)	479.8	899.9	715.3	757.9	(507.9)	(1.6)	(17.9)	-	-	-	-
Net impairment losses recognized in earnings	(6.5)	(3.7)	(5.0)	-	(63.3)	(68.3)	(64.5)	(86.8)	(23.8)	(7.9)	(6.1)	(8.0)
Total net realized gains (losses) on securities	(1,839.4)	1,083.9	1,509.2	1,630.0	1,029.2	(405.5)	49.6	51.1	112.7	224.2	318.4	306.8
Less investment expenses	(17.4)	(18.5)	(25.5)	(20.0)	(24.6)	(24.3)	(23.9)	(22.4)	(22.8)	(18.9)	(18.8)	(15.4)
Total investment segment results (affecting net income)	(988.6)	1,705.2	2,344.6	2,546.6	2,046.6	390.7	588.8	507.6	544.5	613.7	721.6	734.4
Net unrealized gains (losses) on securities in other comprehensive income (loss)	(3,170.0)	(578.3)	(891.1)	586.5	466.4	(99.3)	355.4	130.6	(212.9)	74.9	84.3	179.9

Source: Progressive’s 10-K and 10-Q reports

Investment income includes interest and dividend income but does not include realized or unrealized gains and losses. Realized gains and losses on security sales are displayed as a separate line item. In addition, Progressive is required to include net holding period gains and losses on the income statement for securities held in its equity portfolio. Net unrealized gains and losses in the fixed-maturity portfolio do not affect the income statement but appear as a line item in other comprehensive income and impact shareholders' equity on the balance sheet.

We can see how the market declines of 2022 impacted Progressive's results for the first nine months of the year. \$868.2 million of investment income was more than offset by quotational losses which resulted in an overall loss of \$988.6 million recorded on the income statement. In addition, \$3,170 million of losses on the fixed-maturity portfolio impacted other comprehensive income.

Loss Development

Automobile insurance is short tail because losses that develop are known relatively quickly. Nevertheless, management must still make estimates of the ultimate losses incurred during an accounting period. The loss ratio reported during an individual year is the total of losses incurred during the current accident year as well as changes in the estimate of losses incurred during prior years. The following table shows the historical average claims duration by age. We can see that physical damage claims are paid very quickly while auto liability and property claims have a longer tail.

The following table shows the average historical claims duration as of December 31, 2021:

(Required Supplementary Information - Unaudited)

Average Annual Percentage Payout of Incurred Claims by Age, Net of Reinsurance	Years				
	1	2	3	4	5
Personal Lines					
Agency, Liability	44.6%	31.3%	12.2%	5.6%	2.9%
Agency, Physical Damage	97.3	1.6	(0.2)	0	0
Direct, Liability	43.8	31.9	12.8	5.8	2.6
Direct, Physical Damage	98.2	0.4	(0.2)	0	0
Commercial Lines					
Liability	19.0	28.9	21.1	13.0	6.6
Physical Damage	86.9	11.2	0	0.1	0
Other	20.8	25.6	15.2	10.9	7.4
Property	69.7	22.9	3.0	1.2	0.6

Source: Progressive's 2021 10-K, page 34

The following exhibit shows how loss and loss adjustment expense reserves have developed over time:

Figures in Millions	9/30/22	12/31/21	12/31/20	12/31/19	12/31/18	12/31/17	12/31/16	12/31/15	12/31/14	12/31/13	12/31/12	12/31/11
ACTIVITY IN LOSS AND LAE RESERVES:												
Balance at January 1	26,164.1	20,265.8	18,105.4	15,400.8	13,086.9	11,368.0	10,039.0	8,857.4	8,479.7	7,838.4	7,245.8	7,071.0
Less reinsurance recoverables on unpaid losses	4,733.6	3,798.2	3,212.2	2,572.7	2,170.1	1,801.0	1,442.7	1,185.9	1,045.9	862.1	785.7	704.1
Net balance at January 1	21,430.5	16,467.6	14,893.2	12,828.1	10,916.8	9,567.0	8,596.3	7,671.5	7,433.8	6,976.3	6,460.1	6,366.9
Net loss and LAE reserves (disposed) acquired	-	729.2	-	-	-	-	(2.5)	222.4	-	-	-	-
Total beginning reserves	21,430.5	17,196.8	14,893.2	12,828.1	10,916.8	9,567.0	8,593.8	7,893.9	7,433.8	6,976.3	6,460.1	6,366.9
Incurred related to:												
Current year	28,245.4	33,632.3	24,926.5	25,238.2	21,632.5	18,782.1	16,967.1	14,657.1	13,330.3	12,427.3	11,926.0	10,876.8
Prior years	52.8	(4.7)	195.3	232.3	88.5	25.9	(87.5)	(315.1)	(24.1)	45.1	22.0	(242.0)
Total incurred	28,298.2	33,627.6	25,121.8	25,470.5	21,721.0	18,808.0	16,879.6	14,342.0	13,306.2	12,472.4	11,948.0	10,634.8
Paid related to:												
Current year	15,712.4	20,561.1	15,584.4	16,105.0	13,792.1	12,201.5	11,149.0	9,577.3	8,831.5	8,095.0	7,895.3	7,289.3
Prior years	9,418.5	8,832.8	7,963.0	7,300.4	6,017.6	5,256.7	4,757.4	4,062.3	4,237.0	3,919.9	3,536.5	3,252.3
Total paid	25,130.9	29,393.9	23,547.4	23,405.4	19,809.7	17,458.2	15,906.4	13,639.6	13,068.5	12,014.9	11,431.8	10,541.6
Net balance at December 31	24,597.8	21,430.5	16,467.6	14,893.2	12,828.1	10,916.8	9,567.0	8,596.3	7,671.5	7,433.8	6,976.3	6,460.1
Plus reinsurance recoverables on unpaid losses	6,034.0	4,733.6	3,798.2	3,212.2	2,572.7	2,170.1	1,801.0	1,442.7	1,185.9	1,045.9	862.1	785.7
Balance at December 31	30,631.8	26,164.1	20,265.8	18,105.4	15,400.8	13,086.9	11,368.0	10,039.0	8,857.4	8,479.7	7,838.4	7,245.8

Source: Progressive's 10-K and 10-Q reports

Loss and loss adjustment expense reserves represent a major liability line item on Progressive's balance sheet. During each year, actual and estimated incurred losses are added to loss reserves while payments made on claims are deducted from loss reserves. We can see how this affects the reserve liability on the balance sheet by examining the exhibit. Most incurred costs are related to the current year.

The row displaying prior year development is highlighted in the exhibit. This figure is referred to as either favorable or unfavorable reserve development in management's discussion of financial results. It is important to note that *prior year development*, whether favorable or unfavorable, affects the *current year's* loss ratio. However, given Progressive's short tail business, prior year reserve development is generally not very significant.

Since most auto claims are settled relatively quickly, we can have confidence that the estimate of reserve liability on Progressive's balance sheet is fairly close to the true liability. This allows us to have more confidence in reported shareholders' equity. This level of confidence is not always possible with other types of insurers, particularly reinsurers with very long-tail businesses that might have claims where the final cost is unknown for many years.

Capital Structure

Progressive's balance sheet data for 2001 through the third quarter of 2022 is presented at the end of this report. Rather than replicating portions of the balance sheet here, it is worthwhile to look at Progressive's capital structure through the lens of how the company funds its investment portfolio.

An insurance company's business model involves managing an investment portfolio that is primarily funded by float and shareholders' equity which can be supplemented with debt.²⁴ As discussed previously, float is a liability that represents funds that will eventually be paid out for policyholder losses but can be invested between the time premiums are received and when losses are paid out. For a going concern like Progressive, insurance premiums are constantly being received while outgoing payments are being made for losses which results in a perpetual pool of funds available for investment. The exhibit below shows Progressive's investment portfolio balance along with shareholders' equity, debt, and estimated float for the past decade:

Figures in Millions	9/30/22	12/31/21	12/31/20	12/31/19	12/31/18	12/31/17	12/31/16	12/31/15	12/31/14	12/31/13	12/31/12
CAPITAL STRUCTURE ANALYSIS											
Total Investments	52,330.4	51,514.1	47,530.3	39,254.3	33,567.4	27,274.7	23,482.6	20,937.3	19,018.0	18,054.7	16,475.5
Shareholders' Equity	14,776.2	18,231.6	17,038.6	13,673.2	10,821.8	9,284.8	7,957.1	7,289.4	6,928.6	6,189.5	6,007.0
Debt	6,387.4	4,898.8	5,396.1	4,407.1	4,404.9	3,306.3	3,148.2	2,707.9	2,164.7	1,860.9	2,063.1
Estimated Float	29,301.5	25,586.7	19,918.5	17,925.0	15,632.8	13,310.7	11,620.6	10,420.9	8,985.6	8,730.8	8,183.6
Total	50,465.1	48,717.1	42,353.2	36,005.3	30,859.5	25,901.8	22,725.9	20,418.2	18,078.9	16,781.2	16,253.7
Debt as a % of Total Capital	30.2%	21.2%	24.1%	24.4%	28.9%	26.3%	28.3%	27.1%	23.8%	23.1%	25.6%

Source: Progressive's 10-K and 10-Q reports

We can see that the increase in float has been the predominant factor that has allowed Progressive to expand its investment portfolio over the past decade. Float increased from \$8.2 billion at the end of 2012 to \$29.3 billion as of September 30, 2022. Shareholders' equity increased from \$6 billion to \$14.8 billion and debt increased from \$2.1 billion to \$6.4 billion over the same period.

Progressive's policy is to keep debt at or below 30% of total capital, which is the sum of debt and equity. Over the past decade, this figure has been maintained at well under the target level. However, debt exceeded 30% of total capital at the end of the third quarter of 2022. In 2022, Progressive issued \$1.5 billion of new debt and shareholders' equity declined by \$3.5 billion primarily due to unrealized losses in the company's fixed-maturity investment portfolio. This increased debt as a percentage of total capital from 21.2% at the end of 2021 to 30.2% at the end of the third quarter. Management made the following comments in the third quarter report:

*"While our financial policies include a goal of maintaining debt below 30% of total capital at book value, which we did not meet at the end of the third quarter 2022, we recognize that various factors, including rising interest rates, widening credits spreads, declines in the equity markets, or erosion in operating results, may result in that ratio exceeding 30% at times. As we have previously stated, in such a situation we may choose to remain above 30% for some time, dependent upon market conditions and the capital needs of our operating businesses. Accordingly, we do not currently anticipate taking specific actions to address this variance. We will continue to monitor this ratio, market conditions, and our capital needs going forward."*²⁵

In March 2022, Progressive issued \$500 million of 2.5% Senior Notes due in 2027, \$500 million of 3% Senior Notes due in 2032, and \$500 million of 3.7% Senior Notes due in 2052. This generated \$1,486 million of net proceeds. A listing of Progressive's debt appears in the exhibit below:

(millions)	September 30, 2022		September 30, 2021		December 31, 2021	
	Carrying Value	Fair Value	Carrying Value	Fair Value	Carrying Value	Fair Value
2.45% Senior Notes due 2027 (issued: \$500.0, August 2016)	\$ 498.1	\$ 459.7	\$ 497.6	\$ 530.6	\$ 497.7	\$ 517.9
2.50% Senior Notes due 2027 (issued: \$500.0, March 2022)	497.4	451.6	0	0	0	0
6 5/8% Senior Notes due 2029 (issued: \$300.0, March 1999)	297.4	322.1	297.1	390.9	297.2	388.2
4.00% Senior Notes due 2029 (issued: \$550.0, October 2018)	546.3	519.5	545.8	627.9	545.9	621.0
3.20% Senior Notes due 2030 (issued: \$500.0, March 2020)	496.8	439.3	496.4	543.2	496.5	536.3
3.00% Senior Notes due 2032 (issued: \$500.0, March 2022)	495.8	418.8	0	0	0	0
6.25% Senior Notes due 2032 (issued: \$400.0, November 2002)	396.4	426.0	396.1	545.5	396.2	547.9
4.35% Senior Notes due 2044 (issued: \$350.0, April 2014)	346.9	298.5	346.8	433.6	346.8	428.4
3.70% Senior Notes due 2045 (issued: \$400.0, January 2015)	395.7	305.7	395.6	456.2	395.6	447.1
4.125% Senior Notes due 2047 (issued: \$850.0, April 2017)	842.0	710.3	841.9	1,018.5	841.9	1,029.3
4.20% Senior Notes due 2048 (issued: \$600.0, March 2018)	590.3	505.9	590.2	736.3	590.2	741.3
3.95% Senior Notes due 2050 (issued: \$500.0, March 2020)	490.9	396.6	490.7	599.0	490.8	600.0
3.70% Senior Notes due 2052 (issued: \$500.0, March 2022)	493.4	380.7	0	0	0	0
Total	\$ 6,387.4	\$ 5,634.7	\$ 4,898.2	\$ 5,881.7	\$ 4,898.8	\$ 5,857.4

Source: Progressive's Q3 2022 10-Q report

Management cited an "uncertain outlook" as justification for raising debt at what they considered to be attractive borrowing rates, as CEO Tricia Griffith stated during the third quarter conference call:

*"Due to the highly uncertain outlook, we felt it was prudent to have extra capital at what we viewed as very attractive borrowing rates. As we sit, we have no near-term bond maturities that we have to address in this higher interest rate environment, the combination of the borrowing along with significant interest -- increase in interest rates have been the primary drivers in moving our debt to total capital ratio over 30% at September month end to 30.2%. We expect underwriting gains changes in the value of our bond portfolio as bonds approach maturity and investment income to bring us back below 30% in time. We are currently taking no additional actions to bring the ratio below 30% and have no near-term plan or need for raising further capital."*²⁶

The absence of near-term maturities coupled with the company's proven record of generating underwriting profits over long periods of time makes it likely that the debt to total capital ratio will not be an issue going forward. At the end of November, the debt to total capital ratio fell to 28.6%.²⁷

Further interest rate increases could have a negative impact on Progressive's equity going forward, but the short duration of the fixed-maturity portfolio coupled with the positive impact of higher interest rates on investment income are strong offsetting factors. All things considered, Progressive's capital structure appears more than adequate to fund the investment portfolio even if debt occasionally exceeds management's target level.

Capital Allocation

Progressive's cash flow data for 2012 through the third quarter of 2022 is presented at the end of this report. Rather than replicating portions of the cash flow statement here, it is more useful to take a multi-year view to understand how Progressive generates cash and how management chooses to allocate it.

From 2012 through the third quarter of 2022, Progressive generated \$22.9 billion of net income and \$47.2 billion of operating cash flow. The main cause of the difference between net income and operating cash flow is the growth of policyholder float. As we saw in the exhibit on page twelve, Progressive's float has grown substantially and the impact of this growth is reflected in operating cash flows. The exhibit below shows a summary of selected sources and uses of cash since 2012 which make up the predominant drivers of cash flow and reveal management's long term capital allocation approach:

Selected sources and uses of cash - 2012 to Q3 2022	\$ millions
Selected sources of cash:	
Operating cash flow	47,232.2
Net proceeds from debt issuance less repayments	3,705.1
Net proceeds from issuance of preferred stock	493.9
Net sales of equity securities	2,076.6
Selected sources of cash	53,507.8
Selected uses of cash:	
Net purchases of fixed income securities	(34,611.7)
Net purchases of short-term securities	(2,363.0)
Purchases of property and equipment, net of sales	(2,006.8)
Acquisitions	(1,647.7)
Dividends on common stock	(11,011.0)
Repurchases of common stock	(1,766.0)
Selected uses of cash:	(53,406.2)

Source: Progressive's 10-K and 10-Q reports

In addition to cash flows from operations, which is primarily comprised of net income and increases in float, Progressive raised \$3.7 billion in proceeds from debt issuances which were partly offset by repayments. In 2018, \$493.9 million was raised through a preferred stock offering which remains outstanding today. In addition, the company has realized cash inflows from net sales from its equity portfolio.

As we have seen in the discussion on investments, Progressive's portfolio is heavily weighted toward fixed-maturity securities. Management allocated \$34.6 billion toward fixed-maturity investments and an additional \$2.4 billion toward short term securities. Investments in property and equipment were just over \$2 billion. Acquisition activity includes the purchase of a majority interest in ARX in 2015 along with additional investments in ARX that culminated in 100% ownership in 2020. Cash outflows associated with the ARX acquisition total \$1.3 billion. In 2021, Progressive acquired Protective Insurance Corporation for \$313.2 million.

During the period presented in the exhibit, Progressive returned \$12.8 billion to shareholders via dividends and repurchases. The majority of the repurchase activity has occurred due to Progressive's policy of repurchasing a

sufficient number of shares to offset dilution from equity-based compensation programs. Shares outstanding have declined only modestly from 604.6 million as of December 31, 2012 to 585.1 million as of September 30, 2022. Management does state that additional capital could be deployed toward repurchases “as an option to effectively use under leveraged capital” but, in practice, most of the return of capital to shareholders has been via dividends.

Progressive’s current dividend policy was implemented in 2018 and is highly unconventional. In addition to a modest quarterly dividend, the board considers whether to declare a variable dividend on an annual basis. The current quarterly dividend is \$0.10 per share which works out to a yield of just 0.31% based on Progressive’s current share price. However, on at least an annual basis, the board discusses whether a variable dividend should be declared based on the company’s performance and capital position. Variable dividends were paid in 2018, 2019, 2020, and 2021, but the board decided not to declare a variable dividend in 2022, most likely because the debt to total capital ratio is currently too close to the company’s limit of 30%.²⁸

A variable dividend policy makes a great deal of sense for businesses that are likely to experience variability in cash flows. The investing community tends to expect regular dividends to be maintained and periodically raised over time. In the minds of most market participants, a decision to cut a regular dividend points to significant problems in the underlying business. In contrast, decisions to reduce or eliminate a variable dividend or to increase or decrease a share repurchase program are usually not viewed as a commentary on the long-term health of a company. Instituting a small regular dividend that is likely to be covered under nearly all conditions allows investment managers with a mandate to buy only dividend paying stocks to invest in Progressive.²⁹

Has management struck the right balance with its capital management program? It is worth noting that management’s stated goal is to write insurance at a combined ratio of 96% over time. From 2012 to 2021, the combined ratio averaged 92.7%, significantly below management’s target. In retrospect, management might have chosen to retain more capital in order to write insurance more aggressively with a goal of capturing even more market share. However, it is difficult to judge whether this would have been evident prospectively. Indeed, Progressive has expanded very rapidly over the past decade and it seems speculative to claim that more capital should have been retained to facilitate even more aggressive expansion.

It is debatable whether a repurchase policy designed to offset the dilution of stock-based compensation makes sense without considering the price at which repurchases have been made. While management does not appear to be price sensitive when it comes to repurchases designed to offset dilution, the preference for variable dividends over further repurchases in recent years might be interpreted to mean that management and the board has not considered shares to be attractively priced.

All things considered, Progressive has demonstrated strong cash flow generation over long periods of time and has demonstrated a more rational approach to returning cash to shareholders than most public companies due to flexibility provided by the variable dividend policy.

Progressive vs. GEICO

It is difficult to overstate the progress that Progressive and GEICO have made this century relative to State Farm and Allstate. As we saw in the tables presented on page ten, Progressive and GEICO had *combined* market share of 17% in 2011 which grew to 28% in 2021.

From 1995 to 2021, GEICO's market share increased from 2.5% to 14.3% and Progressive's market share grew from 2.2% to 13.7%.³⁰ As Warren Buffett predicted in his letter to shareholders in 2000, the direct to consumer model was almost destined to gain share in the decades to come.³¹ While older Americans at that time were sometimes resistant to making direct purchases of any kind, he expected that reluctance to ebb over time as a new generation embraced the opportunity to save money by cutting out the traditional middleman.

With market share of 15.9%, State Farm still holds the number one spot, but it seems very likely to cede the top position within the next five years. While both Progressive and GEICO are likely to continue growing in the years ahead, it is not clear at this point which company will eventually displace State Farm. This section provides more insight into the differences between GEICO and Progressive which sheds light on how the competitive dynamics could play out over time.

The following exhibit summarizes key data for GEICO and Progressive since 2001:

Year	GEICO					Progressive				
	Premiums Earned	Loss Ratio	Expense Ratio	Comb. Ratio	UW Profit	Premiums Earned	Loss Ratio	Expense Ratio	Comb. Ratio	UW Profit
2001	6,060	79.9%	16.5%	96.4%	221	7,162	73.5%	21.7%	95.2%	346
2002	6,670	77.0%	16.7%	93.8%	416	8,884	70.9%	21.5%	92.4%	679
2003	7,784	76.5%	17.7%	94.2%	452	11,341	67.4%	19.9%	87.3%	1,441
2004	8,915	71.3%	17.8%	89.1%	970	13,170	65.0%	20.2%	85.1%	1,958
2005	10,101	70.6%	17.3%	87.9%	1,221	13,764	68.0%	20.1%	88.1%	1,639
2006	11,055	70.1%	18.0%	88.1%	1,314	14,118	66.5%	20.1%	86.7%	1,878
2007	11,806	72.2%	18.4%	90.6%	1,113	13,877	71.5%	21.1%	92.6%	1,025
2008	12,479	74.8%	17.9%	92.7%	916	13,631	73.5%	21.1%	94.6%	735
2009	13,576	77.0%	18.2%	95.2%	649	14,013	70.7%	20.9%	91.6%	1,176
2010	14,283	74.4%	17.8%	92.2%	1,117	14,315	70.8%	21.7%	92.4%	1,084
2011	15,363	78.2%	18.1%	96.3%	576	14,903	71.4%	21.6%	93.0%	1,047
2012	16,740	75.9%	20.0%	95.9%	680	16,018	74.6%	21.0%	95.6%	709
2013	18,572	76.7%	17.2%	93.9%	1,127	17,103	72.9%	20.5%	93.5%	1,120
2014	20,496	77.7%	16.6%	94.3%	1,159	18,399	72.3%	20.0%	92.3%	1,410
2015	22,718	82.1%	15.9%	98.0%	460	19,899	72.1%	20.4%	92.5%	1,495
2016	25,483	82.6%	15.6%	98.2%	462	22,474	75.1%	20.0%	95.1%	1,091
2017	29,441	86.6%	14.5%	101.1%	(310)	25,730	73.1%	20.3%	93.4%	1,687
2018	33,363	78.8%	13.9%	92.7%	2,449	30,933	70.2%	20.4%	90.6%	2,915
2019	35,572	81.3%	14.5%	95.8%	1,506	36,192	70.4%	20.5%	90.9%	3,287
2020	35,093	74.1%	16.1%	90.2%	3,428	39,262	64.0%	23.7%	87.7%	4,823
2021	37,706	82.2%	14.5%	96.7%	1,259	44,369	75.8%	19.6%	95.3%	2,065

Data In Millions
Sources: Berkshire Hathaway and Progressive Annual Reports

The growth of both companies has been phenomenal, and this growth has been profitable with Progressive posting underwriting profits in every year and GEICO posting underwriting profits in all years except for 2017.

We can see from the tables on page ten that earned premiums, presented in annual reports on a GAAP basis, differ somewhat from the NAIC data which is based on statutory accounting. For GEICO, the difference is not large, but in Progressive's case, earned premiums include the commercial auto business as well as the non-auto property business. When we look at total personal lines, the figures are pretty close to the NAIC data for private passenger auto. The GAAP financials appear to validate the market share data presented by NAIC.

	2021	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011
Personal Lines											
Agency	16,881.0	15,789.5	14,904.1	13,017.2	11,177.6	9,791.7	9,108.6	9,087.0	8,601.5	8,103.9	7,627.4
Direct	18,492.3	16,830.6	15,305.9	13,017.5	10,769.6	9,396.5	8,185.9	7,474.0	6,740.1	6,264.2	5,803.7
Total Personal Lines	35,373.3	32,620.1	30,210.0	26,034.7	21,947.2	19,188.2	17,294.5	16,561.0	15,341.6	14,368.1	13,431.1
Commercial Auto	6,945.2	4,875.8	4,427.6	3,610.9	2,793.9	2,421.3	1,995.9	1,837.5	1,761.6	1,649.0	1,467.1
Property	2,042.5	1,765.7	1,554.8	1,287.7	988.8	864.5	609.1	-	-	-	-
Other indemnity	7.7	-	-	-	-	-	(0.4)	-	0.2	0.9	4.6
Total underwriting operations	44,368.7	39,261.6	36,192.4	30,933.3	25,729.9	22,474.0	19,899.1	18,398.5	17,103.4	16,018.0	14,902.8

Source: Progressive's annual reports

It is difficult to forecast whether Progressive or GEICO has a better chance of surpassing State Farm, but there are a few interesting points worth considering:

- **GEICO consistently runs at a lower expense ratio compared to Progressive.** In 2021, GEICO's expense ratio was 14.5% vs. Progressive's 19.6%.
- **Progressive consistently runs at lower loss ratio compared to GEICO.** In 2021, GEICO's loss ratio was 82.2% vs. Progressive's 75.8%.
- **GEICO accepts a higher combined ratio**, possibly indicating a more aggressive posture with respect to expansion. Over the past decade, GEICO's combined ratio has averaged 95.7% vs. 92.7% for Progressive.
- **In aggregate, GEICO has recorded underwriting profits of \$12.2 billion over the past decade while Progressive has recorded underwriting profits of \$20.6 billion.**

One interesting twist is that Progressive has a goal of writing business at a 96% combined ratio, so the company's results have surpassed management's expectations, which could mean that expansion efforts have not been aggressive enough.

Berkshire Hathaway's frugal culture is alive and well at GEICO. They run a very tight ship with respect to expenses, although Warren Buffett has always said that he's happy to spend a great deal on advertising. The issue is that GEICO needs to be ultra-efficient when it comes to expenses given that their loss ratio runs high.

At the 2021 Berkshire Hathaway annual meeting, Warren Buffett commented at length about Progressive's ability to price insurance accurately relative to risk. One of the key advantages Progressive has involves the use of telematics which GEICO has been very slow to embrace until recently.

“Progressive has had the best operation in recent years, in terms of matching rate to risk, and I mean, that’s what insurance is all about among other things. But I mean, you have to have the right rate. If you think that 90 year olds and 20 year olds have an equal chance of dying, I mean, you’re going to be out of business very quickly, the life insurance business. And you will get all the 90-year-old risks and the other guy will get the 20-year-old risks. And the same thing applies in auto insurance. I mean, there’s a huge difference between 16-year-old males, and how they drive, and 40-year-old, married, employed people. So companies that do the best job of actually having the appropriate rate for every one of their policy holders, is going to do very well, and Progressive has done a very good job on that.”

“And we’re doing a much better job on that already, but Todd Combs has gone there. And it’s a very interesting business, both Progressive and GEICO were started in the ’30s. I believe I’m right about Progressive on that, and we were started in ’36. We have had the better product for a long, long time, I mean, in terms of cost. And here we are 80, 85 years later, in our case, and we have about 13% or so of the market, whatever it may be, and Progressive as just a slight bit less. So the two of us have 25% of the market, roughly, in this huge market, after 80 something years of having a better product. So it’s a very slow changing, competitive situation, but Progressive has done a very, very good job recently. We’ve done a very, very good job over the years, and we’re doing a good job now, but we have made some very significant improvements.”³²

Ajit Jain, Berkshire’s Vice Chairman in charge of insurance operations, made some comments as well:

“There’s no question, Progressive is a machine. They’re very good at what they do, whether it’s underwriting, which Warren talked about, in terms of matching rate to risk, whether it’s handling claims. Having said that, I think GEICO is catching up with Progressive. More than a year ago, about a year ago, Progressive had margins that were almost twice as much as GEICOs, and growth rates that were almost twice as much as GEICOs. If you look at the results, as of now, Progressive is still crushing it, in terms of growth, relative to GEICO, but GEICO has certainly caught up with Progressive in terms of margins, and, hopefully, that gap will be non-existent in the future.”

“The second point I want to make on the issue of matching rate to risk, GEICO had clearly missed the business, and were late in terms of appreciating the value of telematics. They have woken up to the fact that telematics plays a big role in matching rate to risk. They have a number of initiatives, and, hopefully, they will see the light of day before, not too long, and that’ll allow them to catch up with their competitors, in terms of the issue of matching rate to risk.”

It appears that GEICO has a lot of work to do to catch up with Progressive in a number of areas, but the low cost structure embedded in the company’s culture represents a durable competitive advantage. Progressive’s aggressive rollout of telematics has clearly allowed its underwriters to match rates to risk in a more effective way and has contributed to Progressive’s lower loss ratio. GEICO has a great deal of catching up to do, but this has been acknowledged by Berkshire Hathaway’s management.

In December 2019, Todd Combs was named Chief Executive Officer of GEICO in a move that surprised many Berkshire shareholders.³³ Todd Combs has been managing a significant chunk of Berkshire’s investment portfolio

since joining the company in 2010. He has continued to manage his portfolio while also serving as CEO of GEICO for three years. GEICO's website seems to imply that Mr. Combs will continue in both roles indefinitely.³⁴

In December 2021, GEICO's Executive Chairman Tony Nicely retired. Mr. Nicely started at GEICO in 1961 and served as Chairman and CEO for 25 years prior to assuming the Executive Chairman role in 2018. Mr. Buffett has praised Mr. Nicely's management and leadership skills on numerous occasions, crediting him for engineering GEICO's exceptional growth over the past few decades. Although Mr. Combs is no doubt a capable executive, he seems to have a lot on his plate running a complex company like GEICO in the midst of a competitive battle with Progressive while also running a multi-billion dollar investment portfolio. It will be interesting to see if Mr. Combs will end up focusing entirely on GEICO in the future.

Will Progressive or GEICO emerge as the market leader by 2030? While we may not want to hazard a prediction about who will capture the number one spot, it certainly appears like it will be a race to the finish between GEICO and Progressive. State Farm should not be counted out as a competitor, but the superiority of the direct model that Warren Buffett has long extolled has had a demonstrable effect on market share in the past and can be expected to have a major effect in the future.

Conclusion

In the insurance industry, it is not particularly difficult to gain market share. If management is willing to offer the lowest prices for coverage, customers will materialize. While some customers might be willing to pay more for auto insurance based on their perception of service in the event of a claim, most people view auto insurance as a major non-discretionary purchase that takes an unpleasantly large bite out of their annual budget. Given the ability to easily compare prices, customers will tend to flock to the low cost provider. The problem facing an insurance company is not how to grow, but how to grow *profitably*. The goal is to price insurance at a level that will generate growth over time while generating acceptable underwriting profitability and delivering attractive returns on capital employed in the business.

Progressive's track record is exceptionally strong, as we have seen in the pages of this report. It is remarkable to see an insurance company grow policies in force, written premiums, and float at such a rapid pace while also posting consistent underwriting profits. The ability to grow and generate underwriting profits means that management can invest cost free policyholder float. Although Progressive invests float predominantly in fixed-maturity investments rather than common stocks, investment returns have historically been a major contributor to the company's results.

It is rare for the stock market to be totally oblivious when a large and widely followed company posts consistently strong results over a long period of time. While ordinary insurance companies might trade close to book value, Progressive has long commanded a hefty premium as we can see in the exhibit below:

Figures in Millions	9/30/22	12/31/21	12/31/20	12/31/19	12/31/18	12/31/17	12/31/16	12/31/15	12/31/14	12/31/13	12/31/12
Book Value per common share	24.41	30.35	28.27	22.54	17.71	15.96	13.72	12.49	11.79	10.39	9.94
Market Capitalization, Period End	67,994.5	59,988.7	57,864.6	42,319.2	35,184.5	32,761.3	20,586.5	18,558.5	15,864.7	16,247.5	12,757.1
Period End Price	116.21	102.65	98.88	72.39	60.33	56.32	35.50	31.80	26.99	27.27	21.10
Period End Price/Book Value	4.76	3.38	3.50	3.21	3.41	3.53	2.59	2.55	2.29	2.63	2.12
P/E Ratio at Period-End (Source: AR 10 Year Summary)		18.1	10.2	10.8	13.6	20.7	20.2	14.8	12.6	14.1	14.3

Source: Progressive's annual reports

While Progressive's price-to-book ratio has varied over time, the stock has consistently traded well above book value. Over the past decade, the price-to-book ratio has expanded dramatically. Despite significant declines in Progressive's investment portfolio this year which has driven down book value, shares are trading around \$128 as of December 20, 2022, which is not far from the stock's all-time intraday high of \$134.50 on December 1. Progressive's book value was \$26.39 per share as of November 30, 2022 which puts the price-to-book ratio at 4.85x, far higher than any historical precedent.³⁵

In recent months, the business profile series has covered companies that do not appear to be current bargains. Progressive appears to belong to the same category as Costco and Fastenal – companies that are widely recognized as having superior economic characteristics but have stock prices that reflect the quality of the business. Nevertheless, it seems worthwhile to get to know such businesses and to follow them over time since markets are capricious and one never knows when stocks will go on sale. There have been times when Progressive traded at lower valuations, and those times are likely to come again in the future. We cannot know when opportunities might arise, of course, but we can try to be prepared when they inevitably occur.

Financial Data

Balance Sheets

Figures in Millions	9/30/22	12/31/21	12/31/20	12/31/19	12/31/18	12/31/17	12/31/16	12/31/15	12/31/14	12/31/13	12/31/12	12/31/11	12/31/10	12/31/09	12/31/08	12/31/07	12/31/06	12/31/05	12/31/04	12/31/03	12/31/02	12/31/01
ASSETS																						
Available-for-sale securities, at fair value:																						
Fixed maturities	44,173.1	43,873.1	36,810.9	33,110.3	28,111.5	20,201.7	16,243.8	15,332.2	13,549.2	13,540.4	11,774.1	11,759.3	11,850.0	11,563.4	9,946.7	9,184.9	9,958.9	10,221.9	9,084.3	9,133.4	7,712.5	5,949.0
Short-term investments	4,237.6	942.6	5,218.5	1,798.8	1,795.9	2,869.4	3,572.9	2,172.0	2,149.0	1,272.6	1,990.0	1,551.8	1,090.8	1,078.0	1,153.6	382.4	581.2	773.6	1,376.9	648.0	567.8	227.4
Total available-for-sale securities	48,410.7	44,815.7	42,029.4	34,909.1	29,907.4	23,071.1	19,816.7	17,504.2	15,698.2	14,813.0	13,764.1	13,311.1	12,940.8	12,641.4	11,100.3	9,567.3	10,540.1	10,995.5	10,461.2	9,781.4	8,280.3	6,176.4
Equity securities, at fair value																						
Nonredeemable preferred stocks	1,254.4	1,639.9	1,447.9	1,038.9	1,033.9	803.8	853.5	782.6	827.5	711.2	812.4	806.3	1,157.6	1,255.8	1,150.0	2,270.3	1,781.0	1,220.3	768.9	778.8	656.7	713.9
Common Equities	2,665.3	5,058.5	4,053.0	3,306.3	2,626.1	3,399.8	2,812.4	2,650.5	2,492.3	2,530.5	1,899.0	1,845.6	1,425.0	816.2	727.8	2,327.5	2,368.1	2,058.9	1,851.9	1,972.1	1,347.3	1,336.0
Total equity securities	3,919.7	6,698.4	5,500.9	4,345.2	3,660.0	4,203.6	3,665.9	3,433.1	3,319.8	3,241.7	2,711.4	2,651.9	2,582.6	2,072.0	1,877.8	4,597.8	4,149.1	3,279.2	2,620.8	2,750.9	2,004.0	2,049.9
Total Investments	52,330.4	51,514.1	47,530.3	39,254.3	33,567.4	27,274.7	23,482.6	20,937.3	19,018.0	18,054.7	16,475.5	15,963.0	15,523.4	14,713.4	12,978.1	14,165.1	14,689.2	14,274.7	13,082.0	12,532.3	10,284.3	8,226.3
Cash and Cash Equivalents	350.9	187.1	76.5	226.2	69.5	265.0	211.5	224.1	108.4	75.1	179.1	155.7	158.9	160.7	2.9	5.8	5.6	5.6	20.0	12.1	16.9	11.2
Restricted Cash and cash equivalents	14.4	15.0	-	1.2	5.5	10.3	14.9	0.3	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total cash and restricted cash equivalents	365.3	202.1	76.5	227.4	75.0	275.3	226.4	224.4	108.4	75.1	179.1	155.7	158.9	160.7	2.9	5.8	5.6	5.6	20.0	12.1	16.9	11.2
Accrued investment income	217.4	181.7	176.4	181.3	190.8	119.7	103.9	102.2	87.3	89.8	90.0	105.7	109.3	110.4	125.7	142.1	134.4	133.1	103.5	97.4	77.9	75.2
Premiums receivable	10,867.7	9,399.5	8,160.1	7,507.3	6,497.1	5,422.5	4,509.2	3,987.7	3,537.5	3,310.7	3,183.7	2,929.8	2,738.4	2,454.8	2,408.6	2,395.1	2,498.2	2,500.7	2,287.2	2,079.6	1,742.8	1,497.1
Reinsurance recoverables	6,306.8	4,980.5	4,019.4	3,378.9	2,696.1	2,273.4	1,884.8	1,488.8	1,231.9	1,090.2	901.0	818.0	741.5	564.8	288.5	335.1	433.8	405.7	381.6	271.3	215.7	201.5
Prepaid reinsurance premiums	367.5	457.6	368.1	626.5	309.7	203.3	170.5	199.3	85.3	74.9	66.3	69.8	88.1	69.3	62.4	69.8	89.5	103.7	119.8	114.7	96.7	77.6
Deferred acquisition costs	1,585.2	1,355.6	1,237.2	1,056.5	951.6	780.5	651.2	564.1	457.2	447.6	434.5	433.6	417.2	402.2	414.0	426.3	441.0	444.8	432.2	412.3	363.5	316.6
Property and equipment, net of depreciation	1,067.1	1,137.3	1,106.0	1,213.7	1,131.7	1,119.6	1,177.1	1,037.2	960.6	933.7	911.3	932.6	961.3	997.1	1,000.4	973.4	758.7	666.5	584.7	503.1	498.0	-
Goodwill	227.9	452.7	452.7	452.7	452.7	452.7	449.4	447.6	1.6	-	-	-	-	-	-	-	-	-	-	-	-	-
Intangible assets, net of accumulated amortization	91.8	117.3	171.4	228.3	294.6	366.6	432.8	494.9	11.3	-	-	-	-	-	-	-	-	-	-	-	-	-
Net federal deferred income taxes	1,269.5	-	-	-	43.2	-	-	-	-	-	109.4	208.0	189.0	416.7	821.6	106.0	16.8	138.3	-	81.6	219.2	178.1
Other assets	827.6	1,333.9	800.2	768.4	365.1	412.9	339.6	335.8	288.5	304.3	321.5	249.9	251.9	195.7	151.6	197.4	200.2	133.3	91.5	95.5	44.3	40.8
TOTAL ASSETS	75,524.2	71,132.3	64,098.3	54,895.3	46,575.0	38,701.2	33,427.5	29,819.3	25,787.6	24,408.2	22,694.7	21,844.8	21,150.3	20,049.3	18,250.5	18,843.1	19,482.1	18,898.6	17,184.3	16,281.5	13,564.4	11,122.4
LIABILITIES AND SHAREHOLDERS' EQUITY																						
LIABILITIES																						
Unearned Premiums	17,796.9	15,615.8	13,437.5	12,388.8	10,686.5	8,903.5	7,468.3	6,621.8	5,440.1	5,174.5	4,930.7	4,579.4	4,353.8	4,172.9	4,175.9	4,210.4	4,335.0	4,335.1	4,108.0	3,894.7	3,304.3	2,716.7
Loss and loss adjustment expense reserves	30,631.8	26,164.1	20,265.8	18,105.4	15,400.8	13,086.9	11,368.0	10,039.0	8,857.4	8,479.7	7,838.4	7,245.8	7,071.0	6,653.0	6,177.4	5,942.7	5,725.0	5,660.3	5,285.6	4,576.3	3,813.0	3,238.0
Net federal deferred income taxes	-	152.9	310.0	132.5	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	26.0	-	-
Accounts payable, accrued expenses, and other liabilities	5,931.9	6,010.6	4,955.8	5,962.7	5,046.5	2,825.9	2,495.5	2,067.8	1,893.8	2,675.2	1,855.5	1,770.8	1,718.4	1,297.6	1,506.4	1,580.6	1,390.0	1,510.8	1,325.0	1,290.1	1,190.1	821.3
Income Taxes	-	-	-	-	-	135.0	111.3	109.3	98.9	28.4	-	-	-	-	-	-	-	-	-	-	-	-
Dividends payable	-	58.5	2,694.5	-	-	655.1	395.4	519.2	404.1	-	-	-	-	-	-	-	-	-	-	-	-	-
Debt	6,387.4	4,898.8	5,396.1	4,407.1	4,404.9	3,306.3	3,148.2	2,707.9	2,164.7	1,860.9	2,063.1	2,442.1	1,958.2	2,177.2	2,175.5	2,173.9	1,185.5	1,284.9	1,284.3	1,489.8	1,489.0	1,095.7
TOTAL LIABILITIES	60,748.0	52,900.7	47,059.7	40,996.5	35,538.7	28,912.7	24,986.7	22,065.0	18,859.0	18,218.7	16,687.7	16,038.1	15,101.4	14,300.7	14,035.2	13,907.6	12,635.5	12,791.1	12,028.9	11,250.9	9,796.4	7,871.7
REDEEMABLE NONCONTROLLING INTEREST	-	-	-	225.6	214.5	503.7	483.7	464.9	-	-	-	-	-	-	-	-	-	-	-	-	-	-
SHAREHOLDERS' EQUITY																						
Serial Preferred Shares	493.9	493.9	493.9	493.9	493.9	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Common Shares	585.1	584.4	585.2	584.6	583.2	581.7	579.9	583.6	587.8	595.8	604.6	613.0	662.4	672.6	676.5	680.2	748.0	197.3	200.4	216.4	218.0	73.4
Paid-in capital	1,839.6	1,772.9	1,672.9	1,573.4	1,479.0	1,389.2	1,303.4	1,218.8	1,184.3	1,142.0	1,077.0	1,006.2	1,007.1	939.7	892.9	834.8	847.4	848.2	743.3	688.3	584.7	554.0
Retained earnings	14,987.5	15,339.7	13,354.9	10,679.6	8,386.6	6,031.7	5,140.4	4,686.6	4,133.4	3,500.0	3,454.4	3,495.0	3,595.7	3,683.1	2,697.8	2,927.7	4,646.9	4,726.0	3,812.9	3,729.8	2,796.0	2,497.4
Accumulated other comprehensive income (loss)	(3,129.9)	40.7	931.7	341.7	(120.9)	1,282.2	933.4	800.4	1,023.1	951.7	871.0	692.5	783.7	453.2	(51.9)	492.8	604.3	398.7	444.8	425.0	169.3	125.9
Unamortized restricted stock	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(62.7)	(46.0)	(28.9)	-	-
TOTAL SHAREHOLDERS' EQUITY	14,776.2	18,231.6	17,038.6	13,673.2	10,821.8	9,284.8	7,957.1	7,289.4	6,928.6	6,189.5	6,007.0	5,806.7	6,048.9	5,748.6	4,215.3	4,935.5	6,846.6	6,107.5	5,155.4	5,030.6	3,768.0	3,250.7
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	75,524.2	71,132.3	64,098.3	54,895.3	46,575.0	38,701.2	33,427.5	29,819.3	25,787.6	24,408.2	22,694.7	21,844.8	21,150.3	20,049.3	18,250.5	18,843.1	19,482.1	18,898.6	17,184.3	16,281.5	13,564.4	11,122.4
Shares Outstanding (4:1 split in 2006 and 3:1 split in 2002)	585.1	584.4	585.2	584.6	583.2	581.7	579.9	583.6	587.8	595.8	604.6	613.0	662.4	672.6	676.5	680.2	748.0	197.3	200.4	216.4	218.0	73.4
Change in shares outstanding	0.1%	-0.1%	0.1%	0.2%	0.3%	0.3%	-0.6%	-0.7%	-1.3%	-1.5%	-1.4%	-7.5%	-1.5%	-0.6%	-0.5%	-9.1%	-5.2%	-1.5%	-7.4%	-0.7%	-1.1%	0.1%
Book Value per common share	24.41	30.35	28.27	22.54	17.71	15.96	13.72	12.49	11.79	10.39	9.94	9.47	9.13	8.55	6.23	7.26	9.15	7.74	6.43	5.81	4.32	3.69
Market Capitalization, Period End	67,994.5	59,988.7	57,864.6	42																		

Income Statements

Figures in Millions	9 Months Ending on		Fiscal Years Ending on December 31																						
	9/30/22	9/30/21	2021	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003	2002	2001		
OPERATING REVENUES:																									
Net Premiums Earned	36,349.7	32,767.3	44,368.7	39,261.6	36,192.4	30,933.3	25,729.9	22,474.0	19,899.1	18,398.5	17,103.4	16,018.0	14,902.8	14,314.8	14,012.8	13,631.4	13,877.4	14,117.9	13,764.4	13,169.9	11,341.0	8,883.5	7,161.8		
Investment Income	868.2	639.8	860.9	936.6	1,042.0	820.5	563.1	478.9	454.6	408.4	422.0	443.0	480.0	520.1	507.0	637.7	680.8	647.8	536.7	484.4	465.3	455.2	413.6		
Net realized gains (losses) on securities:																									
Net realized gains (losses) on security sales	430.0	607.8	614.3	914.7	334.6	170.7	115.7	155.8	136.5	232.1	324.5	314.8	108.1	110.0	67.9	(1,445.1)	106.3	(9.7)	(37.9)	79.3	12.7	(78.6)	(111.9)		
Net holding period gains (losses) on securities	(2,262.9)	479.8	899.9	715.3	757.9	(507.9)	(1.6)	(17.9)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-		
Net impairment losses recognized in earnings	(6.5)	(3.7)	(5.0)	-	(63.3)	(68.3)	(64.5)	(86.8)	(23.8)	(7.9)	(6.1)	(8.0)	(5.5)	(13.9)	(40.8)	-	-	-	-	-	-	-	-		
Total net realized gains (losses) on securities	(1,839.4)	1,083.9	1,509.2	1,630.0	1,029.2	(405.5)	49.6	51.1	112.7	224.2	318.4	306.8	102.6	96.1	27.1	(1,445.1)	106.3	(9.7)	(37.9)	79.3	12.7	(78.6)	(111.9)		
Fees and other revenue	531.9	516.8	691.8	603.5	563.7	472.2	370.6	332.5	302.0	309.1	291.8	281.8	-	-	-	-	-	-	-	-	-	-	-		
Service revenues	230.5	202.1	271.4	226.4	195.0	158.5	126.8	103.3	86.3	56.0	39.6	36.1	22.8	25.9	16.7	16.1	22.3	30.4	40.2	48.5	41.8	34.3	24.7		
Other income	-	-	-	-	-	-	(1.0)	1.6	(0.9)	(4.8)	(4.3)	(1.8)	(0.1)	6.4	-	-	-	-	-	-	-	31.2	-		
TOTAL REVENUES	36,140.9	35,209.9	47,702.0	42,658.1	39,022.3	31,979.0	26,839.0	23,441.4	20,853.8	19,391.4	18,170.9	17,083.9	15,508.1	14,963.3	14,563.6	12,840.1	14,686.8	14,786.4	14,303.4	13,782.1	11,892.0	9,294.4	7,488.2		
OPERATING EXPENSES:																									
Losses and loss adjustment expenses	28,298.2	24,767.6	33,627.6	25,121.8	25,470.5	21,721.0	18,808.0	16,879.6	14,342.0	13,306.2	12,472.4	11,948.0	10,634.8	10,131.3	9,904.9	10,015.0	9,926.2	9,394.9	9,364.8	8,555.0	7,640.4	6,299.1	5,264.1		
Policy acquisition costs	2,867.9	2,754.7	3,712.8	3,273.2	3,023.2	2,573.7	2,124.9	1,863.8	1,651.8	1,524.0	1,451.8	1,436.6	1,399.2	1,359.9	1,364.6	1,358.1	1,399.9	1,441.9	1,448.2	1,418.0	1,249.1	1,031.6	864.9		
Other underwriting expenses	4,433.9	4,306.0	5,654.7	5,570.0	4,975.1	4,195.8	3,480.7	2,972.0	2,712.1	2,467.1	2,350.9	2,206.3	1,821.5	1,740.1	1,567.7	1,523.4	1,526.2	1,402.8	1,312.2	1,238.6	1,010.1	874.2	686.9		
Policyholder credit expense	-	-	-	1,077.4	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Investment Expenses	17.4	18.5	25.5	20.0	24.6	24.3	23.9	22.4	22.8	18.9	18.8	15.4	13.5	11.9	11.1	8.8	12.4	11.9	12.1	13.9	11.5	11.5	12.7		
Service Expenses	221.5	190.0	252.8	205.5	178.9	134.1	109.5	92.0	77.5	50.9	38.8	36.1	19.4	21.4	19.4	20.4	20.5	24.4	24.6	25.0	25.7	22.0	19.8		
Interest Expense	180.4	167.0	218.6	217.0	189.7	166.5	153.1	140.9	136.0	116.9	118.2	123.8	132.7	133.5	139.0	136.7	108.6	77.3	82.6	80.8	95.5	74.6	52.2		
Goodwill impairment	224.8	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
TOTAL EXPENSES	36,244.1	32,203.8	43,492.0	35,484.9	33,862.0	28,815.4	24,700.1	21,970.7	18,942.2	17,484.0	16,450.9	15,766.2	14,021.1	13,398.1	13,006.7	13,062.4	12,993.8	12,353.2	12,244.5	11,331.3	10,032.3	8,313.0	6,900.6		
Income Before income taxes	(103.2)	3,006.1	4,210.0	7,173.2	5,160.3	3,163.6	2,138.9	1,470.7	1,911.6	1,907.4	1,720.0	1,317.7	1,487.0	1,565.2	1,556.9	(222.3)	1,693.0	2,433.2	2,058.9	2,450.8	1,859.7	981.4	587.6		
Provision for income taxes	1.7	617.5	859.1	1,468.6	1,180.3	542.6	540.8	413.5	611.1	626.4	554.6	415.4	471.5	496.9	499.4	(152.3)	510.5	785.7	665.0	802.1	604.3	314.1	176.2		
NET INCOME (LOSS)	(104.9)	2,388.6	3,350.9	5,704.6	3,980.0	2,621.0	1,598.1	1,057.2	1,300.5	1,281.0	1,165.4	902.3	1,015.5	1,068.3	1,057.5	(70.0)	1,182.5	1,647.5	1,393.9	1,648.7	1,255.4	667.3	411.4		
Net income attributable to non-controlling interest, net of tax	-	-	-	-	9.7	5.7	5.9	26.2	32.9	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
NET INCOME (LOSS) ATTRIBUTABLE TO PROGRESSIVE	(104.9)	2,388.6	3,350.9	5,704.6	3,970.3	2,615.3	1,592.2	1,031.0	1,267.6	1,281.0	1,165.4	902.3	1,015.5	1,068.3	1,057.5	(70.0)	1,182.5	1,647.5	1,393.9	1,648.7	1,255.4	667.3	411.4		
Other Comprehensive Income (Loss):																									
Changes in:																									
Total net unrealized gains (losses) on securities	(3,170.0)	(578.3)	(891.1)	586.5	466.4	(99.3)	355.4	130.6	(212.9)	74.9	84.3	179.9	(84.5)	337.1	696.6	(541.8)	(131.8)	206.7	(45.0)	16.9	255.8	40.9	52.0		
Net unrealized losses on forecasted transactions	0.3	0.6	0.7	0.8	0.8	0.8	(5.4)	(1.2)	(9.7)	(2.6)	(2.0)	(1.8)	(6.8)	(6.9)	(3.3)	(2.9)	20.3	(1.1)	(1.1)	(1.0)	(1.0)	2.5	9.2		
Foreign currency translation adjustment	(0.9)	(0.7)	(0.6)	-	-	-	1.1	0.4	(1.2)	(0.9)	(1.6)	0.4	0.1	0.3	1.4	-	-	-	-	3.9	0.9	-	-		
Other comprehensive income (loss)	(3,170.6)	(578.4)	(891.0)	587.3	467.2	(98.5)	351.1	129.8	(223.8)	71.4	80.7	178.5	(91.2)	330.5	694.7	(544.7)	(111.5)	205.6	(46.1)	19.8	255.7	43.4	61.2		
Other comprehensive income (loss) attributable to NCI	-	-	-	-	(4.6)	3.3	(2.3)	3.2	1.1	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
COMPREHENSIVE INCOME (LOSS)	(3,275.5)	1,810.2	2,459.9	6,291.9	4,432.9	2,520.1	1,941.0	1,164.0	1,044.9	1,352.4	1,246.1	1,080.8	924.3	1,398.8	1,752.2	(614.7)	1,071.0	1,853.1	1,347.8	1,668.5	1,511.1	710.7	472.6		
Average diluted shares outstanding	587.1	587.3	587.1	587.6	587.2	586.7	585.7	585.0	589.2	594.8	603.6	607.8	636.9	663.3	672.2	668.0	718.5	783.8	799.2	864.8	882.1	892.8	900.8		
Diluted Net Income per Share	(0.21)	4.03	5.66	9.66	6.72	4.42	2.72	1.76	2.15	2.15	1.93	1.48	1.59	1.61	1.57	(0.10)	1.65	2.10	1.74	1.91	1.42	0.75	0.46		
Diluted Comprehensive Income per Share	(5.58)	3.08	4.19	10.71	7.55	4.30	3.31	1.99	1.77	2.27	2.06	1.78	1.45	2.11	2.61	(0.92)	1.49	2.36	1.69	1.93	1.71	0.80	0.52		
Insurance Ratios - (All Insurance Subsidiaries)																									
Underwriting Losses as % of Premiums	77.8%	75.6%	75.8%	64.0%	70.4%	70.2%	73.1%	75.1%	72.1%	72.3%	72.9%	74.6%	71.4%	70.8%	70.7%	73.5%	71.5%	66.5%	68.0%	65.0%	67.4%	70.9%	73.5%		
Expenses as % of Premiums	18.6%	20.0%	19.6%	23.7%	20.5%	20.4%	20.3%	20.0%	20.4%	20.0%	20.5%	21.0%	21.6%	21.7%	20.9%	21.1%	21.1%	20.1%	20.1%	20.2%	19.9%	21.5%	21.7%		
Combined Ratio	96.5%	95.6%	95.3%	87.7%	90.9%	90.6%	93.4%	95.1%	92.5%	92.3%	93.5%	95.6%	93.0%	92.4%	91.6%	94.6%	92.6%	86.7%	88.1%	85.1%	87.3%	92.4%	95.2%		

Segment Data

Revenue Summary	9ME 9/30/22	2021	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
Personal Lines																		
Agency	13,131.7	16,881.0	15,789.5	14,904.1	13,017.2	11,177.6	9,791.7	9,108.6	9,087.0	8,601.5	8,103.9	7,627.4	7,419.7	7,414.8	7,362.0	7,636.4	7,903.6	7,993.1
Direct	14,776.9	18,492.3	16,830.6	15,305.9	13,017.5	10,769.6	9,396.5	8,185.9	7,474.0	6,740.1	6,264.2	5,803.7	5,407.2	4,951.1	4,485.8	4,372.6	4,337.4	4,076.2
Total Personal Lines	27,908.6	35,373.3	32,620.1	30,210.0	26,034.7	21,947.2	19,188.2	17,294.5	16,561.0	15,341.6	14,368.1	13,431.1	12,826.9	12,365.9	11,847.8	12,009.0	12,241.0	12,069.3
Commercial Auto	6,749.5	6,945.2	4,875.8	4,427.6	3,610.9	2,793.9	2,421.3	1,995.9	1,837.5	1,761.6	1,649.0	1,467.1	1,474.2	1,623.3	1,762.2	1,846.9	1,851.9	1,667.8
Property	1,689.6	2,042.5	1,765.7	1,554.8	1,287.7	988.8	864.5	609.1	-	-	-	-	-	-	-	-	-	-
Other indemnity	2.0	7.7	-	-	-	-	-	(0.4)	-	0.2	0.9	4.6	13.7	23.6	21.4	21.5	25.0	27.3
Total underwriting operations	36,349.7	44,368.7	39,261.6	36,192.4	30,933.3	25,729.9	22,474.0	19,899.1	18,398.5	17,103.4	16,018.0	14,902.8	14,314.8	14,012.8	13,631.4	13,877.4	14,117.9	13,764.4
Fees and other revenues	531.9	691.8	603.5	563.7	472.2	370.6	332.5	302.0	309.1	291.8	281.8	-	-	-	-	-	-	-
Service businesses	230.5	271.4	226.4	195.0	158.5	126.8	103.3	86.3	56.0	39.6	36.1	22.8	25.9	16.7	16.1	22.3	30.4	40.2
Investments	(971.2)	2,370.1	2,566.6	2,071.2	415.0	612.7	530.0	567.3	632.6	740.4	749.8	582.6	616.2	534.1	(807.4)	787.1	638.1	498.8
Net gain on extinguishment of debt	-	-	-	-	-	(1.0)	1.6	(0.9)	(4.8)	(4.3)	(1.8)	(0.1)	6.4	-	-	-	-	-
Property - Goodwill Impairment	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Interest expense	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Consolidated Total	36,140.9	47,702.0	42,658.1	39,022.3	31,979.0	26,839.0	23,441.4	20,853.8	19,391.4	18,170.9	17,083.9	15,508.1	14,963.3	14,563.6	12,840.1	14,686.8	14,786.4	14,303.4

Pre-Tax Profit Summary	9ME 9/30/22	2021	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
Personal Lines																		
Agency	507.6	992.1	2,236.5	1,673.2	1,435.7	839.6	492.8	713.2	683.0	542.9	338.9	564.9	601.0	579.2	360.7	500.2	936.7	857.6
Direct	389.4	619.2	2,076.5	1,181.4	1,088.5	683.7	412.2	403.4	423.4	473.9	289.5	354.4	291.1	357.9	274.8	339.9	568.6	475.7
Total Personal Lines	897.0	1,611.3	4,313.0	2,854.6	2,524.2	1,523.3	905.0	1,116.6	1,106.4	1,016.8	628.4	919.3	892.1	937.1	635.5	840.1	1,505.3	1,333.3
Commercial Auto	683.5	767.8	634.8	458.8	478.6	214.1	155.2	318.3	315.8	114.1	86.3	133.5	185.0	229.8	94.1	185.7	366.5	298.0
Property	(289.6)	(312.3)	(125.1)	(26.1)	(88.7)	(50.3)	32.5	61.3	-	-	-	-	-	-	-	-	-	-
Other indemnity	(9.3)	(1.4)	-	-	0.9	(0.2)	(1.6)	(1.0)	(11.9)	(10.8)	(5.8)	(5.5)	6.4	8.7	5.3	(0.7)	6.5	7.9
Total underwriting operations	1,281.6	2,065.4	4,822.7	3,287.3	2,915.0	1,686.9	1,091.1	1,495.2	1,410.3	1,120.1	708.9	1,047.3	1,083.5	1,175.6	734.9	1,025.1	1,878.3	1,639.2
Fees and other revenues	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Service businesses	9.0	18.6	20.9	16.1	24.4	17.3	11.3	8.8	5.1	0.8	-	3.4	4.5	(2.7)	(4.3)	1.8	6.0	15.6
Investments	(988.6)	2,344.6	2,546.6	2,046.6	390.7	588.8	507.6	544.5	613.7	721.6	734.4	569.1	604.3	523.0	(816.2)	774.7	626.2	486.7
Net gain on extinguishment of debt	-	-	-	-	-	(1.0)	1.6	(0.9)	(4.8)	(4.3)	(1.8)	(0.1)	6.4	-	-	-	-	-
Property - Goodwill Impairment	(224.8)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Interest expense	(180.4)	(218.6)	(217.0)	(189.7)	(166.5)	(153.1)	(140.9)	(136.0)	(116.9)	(118.2)	(123.8)	(132.7)	(133.5)	(139.0)	(136.7)	(108.6)	(77.3)	(82.6)
Consolidated Total	(103.2)	4,210.0	7,173.2	5,160.3	3,163.6	2,138.9	1,470.7	1,911.6	1,907.4	1,720.0	1,317.7	1,487.0	1,565.2	1,556.9	(222.3)	1,693.0	2,433.2	2,058.9

Combined Ratios:	9ME 9/30/22	2021	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
Personal lines agency	96.1%	94.1%	85.8%	88.8%	89.0%	92.5%	95.0%	92.2%	92.5%	93.7%	95.8%	92.6%	91.9%	92.2%	95.1%	93.4%	88.1%	89.3%
Personal lines direct	97.4%	96.7%	87.7%	92.3%	91.6%	93.7%	95.6%	95.1%	94.3%	93.0%	95.4%	93.9%	94.6%	92.8%	93.9%	92.2%	86.9%	88.3%
Personal lines - Total	96.8%	95.4%	86.8%	90.6%	90.3%	93.1%	95.3%	93.5%	93.3%	93.4%	95.6%	93.2%	93.0%	92.4%	94.6%	93.0%	87.7%	89.0%
Commercial lines	89.9%	88.9%	87.0%	89.6%	86.7%	92.3%	93.6%	84.1%	82.8%	93.5%	94.8%	90.9%	87.5%	85.8%	94.7%	89.9%	80.2%	82.1%
Property	117.1%	115.3%	107.1%	101.7%	106.9%	105.1%	96.2%	89.9%	n/a									
Total	96.5%	95.3%	87.7%	90.9%	90.6%	93.4%	95.1%	92.5%	92.3%	93.5%	95.6%	93.0%	92.4%	91.6%	94.6%	92.6%	86.7%	88.1%

Cash Flow Statements

Figures in Millions	9 Months Ending on		Fiscal Years Ending on December 31										Cumulative Totals 2012 to Q3 2022
	9/30/22	9/30/21	2021	2020	2019	2018	2017	2016	2015	2014	2013	2012	
Cash Flows From Operating Activities:													
Net Income	(104.9)	2,388.6	3,350.9	5,704.6	3,980.0	2,621.0	1,598.1	1,057.2	1,300.5	1,281.0	1,165.4	902.3	22,856.1
Adjustments to reconcile net income to net cash provided by operating activities:													
Depreciation	227.5	203.9	279.7	274.9	239.8	190.4	169.9	137.4	103.7	97.1	101.3	94.4	1,916.1
Amortization of intangible assets	25.5	43.1	57.7	56.9	66.3	72.0	66.2	62.1	46.8	-	-	-	453.5
Net amortization of fixed-income securities	1.6	97.2	130.3	100.9	33.3	34.3	86.2	77.2	98.4	78.2	134.0	186.7	961.1
Amortization of equity-based compensation	69.7	68.7	100.7	89.4	90.2	77.2	95.4	85.2	66.2	51.4	64.9	63.4	853.7
Net realized (gains) losses on securities	1,839.4	(1,083.9)	(1,509.2)	(1,630.0)	(1,029.2)	405.5	(49.6)	(51.1)	(112.7)	(224.2)	(318.4)	(306.8)	(2,986.3)
Net (gains) losses on disposition of property and equipment	5.3	(4.0)	(3.6)	12.5	11.0	32.1	7.2	6.6	2.0	5.4	5.6	7.1	91.2
Goodwill impairment	224.8	-	-	-	-	-	-	-	-	-	-	-	224.8
Other (gains) losses	-	-	-	-	-	-	1.0	(1.6)	0.9	4.8	4.3	1.8	11.2
Net loss on exchange transaction	-	-	-	-	-	-	-	4.5	-	-	-	-	4.5
Changes in:													
Premiums receivable	(1,468.2)	(1,994.0)	(1,146.8)	(652.8)	(1,010.2)	(1,074.6)	(913.2)	(518.5)	(421.1)	(227.1)	(127.4)	(253.8)	(7,813.7)
Reinsurance recoverables	(1,326.3)	(573.1)	(508.7)	(640.5)	(682.8)	(422.7)	(388.6)	(388.2)	(202.6)	(141.7)	(189.2)	(83.0)	(4,974.3)
Prepaid reinsurance premiums	90.1	(278.4)	(74.9)	258.4	(316.8)	(106.4)	(32.8)	48.8	32.5	(10.4)	(8.6)	3.5	(116.6)
Deferred acquisition costs	(229.6)	(193.5)	(118.4)	(180.7)	(104.9)	(171.1)	(129.3)	(103.8)	(42.3)	(9.6)	(13.1)	(0.9)	(1,103.7)
Income taxes	(591.6)	(156.2)	(86.0)	(23.1)	227.2	(158.7)	(172.6)	(55.7)	(107.2)	97.5	57.8	19.8	(792.6)
Unearned premiums	2,181.1	3,167.0	2,111.4	1,048.7	1,702.3	1,783.0	1,434.9	830.7	632.4	266.4	244.8	351.1	12,586.8
Loss and loss adjustment expense reserves	4,467.7	4,511.7	4,752.8	2,160.4	2,704.6	2,313.9	1,718.8	1,323.2	917.7	378.0	641.6	592.6	21,971.3
Account payable, accrued expenses, and other liabilities	546.5	1,033.0	399.7	328.9	611.6	746.6	400.0	308.9	37.9	92.0	165.0	123.6	3,760.7
Other, net	(39.4)	79.5	26.1	(2.9)	(260.8)	(57.7)	(134.8)	(90.2)	(60.2)	(13.2)	(28.1)	(10.4)	(671.6)
Net cash provided by operating activities	5,919.2	7,309.6	7,761.7	6,905.6	6,261.6	6,284.8	3,756.8	2,732.7	2,292.9	1,725.6	1,899.9	1,691.4	47,232.2
Cash Flows From Investing Activities:													
Purchases:													
Fixed maturities	(18,672.7)	(25,222.2)	(33,177.5)	(32,037.5)	(28,765.2)	(21,153.0)	(14,587.8)	(11,610.6)	(9,311.1)	(7,967.5)	(7,100.6)	(5,199.2)	(189,582.7)
Equity securities	(126.5)	(464.9)	(838.1)	(951.2)	(379.9)	(538.8)	(255.6)	(434.2)	(647.1)	(369.7)	(322.2)	(463.1)	(5,326.4)
Sales:													
Fixed maturities	9,737.6	11,747.1	18,965.2	22,727.2	18,412.7	7,835.6	5,382.5	5,694.9	4,913.5	5,637.5	3,083.9	3,705.6	106,096.2
Equity securities	1,467.0	625.2	780.6	431.8	471.4	823.5	252.9	484.6	402.4	560.1	369.2	793.0	6,836.5
Maturities, paydowns, calls, and other:													
Fixed maturities	4,158.5	5,545.5	7,013.8	7,109.4	6,145.5	5,099.8	5,215.8	4,907.4	3,579.5	2,296.6	1,859.6	1,488.9	48,874.8
Equity securities	39.3	119.1	223.1	113.8	49.9	26.6	50.0	-	12.0	14.3	21.5	16.0	566.5
Net (purchases) sales of short-term investments	(3,266.6)	4,209.3	4,355.7	(3,393.2)	31.5	1,116.3	727.6	(1,357.2)	20.5	(876.0)	716.6	(438.2)	(2,363.0)
Net unsettled securities transactions	(68.7)	304.2	47.9	83.6	6.0	11.7	(33.6)	50.9	(8.2)	(30.0)	152.2	(44.0)	167.8
Acquisition of ARX Holding Corp, net of cash acquired	-	-	-	-	-	-	-	-	(765.3)	-	-	-	(765.3)
Acquisition of Protective Insurance, net of cash acquired	-	(313.2)	(313.2)	-	-	-	-	-	-	-	-	-	(313.2)
Acquisition of an insurance company, net of cash acquired	-	-	-	-	-	-	(18.1)	-	-	-	-	-	(18.1)
Purchases of property and equipment	(245.0)	(188.3)	(243.5)	(223.5)	(363.5)	(266.0)	(155.7)	(215.0)	(130.7)	(108.1)	(140.4)	(127.7)	(2,219.1)
Sales of property and equipment	16.0	63.1	66.2	21.9	53.3	9.4	15.3	6.2	10.6	5.9	3.7	3.8	212.3
Net cash disposed in exchange transaction	-	-	-	-	-	-	-	(7.7)	-	-	-	-	(7.7)
Net cash used in investing activities	(6,961.1)	(3,575.1)	(3,119.8)	(6,117.7)	(4,338.3)	(7,034.9)	(3,406.7)	(2,480.7)	(1,923.9)	(836.9)	(1,356.5)	(264.9)	(37,841.4)
Cash Flows From Financing Activities:													
Dividends paid to common shareholders	(175.5)	(2,811.5)	(3,746.5)	(1,551.0)	(1,643.2)	(654.9)	(395.4)	(519.0)	(403.6)	(892.6)	(175.6)	(853.7)	(11,011.0)
Dividends paid to preferred shareholders	(26.8)	(26.8)	(26.8)	(26.8)	(26.8)	(13.5)	-	-	-	-	-	-	(120.7)
Acquisition of treasury shares for restricted stock tax liabilities	(76.2)	(66.9)	(67.2)	(68.7)	(84.4)	(78.6)	(57.6)	(25.1)	(30.6)	-	-	-	(488.4)
Acquisition of treasury shares acquired in open market	(2.4)	(100.3)	(155.8)	(42.9)	(6.9)	(0.4)	(4.9)	(167.4)	(177.9)	(271.4)	(273.4)	(174.2)	(1,277.6)
Payment of acquired company debt	-	(20.0)	(20.0)	-	-	-	-	-	-	-	-	-	(20.0)
Payments of debt	-	(500.0)	(500.0)	-	-	(37.1)	(49.0)	(25.5)	(20.4)	-	(150.0)	(350.0)	(1,132.0)
Acquisition of additional shares of ARX Holding Corp.	-	-	-	(243.0)	(11.2)	(296.9)	-	-	-	-	-	-	(551.1)
Net proceeds from debt issuance	1,486.0	-	986.3	-	1,134.0	841.1	495.6	382.0	344.7	-	-	-	5,669.7
Redemption/reacquisition of subordinated debt	-	-	-	-	-	(635.6)	(18.2)	(19.3)	(48.9)	(58.1)	(32.5)	(812.6)	(812.6)
Net proceeds from issuance of Series B Preferred Shares	-	-	-	-	493.9	-	-	-	-	-	-	-	493.9
Tax benefit from vesting of equity-based compensation	-	-	-	-	-	-	9.2	16.8	12.8	10.3	5.8	5.9	54.9
Proceeds from exercise of equity options	-	-	7.3	1.6	3.3	0.5	-	0.2	-	-	0.5	-	13.4
Net cash used in financing activities	1,205.1	(3,525.5)	(4,516.3)	(938.8)	(1,770.9)	549.8	(300.9)	(250.4)	(252.8)	(855.4)	(646.8)	(1,404.1)	(9,181.5)
Effect of exchange rate changes on cash	-	-	-	-	-	-	(0.3)	0.4	(0.2)	-	(0.6)	1.0	0.3
Increase (decrease) in cash and cash equivalents	163.2	209.0	125.6	(150.9)	152.4	(200.3)	48.9	2.0	116.0	33.3	(104.0)	23.4	209.6
Cash and cash equivalents - beginning of year	202.1	76.5	76.5	227.4	75.0	275.3	226.4	224.4	108.4	75.1	179.1	155.7	155.7
Cash and cash equivalents - end of year	365.3	285.5	202.1	76.5	227.4	75.0	275.3	226.4	224.4	108.4	75.1	179.1	365.3

Investment Portfolio

Figures in millions	9/30/22	12/31/21	12/31/20	12/31/19	12/31/18	12/31/17	12/31/16	12/31/15	12/31/14	12/31/13	12/31/12	12/31/11	12/31/10	12/31/09	12/31/08	12/31/07	12/31/06	12/31/05	12/31/04	12/31/03	12/31/02	12/31/01
Fixed maturities:																						
U.S. government obligations	22,405.5	18,488.2	12,740.0	13,251.1	9,916.5	6,645.9	2,870.1	2,429.2	2,667.1	3,662.2	2,896.5	2,963.0	3,242.6	4,817.5	3,693.6	1,207.1	3,203.4	2,245.3	1,962.5	1,312.2	1,646.9	667.7
State and local government obligations	1,925.5	2,185.3	3,221.8	1,713.3	1,649.1	2,297.1	2,502.6	2,721.4	2,139.2	2,256.0	1,964.4	2,002.1	1,989.1	2,024.0	3,004.4	3,745.1	3,119.7	3,635.9	2,940.4	2,930.2	1,976.0	1,084.6
Foreign government obligations	15.3	17.9	-	-	-	-	24.5	18.6	14.2	15.6	-	-	-	-	16.4	30.2	29.8	30.3	31.4	14.6	26.4	39.1
Corporate debt securities	9,228.4	10,692.1	10,185.2	7,067.7	8,694.3	4,997.7	4,550.9	3,691.6	2,836.7	2,926.6	3,113.0	2,896.2	2,646.1	1,281.4	639.3	1,078.4	1,116.8	1,812.6	1,781.3	1,833.8	1,512.8	1,852.2
Residential mortgage-backed securities	723.0	790.0	509.5	627.5	734.4	836.7	1,458.7	1,726.7	1,658.5	1,127.9	428.2	426.9	563.6	516.4	623.0	-	-	-	-	-	-	-
Agency residential pass-through obligations	-	-	-	-	-	-	40.6	89.3	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Commercial mortgage-backed securities	5,087.9	6,535.6	6,175.1	5,076.2	3,301.6	2,758.6	2,253.4	2,653.2	2,315.6	2,160.5	2,048.7	1,876.6	1,832.1	1,590.1	1,450.0	2,511.6	2,390.1	2,376.0	2,368.7	3,042.6	2,550.4	2,305.4
Other asset-backed securities	4,605.9	4,982.3	3,784.6	5,179.5	3,577.3	2,454.7	2,351.1	1,767.9	1,638.7	1,077.7	948.6	1,220.6	1,074.0	726.2	129.1	-	-	-	-	-	-	-
Redeemable preferred stocks	181.6	181.7	194.7	195.0	238.3	211.0	191.9	234.3	279.2	313.9	374.7	373.9	502.5	606.7	387.9	612.5	99.1	121.8	-	-	-	-
Other debt obligations	-	-	-	-	-	-	-	-	-	-	-	-	-	1.1	3.0	-	-	-	-	-	-	-
Total fixed maturities	44,173.1	43,873.1	36,810.9	33,110.3	28,111.5	20,201.7	16,243.8	15,332.2	13,549.2	13,540.4	11,774.1	11,759.3	11,850.0	11,563.4	9,946.7	9,184.9	9,958.9	10,221.9	9,084.3	9,133.4	7,712.5	5,949.0
Equity securities:																						
Nonredeemable preferred stocks	1,254.4	1,639.9	1,447.9	1,038.9	1,033.9	803.8	853.5	782.6	827.5	711.2	812.4	806.3	1,157.6	1,255.8	1,150.0	2,270.3	1,781.0	1,220.3	768.9	778.8	656.7	713.9
Common equities	2,665.3	5,058.5	4,053.0	3,306.3	2,626.1	3,399.8	2,812.4	2,650.5	2,492.3	2,530.5	1,899.0	1,845.6	1,425.0	816.2	727.8	2,327.5	2,368.1	2,058.9	1,851.9	1,972.1	1,347.3	1,336.0
Total equity securities	3,919.7	6,698.4	5,500.9	4,345.2	3,660.0	4,203.6	3,665.9	3,433.1	3,319.8	3,241.7	2,711.4	2,651.9	2,582.6	2,072.0	1,877.8	4,597.8	4,149.1	3,279.2	2,620.8	2,750.9	2,004.0	2,049.9
Short-term investments	4,237.6	942.6	5,218.5	1,798.8	1,795.9	2,869.4	3,572.9	2,172.0	2,149.0	1,272.6	1,990.0	1,551.8	1,090.8	1,078.0	1,153.6	382.4	581.2	773.6	1,376.9	648.0	567.8	227.4
Total portfolio	52,330.4	51,514.1	47,530.3	39,254.3	33,567.4	27,274.7	23,482.6	20,937.3	19,018.0	18,054.7	16,475.5	15,963.0	15,523.4	14,713.4	12,978.1	14,165.1	14,689.2	14,274.7	13,082.0	12,532.3	10,284.3	8,226.3
	52,330.4	51,514.1	47,530.3	39,254.3	33,567.4	27,274.7	23,482.6	20,937.3	19,018.0	18,054.7	16,475.5	15,963.0	15,523.4	14,713.4	12,978.1	14,165.1	14,689.2	14,274.7	13,082.0	12,532.3	10,284.3	8,226.3
Investment Portfolio Allocation (%)	9/30/22	12/31/21	12/31/20	12/31/19	12/31/18	12/31/17	12/31/16	12/31/15	12/31/14	12/31/13	12/31/12	12/31/11	12/31/10	12/31/09	12/31/08	12/31/07	12/31/06	12/31/05	12/31/04	12/31/03	12/31/02	12/31/01
Fixed maturities:																						
U.S. government obligations	42.8%	35.9%	26.8%	33.8%	29.5%	24.4%	12.2%	11.6%	14.0%	20.3%	17.6%	18.6%	20.9%	32.7%	28.5%	8.5%	21.8%	15.7%	15.0%	10.5%	16.0%	8.1%
State and local government obligations	3.7%	4.2%	6.8%	4.4%	4.9%	8.4%	10.7%	13.0%	11.2%	12.5%	11.9%	12.5%	12.8%	13.8%	23.1%	26.4%	21.2%	25.5%	22.5%	23.4%	19.2%	13.2%
Foreign government obligations	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.1%	0.1%	0.1%	0.1%	0.0%	0.0%	0.0%	0.0%	0.1%	0.2%	0.2%	0.2%	0.2%	0.1%	0.3%	0.5%
Corporate debt securities	17.6%	20.8%	21.4%	18.0%	25.9%	18.3%	19.4%	17.6%	14.9%	16.2%	18.9%	18.1%	17.0%	8.7%	4.9%	7.6%	7.6%	12.7%	13.6%	14.6%	14.7%	22.5%
Residential mortgage-backed securities	1.4%	1.5%	1.1%	1.6%	2.2%	3.1%	6.2%	8.2%	8.7%	6.2%	2.6%	2.7%	3.6%	3.5%	4.8%	-	-	-	-	-	-	-
Agency residential pass-through obligations	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.2%	0.4%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	17.7%	16.3%	16.6%	18.1%	24.3%	24.8%	28.0%
Commercial mortgage-backed securities	9.7%	12.7%	13.0%	12.9%	9.8%	10.1%	9.6%	12.7%	12.2%	12.0%	12.4%	11.8%	11.8%	10.8%	11.2%	-	-	-	-	-	-	-
Other asset-backed securities	8.8%	9.7%	8.0%	13.2%	10.7%	9.0%	10.0%	8.4%	8.6%	6.0%	5.8%	7.6%	6.9%	4.9%	1.0%	-	-	-	-	-	-	-
Redeemable preferred stocks	0.3%	0.4%	0.4%	0.5%	0.7%	0.8%	0.8%	1.1%	1.5%	1.7%	2.3%	2.3%	3.2%	4.1%	3.0%	4.3%	0.7%	0.9%	0.0%	0.0%	0.0%	0.0%
Total fixed maturities	84.4%	85.2%	77.4%	84.3%	83.7%	74.1%	69.2%	73.2%	71.2%	75.0%	71.5%	73.7%	76.3%	78.6%	76.6%	64.8%	67.8%	71.6%	69.4%	72.9%	75.0%	72.3%
Equity securities:																						
Nonredeemable preferred stocks	2.4%	3.2%	3.0%	2.6%	3.1%	2.9%	3.6%	3.7%	4.4%	3.9%	4.9%	5.1%	7.5%	8.5%	8.9%	16.0%	12.1%	8.5%	5.9%	6.2%	6.4%	8.7%
Common equities	5.1%	9.8%	8.5%	8.4%	7.8%	12.5%	12.0%	12.7%	13.1%	14.0%	11.5%	11.6%	9.2%	5.5%	5.6%	16.4%	16.1%	14.4%	14.2%	15.7%	13.1%	16.2%
Total equity securities	7.5%	13.0%	11.6%	11.1%	10.9%	15.4%	15.6%	16.4%	17.5%	18.0%	16.5%	16.6%	16.6%	14.1%	14.5%	32.5%	28.2%	23.0%	20.0%	22.0%	19.5%	24.9%
Short-term investments	8.1%	1.8%	11.0%	4.6%	5.4%	10.5%	15.2%	10.4%	11.3%	7.0%	12.1%	9.7%	7.0%	7.3%	8.9%	2.7%	4.0%	5.4%	10.5%	5.2%	5.5%	2.8%
Total portfolio	100.0%																					
Duration Distribution	9/30/22	12/31/21	12/31/20	12/31/19	12/31/18	12/31/17	12/31/16	12/31/15	12/31/14	12/31/13	12/31/12	12/31/11	12/31/10	12/31/09	12/31/08	12/31/07	12/31/06	12/31/05	12/31/04	12/31/03	12/31/02	12/31/01
1 year	19.3%	22.0%	19.5%	23.9%	19.4%	19.8%	25.9%	28.4%	36.1%	26.9%	29.8%	22.6%	34.6%	18.1%	19.6%	12.5%	-	-	-	-	-	-
2 years	19.1%	18.8%	18.7%	11.8%	17.0%	15.7%	13.4%	15.6%	19.4%	24.9%	17.7%	22.3%	15.5%	21.8%	19.9%	18.2%	-	-	-	-	-	-
3 years	23.1%	23.5%	24.9%	20.6%	27.0%	27.0%	24.2%	18.1%	15.0%	23.4%	28.4%	31.5%	23.4%	20.7%	17.6%	24.6%	-	-	-	-	-	-
5 years	20.4%	17.6%	18.5%	23.1%	22.8%	24.1%	21.4%	27.7%	23.8%	22.2%	17.8%	20.8%	22.6%	27.5%	32.1%	27.4%	-	-	-	-	-	-
10 years and up	18.1%	18.1%	18.4%	20.6%	13.8%	13.4%	15.1%	10.2%	5.7%	2.6%	6.3%	2.8%	3.9%	11.9%	10.8%	17.3%	-	-	-	-	-	-
Total	100.0%																					
Fixed Income portfolio duration, years	2.7	3.0	2.9	3.0	2.8	2.5	2.2	1.9	1.6	2.0	1.9	1.9	2.0	2.3	3.2	3.5	3.1	3.2	2.9	3.3	3.2	3.7
Credit Quality Distribution of Fixed Income Portfolio	9/30/22	12/31/21	12/31/20	12/31/19	12/31/18	12/31/17	12/31/16	12/31/15	12/31/14	12/31/13	12/31/12	12/31/11	12/31/10	12/31/09	12/31/08	12/31/07	12/31/06	12/31/05	12/31/04	12/31/03	12/31/02	12/31/01
AAA	63.2%	54.7%	53.3%	60.8%	50.5%	45.																

Notes

¹ **Progressive's history** is covered in some detail on the company's website at <https://www.progressive.com/about/history>, retrieved on December 7, 2022.

² **For more background on Peter Lewis**, see his Wikipedia entry at https://en.wikipedia.org/wiki/Peter_B._Lewis and *Peter Lewis's Balancing Act* by Rory O'Conner, June 1, 1987 in Cleveland Magazine at <https://clevelandmagazine.com/in-the-cle/the-read/articles/peter-lewis's-balancing-act>. Links retrieved on December 7, 2022.

³ **For background on the automobile industry**, see *The Automobile Industry* published on Rational Reflections on August 4, 2022 and available at <https://rationalreflections.substack.com/p/the-automobile-industry>. This article focuses mostly on the new and used vehicle market but also contains statistical information on the industry, some of which has been used in this report as well.

⁴ **U.S Population Estimated at 332,403,650 on January 1, 2022**, United States Census Bureau, January 6, 2022. This article is available at <https://www.commerce.gov/news/blog/2022/01/us-population-estimated-332403650-jan-1-2022>, retrieved on December 16, 2022.

⁵ **Vehicles Available**, United States Census Bureau available at <https://www.census.gov/acs/www/about/why-we-ask-each-question/vehicles>, retrieved on December 16, 2022. This article contains a link to the "Selected Housing Characteristics (DP04)" section of the American Community Survey. One can search for vehicle availability at the state level and, drilling down further, at the county and city level as well.

⁶ **Average Car Payment and Auto Loan Statistics** by Jenn Jones, December 14, 2022 available at <https://www.lendingtree.com/auto/debt-statistics>, retrieved on December 16, 2022. This article contains a number of relevant statistics with primary sources of Experian, U.S. Bureau of Labor Statistics, Federal Reserve Bank of New York, and the Consumer Financial Protection Bureau.

⁷ **Exceptions to purchasing automobile insurance exist in New Hampshire and Virginia. New Hampshire** does not mandate auto insurance but drivers who choose to not buy insurance must prove that they have sufficient funds to meet the state's requirements for financial responsibility. This is defined as being able to pay \$25,000 due to bodily injury or death of one person, \$50,000 due to bodily injury or death of two or more people in one accident, and \$25,000 because of destruction of property. Importantly, proving funds to cover these amounts is not the maximum liability one can be sued for in the state. See https://www.nh.gov/insurance/consumers/documents/nh_auto_guide.pdf, retrieved on December 16, 2022. **Virginia** requires vehicles to be covered by insurance but allows the operation of uninsured vehicles at the owner's risk for a payment of a \$500 per year uninsured motor vehicle fee. The fee does not provide any insurance coverage. See <https://www.dmv.virginia.gov/vehicles/#insurance.asp>, retrieved on December 16, 2022.

⁸ **Bankrate estimated the average cost of auto insurance in December 2022 as \$1,771/year for full coverage and \$545/year for minimum liability coverage.** The study involved analyzing insurance rates in all fifty states and Washington D.C. for a 40-year-old male and female driver with a clean driving record, good credit and who drives a 2020 Toyota Camry 12,000 miles per year including for commute purposes five days per week. Minimum coverage is based on coverage mandated by each state and generally involves a liability policy only. Bankrate published state-by-state data as well. Maine is the cheapest state for auto insurance with an average of \$876 per year. New York is the most expensive state with an average of \$2,996 per year. Data retrieved on December 16, 2022. For more information, see <https://www.bankrate.com/insurance/car/average-cost-of-car-insurance>, retrieved on December 17, 2022.

⁹ **Progressive provides a state-by-state listing of minimum auto insurance requirements.** Connecticut's requirements are used in the narrative because they are fairly typical. For more information, see <https://www.progressive.com/answers/state-car-insurance-information>, retrieved on December 17, 2022.

¹⁰ **Adverse selection and moral hazard** result from information asymmetries. Adverse selection, in the context of insurance, involves the tendency of those most likely to be at risk to seek out high levels of coverage. Moral hazard involves the risk of the insured party changing behavior after a policy is issued in a way that increases risk. For more information on adverse selection and moral hazard, see <https://www.investopedia.com/ask/answers/042415/what-difference-between-moral-hazard-and-adverse-selection.asp>, retrieved on December 17, 2022.

¹¹ **Telematics** is covered in *Usage-Based Insurance and Vehicle Telematics: Insurance Market and Regulatory Implications*. The report was published in 2015 and provides a good overview: https://content.naic.org/sites/default/files/inline-files/cipr_study_150324_usage_based_insurance_and_vehicle_telematics_study_series.pdf, retrieved on December 17, 2022.

¹² **Snapshot statistics** were retrieved from <https://www.progressive.com/auto/discounts/snapshot> on December 17, 2022. Also, see <https://www.progressive.com/auto/discounts/snapshot/snapshot-faq> for more snapshot program information.

¹³ **Progressive's Name Your Price Calculator** is available at <https://www.progressive.com/auto/discounts/name-your-price>, retrieved on December 17, 2022.

¹⁴ **GEICO's Story From the Beginning** is available at <https://www.geico.com/about/corporate/history-the-full-story>, retrieved on December 18, 2022.

¹⁵ **GEICO and Dell: The Low Cost is Going to Win**, Question #16 at the 2004 Berkshire Hathaway annual meeting as transcribed by CNBC and available at <https://buffett.cnbc.com/video/2004/05/01/afternoon-session---2004-berkshire-hathaway-annual-meeting.html>, retrieved on December 18, 2022.

¹⁶ **The National Association of Insurance Commissioners** publishes detailed reports about the property/casualty insurance industry every year. 2011 data: https://rationalwalk.com/wp-content/uploads/2022/04/NAICMarketShareData_032012.pdf 2022 data: <https://rationalwalk.com/wp-content/uploads/2022/04/2022-NAIC-research-actuarial-property-casualty-market-share.pdf>, retrieved on December 17, 2022.

¹⁷ **Warren Buffett's 2015 Letter to Shareholders** is available at <https://www.berkshirehathaway.com/letters/2015ltr.pdf>, retrieved on December 18, 2022. Mr. Buffett discusses GEICO at length in the letter. The quote is taken from page 22.

¹⁸ **Float is not directly reported.** I estimate float by taking the sum of unearned premiums, loss and loss adjustment expenses and subtracting the sum of premiums receivable, reinsurance recoverables, prepaid reinsurance premiums, and deferred acquisition costs.

¹⁹ **Unless otherwise noted, descriptive information for Progressive's business segments are sourced from the company's 2021 10-K** which can be found at <https://www.sec.gov/ix?doc=/Archives/edgar/data/80661/000008066122000046/pgr-20211231.htm> as well as Progressive's investor relations site at <https://investors.progressive.com/home/default.aspx>, retrieved on December 19, 2022.

²⁰ **Progressive's 2015 annual report** includes commentary on the acquisition of a controlling interest in ARX as well as the details of agreements under which Progressive would purchase remaining non-controlling interests by 2021. The total cost to acquire the 69.2% controlling interest in ARX in 2015 was \$890.1 million. According to the cash flow statement, the cost, net of cash acquired, was \$765.3 million. Progressive completed the acquisition of minority interests of ARX in 2020 paying a cumulative total of \$551.1 million between 2018 and 2020 for the remaining 30.8% interest. The 2015 annual report can be found at <https://www.sec.gov/Archives/edgar/data/80661/000008066116000080/exhibit13annualreport2015.htm>, retrieved on December 19, 2022.

²¹ **Progressive's Q3 2022 10-Q report** provides the breakdown between Group I and Group II securities and can be accessed at <https://www.sec.gov/ix?doc=/Archives/edgar/data/80661/000008066122000080/pgr-20220930.htm>, retrieved on December 19, 2022.

²² Ibid.

²³ **The Russell 1000 index** contained 1,023 securities with market capitalizations ranging from \$2.9 billion to \$2,545.6 billion, with a median market capitalization of \$13.6 billion as of May 6, 2022, the latest date for which the index provided data: <https://www.ftserussell.com/research-insights/russell-reconstitution/market-capitalization-ranges>, retrieved on December 20, 2022.

²⁴ **Progressive's shareholders' equity** as of September 30, 2022 was comprised of \$14,282.3 million attributable to common stockholders and \$493.9 million attributable to holders of Series B cumulative preferred shares. The preferred shares were issued in 2018 are perpetual with no stated maturity date. The annual dividend rate is fixed at 5.375% until March 15, 2023 when the dividend rate switches to a floating rate equal to the three-month LIBOR rate plus 2.539%. Progressive has the right to redeem the Series B preferred shares after the floating rate goes into effect in 2023. See Progressive's 2021 10-K report at <https://www.sec.gov/ix?doc=/Archives/edgar/data/80661/000008066122000046/pgr-20211231.htm>, page A-45, retrieved on December 20, 2022.

²⁵ **Progressive's Q3 2022 10-Q**: <https://www.sec.gov/ix?doc=/Archives/edgar/data/80661/000008066122000080/pgr-20220930.htm>, retrieved on December 20, 2022.

²⁶ **Progressive's Q3 2022 conference call** took place on November 2, 2022 and a transcript is available at <https://roic.ai/transcripts/PGR?y=2022&q=3>, retrieved on December 20, 2022.

²⁷ **Progressive's November 2022 results** can be found at <https://ml.globenewswire.com/Resource/Download/6e5a37c3-fc1b-4dd8-9bb4-c74a2ce3b7f4>, retrieved on December 20, 2022.

²⁸ **Progressive's Press Release** on December 14, 2022 discloses the variable dividend decision: "The Board also decided not to declare an annual, variable dividend for 2022 after assessing our capital position, existing capital resources, and expected future capital needs, including current market conditions that could present opportunities for further growth in 2023." See <https://ml.globenewswire.com/Resource/Download/6e5a37c3-fc1b-4dd8-9bb4-c74a2ce3b7f4>, retrieved on Dec. 20, 2022.

²⁹ **Common Share Dividend Q&A**, published by Progressive in November 2022, provides more insight on the company's capital management approach: https://s24.q4cdn.com/447218525/files/doc_downloads/2022/12/B/Dividend-Policy-QA-2022.pdf, retrieved on December 20, 2022.

³⁰ **Progressive's 1995 annual report** indicates that Progressive's market share of the private passenger auto insurance market was 2.2%: <https://www.sec.gov/Archives/edgar/data/80661/0000950152-95-000465.txt>, retrieved on December 18, 2022. **Warren Buffett's 2007 letter to shareholders** indicated that GEICO's market share was 2.5% when Berkshire acquired control in 1995: <https://www.berkshirehathaway.com/2007ar/2007ar.pdf>, retrieved on December 18, 2022.

³¹ **Warren Buffett's 2000 letter to shareholders**: <https://www.berkshirehathaway.com/2000ar/2000ar.pdf>, retrieved on December 18, 2022.

³² **2021 Berkshire Hathaway annual meeting transcript**: <https://www.rev.com/blog/transcripts/warren-buffett-berkshire-hathaway-annual-meeting-transcript-2021>, retrieved on December 18, 2022.

³³ **Warren Buffett protégé Todd Combs named GEICO CEO**: <https://www.cnn.com/2019/12/23/warren-buffett-protége-todd-combs-named-geico-ceo.html>, retrieved on December 18, 2022.

³⁴ **Meet Our CEO, Todd Combs**: <https://careers.geico.com/us/en/blogarticle/meet-our-ceo-todd-combs>, retrieved on December 18, 2022. This profile of Mr. Combs indicates that he "retains his portfolio management responsibility for Berkshire Hathaway."

³⁵ **Progressive's November results**: <https://ml.globenewswire.com/Resource/Download/6e5a37c3-fc1b-4dd8-9bb4-c74a2ce3b7f4>, retrieved on December 20, 2022.