

PROGRESSIVE INSURANCE

Progressive Insurance - Introduction

We seek to be an excellent, innovative, growing and enduring business by reducing the human trauma and economic costs of auto accidents, theft and other perils while building a recognized, trusted, admired, business-generating consumer brand. We seek to earn a superior return-on-equity and to provide a positive environment to attract quality people and achieve ambitious growth plans.

Progressive Vision – 1997 Annual Report

In 1937, Progressive Casualty Insurance Company began business during a “difficult, but hopeful era.” In 1956, they became one of the first specialty underwriters of non-standard auto insurance (auto insurance for higher risk drivers). The company was extremely successful in this market niche and it remained the company’s primary business until the late 1980s. In 1994, the company began to aggressively advertise its products and services in order to attract new customers. It then branched out to take advantage of the rest of the auto insurance market, that is the “standard and preferred” segment (drivers with clean driving records and no accidents). Three years later, Standard & Poor’s added them to the S&P 500 Index. (See Exhibit 1 for a description of insurance terms.)

In 1997, the company was the fifth largest auto insurer in the country. They sold policies in 47 states, the District of Columbia, and Ontario, Canada. The company had the goal of becoming the third largest auto insurer by 2000 and the largest auto insurer in the country by 2010.

Since the company never advertised prior to 1994, consumer awareness was very low (5 percent average nationally). In a world where Progressive was trying to make its product available to all drivers, advertising and building the company’s brand became imperatives.

Auto Insurance Industry

In 1997, the personal auto insurance market in the United States and Ontario was estimated to be \$125.4 billion (premiums). Overall, the private passenger auto insurance market has historically grown 6% a year. The standard and preferred auto insurance market represented \$100 billion, while the non-standard auto insurance market represented \$25 billion. Total industry advertising increased to \$154 million.

Channels

Auto insurance was sold mainly through three channels—independent agents, captive agents and direct response. Independent agents usually represented several different insurance companies. These agents provided face-to-face interaction and insurance counsel. Commissions ranged as high as 20% of premiums. Progressive, Travelers, and SAFECO were examples of companies that sold primarily through independent agents.

Progressive classified independent agents into three groups. The first, professional agents, were full-service offices that focused on providing consumers with all of their insurance needs. They offered auto, homeowner, umbrella, commercial, and

other lines. These offices typically offered Progressive as their only non-standard auto insurance option. The second type, non-standard specialists, were no-frills offices representing twenty or more companies. They offered comparative rates for price-sensitive customers. The third type, “Mom and Pop”-type Independent Agents typically were smaller offices who offered all insurance options to consumers. They generally represented several companies, but not as many as the non-standard specialists.

A study of independent agents concluded that Progressive had the largest number of appointed agents for any company in the business. However, many agents were unwilling or unprepared to promote and sell preferred policies for Progressive. The reasons included lack of name recognition by consumers, higher prices for preferred customers, volume commitments to competitors, and lack of supporting personal lines products, e.g. Homeowners and Umbrella. The same agents saw Progressive as having strengths such as unparalleled claims and agent policy service, excellent financial resources and stability.

Several insurance companies had extensive “captive” agent networks that sold the company’s policies exclusively (State Farm and Allstate, for example).

A few companies sold their policies using direct response. Magazine, radio, and television advertising urged consumers to call for insurance quotes. GEICO and USAA used this channel exclusively. Other companies, including Progressive, began to be more aggressive in this channel.

Pricing and Premiums

Until 1997, auto insurers typically paid out more in claims and operating expenses than they collected in premiums. They were, however, able to earn profits by carefully investing the premiums received. In 1997, with less drunken driving, a downward trend in auto theft, accidents on the decline, and the increase of safety features like air bags and anti-lock brakes in cars, insurers paid out less in claims which resulted in higher profits. As a result insurance companies lowered premiums for millions of drivers.

Auto insurers based their rates on the company’s past experiences and cost structure. The method by which auto insurers determined their rates resulted in significant variations in premiums that, for the same driver, could reach hundreds of dollars for six-month premiums. This made it important for consumers to comparison shop.

Progressive used a more accurate pricing strategy than many of its competitors. Recognizing a high correlation between bill-paying behavior and loss behavior, the company employed a unique ‘financial responsibility score’ when determining rates for consumers. Agents completed an application with consumers and then connected through Progressive with a credit-scoring vendor, like TransUnion or Experian, to receive a financial responsibility score. This score was used to determine insurance rates along with more traditional application information.

The Buying Process

Different ‘types’ of consumers were concerned with different aspects of the auto insurance purchase. For example, non-standard, or high-risk, drivers were typically most concerned with price, while standard and preferred customers were concerned with the company’s brand value. Most consumers did not view auto insurance the same as homeowners insurance, which protects an extremely valuable asset. Rather, most viewed it as something they have to have in order to drive their vehicle. Lack of respect by insurers and slow response to claims processing were some of the more common complaints. Desired attributes included low cost and excellent customer service from a company recognized as a leader in the industry. Many preferred to purchase all of their insurance (personal, life, property, auto, etc.) from one company.

Non-Standard Insurance

In 1997, Progressive Insurance logged \$4.6 billion (a 36% increase in premiums over 1996), and took a 3.7% share of the industry with about 2.5 million policyholders. Eighty-five percent of their business came from non-standard policyholders with the remaining 15% representing standard and preferred policies. Progressive broke its product into

5 tiers—non-standard, middle market, standard, preferred, and ultra-preferred. Auto insurance coverage remained virtually the same across tiers. The major difference was price. State Farm was nearly all preferred and Allstate was 70% preferred and 30% non-standard and middle market. GEICO had mostly sold preferred in the past, but the company was growing rapidly in non-standard.

Until 1988, Progressive was growing rapidly with an unequaled hold on the non-standard market. But in 1988, two significant changes occurred; first, Allstate lowered premiums in an attempt to become the number one insurer for the high-risk, non-standard segment. Second, California passed Proposition 103, which called for a 20% rollback from November 1987 rates and another 20% discount for policyholders classified as good drivers. As California represented 25% of the Progressive's profits, drastic changes ensued. Progressive cut costs by laying off 20% of the workforce and by stopping its insurance of long-distance trucking fleets. On a more positive note, the company also transformed its corporate culture and dramatically changed the way it provided customer service. Progressive began a transformation.

Service Innovations

“People get screwed seven ways from Sunday in auto insurance. They get dealt with adversarially, and they get dealt with slowly. I said, Why don't we just stop that? Why don't we start dealing with them nicely? It would be a revolution in the business.” – Peter Lewis, CEO, chairman and president

“They [Progressive] are on the cutting edge of the revolution of providing point-of-sale information to the consumer.” – Ralph Nader, consumer advocate, Lewis' former Princeton classmate

Express Quote In 1992, the company pioneered a service called “Express Quote” in the state of California. At the time, Express Quote was the only 24-hour, toll-free auto insurance rate comparison shopping service. In a 15-minute call, a consumer provided information about their vehicles, driving record, and coverage needed. The ‘insurance

counselor’ relayed a quote from Progressive and rates for up to three other insurance companies, including State Farm and Allstate. The Express Quote service helped grow Progressive’s business despite the fact that Progressive’s rates were the lowest for only 30% of the quotes and only half of those actually switched to Progressive.

In 1994, the company expanded the availability of Express Quote to states outside of California. The company was encouraged by significant increases in policies written when Express Quote is used. They saw an increase of up to 44% in states that advertised the service vs. 30% states that did not advertise the service.

Immediate Response In 1990, the company began providing Immediate Response claims service to their policyholders. Progressive’s 24-hour Immediate Response claims service yielded a significant advantage over the industry’s average response rate of 4+ days.

The company’s Immediate Response Vehicles (IRVs), white Ford Explorers, were prominent symbols of the company and were featured in the logo and advertisements. Equipped with two powerful computer programs, Estimatics and Claims Workbench, these IRVs allowed claims representatives to access customer accounts, locate tow trucks and arrange for rental cars on the spot. More importantly, claim representatives could quickly and accurately estimate the parts and labor needed to repair cars and then write a check for the damage at the scene of the accident. This unique service helped to take the trauma out of a claim experience and helped to put the policyholder’s life back in order again as quickly as possible.

This Immediate Response initiative recently received favorable coverage in *Fast Company* magazine – a magazine devoted to business in the New Economy. The article (see Appendix) explains many of the details of Immediate Response.

Internet In 1995, Progressive created the first auto insurance web site. In 1996, they offered the first interactive auto insurance customer service. In 1997, they were the first auto insurance company to sell policies and accept payments in real time over the Internet via a “buy button.” This option was

available in D.C. and in 32 states including, PA, MN, MI, VA, CA, TX, FL, NY, MD, IL, and OH. The company built its expertise in dealing with state regulators and expected less resistance over time. Plans existed to have the Internet “buy button” available in all states. Their web site served several functions—rate comparison, customer services and information, and automobile safety and recall information. While current advertising for the Internet consists of a low-key marketing campaign, the company planned to develop a more aggressive promotion plan for the Web site for both consumers and agents.

Competitor Information

Automotive Insurance Market Data (1997)

Company	Market Share	Media Share
State Farm	21.1%	7.3%
Allstate	12.7%	23.4%
Farmer Insurance Group	5.7%	6.4%
Nationwide Corp.	4.0%	8.3%
Progressive	3.7%	27.8%
USAA	3.2%	
Berkshire-Hathaway (GEICO)	3.1%	16.9%
American Family Insurance Group	1.8%	
Travelers	1.7%	
Safeco	1.5%	

Source: A.M. Best

State Farm Mutual Automobile Insurance Company insured one out of every four cars. Its sales force of 17,000 agents sold auto, homeowner, and life insurance policies, while two-thirds of the revenues came from personal auto premiums. This direct agent sales force was one of the finest in the business. They tended to work on lower commissions (10% vs. as high as 20%). The company provided excellent sales management training and support. (Exhibit 2 offers a comparison of key competitors’ positioning.)

Allstate Corporation was closely associated with reliability and peace of mind. “You’re in good hands with Allstate” continued to be the core-advertising theme with 90% consumer recognition. 15,200 full-time personal agents and 2,800 independent agents serviced over 29 million policies. With a 12.7% share of the private passenger auto market, the company was the nation’s largest

underwriter of non-standard auto insurance. Two-thirds of the company’s premiums were derived from vehicle insurance. In 1995, an Allstate subsidiary was created to handle non-standard business. Policies were offered through Independent Agents. Company goals included targeting non-standard and inner city homeowners to capture market share.

Farmer Insurance Group was the third largest writer of private automobile insurance. Farmer’s is based in Los Angeles, California and operated in 31 states in the West, Mid-West, and Southeast. Farmer’s agents were independent contractors who were responsible for servicing over 14 million customers. In 1999, the company planned to expand service into Maryland and Pennsylvania. Another 10 eastern and southern states were added by the end of 1999.

Nationwide Corporation was ranked as the 15th largest provider of insurance in the country. The company’s core business included personal auto, homeowners, watercraft, mainstreet commercial and personal liability insurance coverage. In 1997, auto and homeowner premiums grew 7.5%, which was significantly higher than the industry’s average. Nationwide consumers were familiar with their advertising slogan “Nationwide is on your side.”

USAA is headquartered in San Antonio, Texas. The company served over 3 million customers who were primarily members of the U.S. military and their families.

GEICO had creative television, radio or print ads claiming “A 15 minute call could save you 15% or more on car insurance.” The company has established itself as an able competitor by concentrating on the auto insurance market (90% of company business). In addition, the company has proven that it understands its core consumers by renewing over 98% of its policies each year. GEICO sought to insure middle-aged, middle-class drivers with clean accident records. They priced policies to secure average underwriting profits of 4%. The company used a centralized, 24-hour toll-free telephone service which consumers could access to get a quote, change policy coverage or report an accident. This service allowed GEICO to offer lower insurance rates because agency commissions were eliminated. GEICO posed a competitive threat to

Progressive’s ambitious growth goals. GEICO set a goal to profitably increase policies in force at 5 to 6% a year.

Exhibit 1

Understanding Insurance Terms

American Family Insurance Group primarily operated in the Midwest with other offices in Arizona, Colorado and Oregon. In 1997, the company had about 6,800 employees. 80% of American Family’s income comes from auto insurance sales. The company cross-sold its other products such as life and health insurance to buyers of its auto insurance.

The Travelers Group benefited from strong brand-name recognition and a distinguishing trademark. Travelers was one of the 10 largest property and casualty groups in the country. The company performed strong despite intense competition, especially in small and middle markets. This was due to its broad product range, extensive claims and risk-management capabilities. The company was part of Citigroup, one of the largest financial services companies in the world.

Safeco is based in Washington State. The company sold insurance and financial products through independent agents. In 1999, Safeco employed 12,000 people across the country and was represented by over 8,000 independent agencies and brokerages nationwide.

Conclusion

Progressive Management was convinced they needed to advertise to communicate and leverage their product and service innovations. However, they were not certain what the message of that advertising should be.

Not all of these coverages are available in every state.
Bodily Injury Liability Insurance: Coverage that provides protection against damages that you or a covered person are legally obligated to pay to a third party as a result of death or injury caused by the ownership, maintenance or use of a covered auto.
Collision Insurance: Coverage that provides protection to your auto for direct physical loss caused by overturning or collision.
Comprehensive Insurance: Coverage that provides protection to your auto for direct physical loss caused other than by collision.
Deductible: A dollar amount you select that is applied first to a collision or comprehensive loss. The deductible represents your share of the loss.
Limit of Liability: The highest dollar amount your insurer will pay for loss under a particular coverage.
Medical Payments: Optional insurance that pays for reasonable and necessary medical and funeral expenses for covered persons.
Premium: The amount you pay to buy auto insurance.
Property Damage Liability Insurance: Coverage that provides protection against damages that you or a covered person are legally obligated to pay as a result of property damage caused by the ownership, maintenance or use of a covered auto.
Underinsured Motorist Insurance: Coverage for damages that you or a covered person are legally entitled to recover from the owner or operator of a motor vehicle with insufficient bodily injury liability insurance.
Uninsured Motorist Insurance: Coverage for damages that you or a covered person are legally entitled to recover from the owner or operator of a motor vehicle not covered by bodily injury liability insurance.

Source: <http://www.progressive.com>

Exhibit 2

Key Competitive Comparisons

	Position	Theme
State Farm	America's favorite auto insurer/agent relationship	"Like a good neighbor, State Farm is there."
Allstate	A terrific driving record can be rewarding.	"Being in good hands is the only place to be."
Farmers	Insurance is supposed to be about restoring normalcy.	"Farmers get you back to where you belong."
Nationwide	Better price, better service.	"Nationwide is on your side."
Progressive	Immediate claims response when you need it most.	"Not what you'd expect from an insurance company."
GEICO	Savings are just a 15-minute call away. Call now.	"A 15 minute call could save you 15% or more on car insurance."

Appendix

“Progressive Makes Claims” by Chuck Salter

Progressive Makes Claims

by Chuck Salter

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And delivers on them. The maverick auto insurer's ideas about speed, service, and software have created a prosperous, fast-growing company - and may transform a slow-moving industry.

It's a steamy Saturday in Houston, a day so piping hot that one would gladly consider diving into a vat of Texas chili for relief. But chili is a messy business, so instead, half the population seems to have taken refuge in their air-conditioned cars, choking Houston's freeways as a result. For Kristen Botello, all those cars mean just one thing: lots of accidents.

She's not rooting for wrecks. But she knows from experience that accidents happen. And when they do, she wants to be on the scene immediately - before the police arrive, before a wrecker tows away the cars. Why all the urgency? Because Botello, 28, settles claims for Progressive Corp., an auto-insurance maverick that has built a prosperous, fast-growing company around speed, service, and software.

Around lunchtime, Botello's two-way radio crackles with a message. "Kristen, we've got a scene," says the dispatcher. She heads for the freeway in a Ford Explorer with the label "PROGRESSIVE" emblazoned on both sides. Accidents are like mysteries, she says. And like any good detective, Botello doesn't want the scene disturbed. Sometimes she shows up so quickly that all the clues are still in place: the skid marks, the witnesses, the cars resting in post-collision chaos. Botello inspects the vehicles, assesses the damage, does her analysis, whips out her laptop, downloads a claim file, and cuts a check on the spot. Case closed.

Wait a minute. A claims adjuster who works weekends? Who rushes to the scene of an accident?

Who settles a claim in minutes rather than months? Do not adjust your monitor. These are just some of the day-to-day realities of life at Progressive. "We're leading a wave of change," declares Peter Lewis, 64, CEO of the 15,000-person operation based in Mayfield Village, Ohio, a suburb of Cleveland. "Before, you had 300 companies marching in a straight line. Everybody - State Farm, Allstate, Nationwide - did business the same way. Then Progressive broke out of the line and started doing things differently. After a while, everybody looked over and said, 'They're making wider margins than we are! They're growing faster than we are! What are they doing?' "

What they're doing is running circles around the competition. The auto-insurance industry is so notorious for high prices, bloated bureaucracies, and poor service that it has sparked state-level political revolts across the country. The industry as a whole has run at an underwriting loss over the past five years. (In other words, companies have collected less in premiums than they've paid out in claims and expenses.) Progressive, by contrast, has generated healthy underwriting margins of 8% over the same period of time. Last year, its annual revenues exceeded \$4.6 billion - up by more than 36% from the previous year (a growth rate that is six times the industry average). Lately Progressive shares have traded for as high as \$156, up from \$42 as recently as 1996. The result: Progressive - which, in Lewis' words, used to be dismissed as "a piddling little outfit in Ohio that does oddball things" -- is now the fifth-largest U.S. auto insurer.

Lewis' company has been an innovator on several fronts - from strategy to pricing to technology. But at the heart of its breakthrough business performance is Immediate Response, its ultra-fast claims service. Before Immediate Response, Progressive handled claims as everybody else did - inefficiently. A claim would be assigned to an adjuster, who alone was responsible for interviewing the parties involved,

inspecting the vehicles, and settling the dispute. Because adjusters handled so many claims at once, and because they worked a conventional 9-to-5 day, claims would languish in an in-basket. Rather than providing great customer service, adjusters were shuffling mountains of paper.

"Customers expected us to deliver what they were paying for - to get their cars fixed and to cover their medical expenses," says Willy Graves, 42, claims - process leader. "But we were spending our time putting paper into stacks. We realized that we had to treat an accident like what it is: an emergency."

Today Progressive has representatives available 24 hours a day, 7 days a week. They arrive at an accident with powerful laptops, intelligent software, and the power to make on-the-spot decisions. The result is faster, less expensive - and more profitable - service. Progressive staffers like to boast that they settle claims before other companies even know that there's even been an accident. "We used to measure a claims settlement in days," says Leslie Kolleda, 36, PR manager at Progressive. "Now we measure it in hours." In fact, in most cases, the company conducts its inspection within nine hours of when an accident is reported.

Today, in Houston, Kristen Botello is on the case long before her nine hours are up. When she reaches the accident scene, southeast of downtown, she finds a routine fender bender. The driver of an Acura Integra, who is insured with Progressive, was leaving a beauty salon when she backed into a Mitsubishi Eclipse parked across the street. There's no mystery here, just everyday drama - and no injuries, other than a bruised ego.

"I thought I had it under control when I came down the driveway," says Mary, the Acura owner, standing with her hands on her hips. "I didn't hit her hard at all." Mary isn't happy about the wreck, but she's impressed by the efficiency of the representative from her insurance company. Botello, a former social worker, is a team leader on the weekend unit. She arrived a half-hour after the accident happened. Twenty minutes later, she's worked up a \$201 estimate on the Integra and a \$540 estimate on the Eclipse. Mary pokes her head into the back of Botello's Explorer. "How about that," Mary jokes. "Have printer, will travel."

The other driver, a young woman named Clarisse, is worried about how the news will go over when she gets home. "Give this to your father," Botello says, handing her a check for \$540. "He probably won't be so mad after he sees that."

Birth, Crisis, Reinvention

When Progressive employees describe how their company approaches the auto-insurance business -- and business in general -- they use words like "intense," "aggressive," and "unconventional." Those words also describe Peter Lewis, the company's resident trailblazer and firestarter - and its CEO for the past 33 years. Lewis is 64 going on 24, with longish white hair and a smile that suggests irreverence, mischief, and candor. He has the rakish charm of Peter O'Toole and the zaniness of Christopher Lee. He will say anything. About his wealth: "I'm as rich as Croesus." (Which is true: His shares in Progressive - nearly 10 % of the total - are valued at about \$650 million.) About how "stupid" his competition is: "All these other companies are trying to follow us. Meanwhile, we're getting better." About how reckless he was behind the wheel before he hired a driver: "I was a serious accident waiting to happen." About how 20 years of therapy helped him accept that other people tend to consider him eccentric. When Lewis tells you he's "done it all," you can't be certain what he is referring to - but you don't doubt for a second that it's interesting.

Lewis' office overlooks the Progressive campus and several large sculptures, which are part of the company's renowned collection of modern art. Directly across from his metal-and-glass desk are 10 Andy Warhol prints of Mao Tse-tung. His trademark black Stetson hat rests on a nearby table, as if it were another work of art. Last year, because of severe circulatory problems, Lewis underwent a below-the-knee amputation on his left leg. So, until he gets a prosthesis later this fall, he must maneuver around the office in a wheelchair. He does so nimbly, like a crafty wizard tinkering in his workshop.

Peter Lewis gets deeply emotional about insurance, in part because running Progressive is all that he's ever wanted to do. His father cofounded the company in 1937, when Peter was 3 years old. As a young boy, he accompanied his father to work and played on the office furniture. At age 12, he stuffed envelopes to

earn his first paycheck. As a thirtysomething CEO, he worked 90 hours a week. Decades later, he's still behind the wheel.

Joe Lewis started Progressive with a buddy, Jack Green. They were young lawyers trying to make it in Cleveland during the Depression. The state of Ohio hired them to investigate salesmen who were pitching a dubious auto-service contract. After busting up the scam, the two lawyers started an auto-insurance business of their own. They charged \$25 a policy and offered such innovations as drive-in claims service. (The company was headquartered in a garage.) But for the coming of World War II, Progressive might have gone out of business. People on the home front had money to buy policies, but gas rationing severely limited their driving - which meant that there were few accidents. During the war years, Progressive received so few claims that it emerged from the period with about \$400,000 in capital.

By the time Peter Lewis graduated from Princeton University, in 1955, his father had died and Green was in charge. Peter took a job at Progressive, and although his duties were limited to sales, he attended the company's daily management meetings, where the head underwriter complained about independent agents who tried to persuade him to cover "nonstandard" customers - high-risk drivers who had been turned down by other insurers. One day, Lewis spoke up: "They're bringing us potential business. Can't we find a way to write these people?"

It was, he likes to say, his first great idea at Progressive. In 1957, the company wrote just \$86,000 worth of policies for nonstandard motorists. But over the next decade, the market took off. Lewis watched his company's premiums balloon. He had identified a niche around which he could build a big company - and add to his father's legacy. "My entire life has been intertwined with the life of this company," he says.

Peter Lewis gets emotional about auto insurance for another reason. In 1952, his older brother, Jon, who was 16, was driving to Canada for a fishing trip. After 12 hours behind the wheel, Jon collided with an oncoming truck. His brother's death, Lewis says, "makes every car accident an emotional experience for me. I can't take them lightly. We're not in the business of auto insurance. We're in the business of

reducing the human trauma and economic costs of automobile accidents - in effective and profitable ways."

If it was a personal crisis that engendered Lewis' emotional commitment to Progressive, it was a political crisis that convinced him to reinvent the company. In 1988, California voters passed Proposition 103, a referendum designed to regulate auto-insurance companies and to roll back escalating rates. The law was a near-fatal blow to Progressive, which had done 20% of its business in California. Lewis' company coughed up \$60 million in refunds - and eventually reduced its workforce by 19%. Lewis calls Prop 103 "the most frustrating experience" of his career; to this day, it gets his blood boiling. He also calls it "the best thing that ever happened to this company." How so? Because the very legislation that threatened to put Progressive out of business also inspired its dramatic makeover. Prop 103 made Progressive what it is today.

"Remember the line from the movie Network?" Lewis asks. "I'm mad as hell, and I'm not going to take it anymore." That's what voters were saying. It was a wake-up call. I decided that from then on, anything we did had to be good for the consumer - or we weren't going to do it." Lewis turned to longtime friend and Princeton classmate Ralph Nader, an outspoken supporter of the California referendum, to help him understand the animosity that consumers felt toward insurers. Nader suggested that Lewis come to Washington and meet with the heads of two dozen state-level consumer groups.

"What's wrong with auto insurance?" Lewis asked them. "It's not competitive," someone in the audience said. "Wait a minute," he replied. "There are more than 300 companies in the business. If we move our price one percentage point up or down, we get 10% more or 10% fewer applications. That's competitive." The advocates were unappeased. They insisted that Lewis worked in a noncompetitive industry.

That's when Lewis began to understand the extent of the industry's credibility gap. That's also when he decided to embrace what Progressive calls "information transparency" - a policy of sharing with customers information about prices, costs, and service. The company's "1 800 AUTO PRO" service, for example, quotes Progressive's rates to potential

customers - along with the rates of competitors, even if those rates are cheaper. "Time and again, people don't believe we do this," says Alan Bauer, 46, the company's Internet-process leader. "They think it's a gimmick. But it's part of information transparency. We are exposing our data to the customer."

Progressive has also changed the way it sells. Most companies either sell policies direct - over the phone or through local offices - or sell through "captive agents" who represent the company. Progressive, which for years had relied exclusively on a nationwide network of independent agents to sell its policies, decided to create multiple distribution channels. Now customers who want to purchase a policy can do so in a number of ways: They can contact one of Progressive's more than 30,000 independent agents, call 1 800 AUTO PRO, or visit Progressive on the Web. Indeed, in 1995, Progressive became one of the first auto-insurance companies to launch a Web service to sell its product, and it is now approved to sell policies over the Web in 15 states, including California, New York, and Texas. "We want to provide the information that customers need - and to provide it on their terms," says Bauer. "We don't care if it's in person, over the phone, or online."

Using multiple distribution channels has been a tremendous success, but it was Immediate Response that really reinvented the company. Progressive launched the service less than two years after Prop 103. It was Lewis' second great idea - as powerful as it was simple. The majority of auto accidents happen before or after business hours, and on weekends and holidays, the CEO reasoned. So why shouldn't Progressive stay open around the clock? "For three years, people said, 'It's crazy, it's too expensive, nobody will do it,'" Lewis remarks. "And for the same three years, I sat here and said, 'We're going to do it, no matter how much it costs and no matter how much you don't like it.' Other businesses go the extra mile. Why not an auto-insurance company?"

New Strategies, New Tools

"Progressive claims, this is Tina. How may I help you?" Progressive receives about 25,000 phone calls per day. Calls about existing claims are routed to the appropriate local office. New loss-report calls are routed to one of the company's five call centers. The largest center, in Cleveland, is a maze of terminals operated by young claims representatives in baseball

caps, ponytails, and jeans. These reps interview customers who have had accidents, enter data into Progressive's mainframe, and initiate Immediate Response - all in a matter of minutes.

The Cleveland office employs 210 claims representatives. One of them, Tina McDuffee, is taking a claim. A 26-year-old with long brown hair, freckles, and a scrunchie on her wrist, McDuffee sits at a computer terminal with an intense, faraway look in her eyes: She's trying to picture an accident.

On the line, Sandra in Sacramento is describing what just happened to her 1995 Geo Prism. "I told the property manager that I was parked in the alley behind our townhouse. He comes out a half-hour later and backs his truck right into me! He must have forgotten that I was there. I can't believe it. I'd just told him! I've never been in an accident before. I don't know what to do."

"That's okay," McDuffee reassures her, as she walks Sandra through the process - verifying names, addresses, and phone numbers; the model, make, and year of the vehicles; the time and date of the accident; and Sandra's collision coverage with Progressive. Next she puts Sandra on hold and calls the Progressive office in Sacramento. She reaches a dispatcher named Anne, electronically transmits the claim file to her, and then transfers her to Sandra.

"That was a snap," McDuffee says.

The first stage of Immediate Response is designed to be quick and seamless, with "an unbroken flow of information" between the customer, Progressive's central database, and the local claims operation, Graves explains. When Anne in Sacramento dispatches a rep to Sandra's home, she'll also radio or page the corresponding claim number to him so that he can download Sandra's file onto his laptop. This sort of nifty handoff wasn't possible until Progressive's information-systems department developed the software to do it. Early on, reps relied on cell-phones to execute Immediate Response. They had to call dispatchers repeatedly to relay data or to retrieve coverage information from the mainframe. If reps didn't return to the office right away to update a file with their estimate, the job wouldn't get done until the end of the day or the following morning.

Claims Workbench, an object-oriented software application that Progressive spent four years developing, eliminated those kinks. With the help of a wireless modem and a Pentium laptop, the program allows reps to perform up to 20 separate transactions in the field - everything from entering police-report information to downloading another rep's estimate from across town. Mark Smith, 41, head of claims for IS, is reluctant to reveal too much about the software, because he believes that it gives Progressive a major marketplace advantage. He knows of no other insurance company that can instantly move information back and forth between a laptop and a mainframe and keep claims moving toward resolution. That's the beauty of Claims Workbench: It provides what the company calls "concurrent information flow."

Progressive rolled out Claims Workbench in September 1997. Within three months, the company trained 2,500 reps in 200 offices nationwide to use the software. As a result, Immediate Response became much more immediate. In 1990, claims reps inspected vehicles within nine hours of the accident report only 15% of the time. Last year, the figure rose to 57%. Progressive also tracks the number of claims that are settled within seven days: That number is now at 50% - a big increase from a few years earlier. "We're giving our reps the tools and information they need to do real-time decision making," says Smith. "They're empowered to settle claims in the field."

That's what Kristen Botello does. In a dusty storage lot in a run-down part of Houston, she examines a 1996 Chevy Cavalier that was broadsided earlier that morning. As if conducting an autopsy, she peels back a sheet of plastic covering the shattered rear window and studies the wreckage. The left rear door is caved in; the left front door won't budge. Although the trunk appears unharmed, she notices that the seam is uneven: The metal buckled on impact. The right rear wheel is slightly askew, a sign that the suspension is damaged. "This is a good hit," she says.

Back in her Immediate Response Vehicle (IRV) Botello works up an estimate. She opens Claims Workbench and downloads a file from the corporate mainframe. Then she launches Pathways, an application that provides an encyclopedic listing of parts for nearly every car on the road. (Reps used to rely on several boxes of "crash guides" to do their

estimating, but the voluminous books weren't always up to date.) Botello scrolls through a database that lists parts, prices, and labor-hour estimates. The rear door? Replace. The bumper? Repair. The driver's door? Well, that presents a problem. Botello can't find a shop that has the parts she needs at the price she wants, so she radios a rep familiar with the neighborhood and finds parts "of like kind and quality" at a nearby shop.

Claims are assigned according to their complexity. Newer reps handle single-car accidents and fender benders; more experienced reps get multi-car accidents, which often involve totaled vehicles and injuries. A two-car accident might involve damage to both cars and one injured motorist - for three total "features." One rep "owns" the claim, and other team members assist with various features. That arrangement is more efficient than having one rep do everything. At Progressive's Greenway office, in Houston, where Botello works, each team has "five in and five out," says Nik Cheairs, 37, weekend claims manager. In other words, five team members work in the office, answering phones, dispatching agents, and resolving long-term claims, while five claims reps work the field, doing Immediate Response.

Progressive offices are sprouting up all over Houston, including seven in the past 10 years. "As we grow, we get closer to our customers, and our service gets better," says Mark Oppenheim, 41, regional manager for east Texas. There's a learning curve associated with doing business with Progressive. For Immediate Response to make a difference, customers have to do their part: The sooner they report an accident, the sooner the company can respond. In Houston, people are catching on. Maybe it's the barrage of TV and radio ads about how Progressive does business. Maybe it's the nearly three dozen IRVs that roam the city - offering daily evidence of Progressive at work. But these days, in Houston, more than half of Progressive's loss calls are placed within 24 hours of the accident.

That kind of collaboration changes the economics of customer service. It also changes the emotions of customer service, turning an inherently unpleasant, inconvenient, and even traumatic experience - a car accident - into something not so harrowing. "You'd be surprised how many people are nice to me after they've just had a wreck," says Botello. "They're

happy to see me, because I'm there to help. And if they've never experienced Immediate Response before, they're surprised that I'm there at all. Some even apologize for taking up my time. I have to tell them, 'I'm supposed to be here. This is my job.' "

Big Claims, Clear Metrics

There's no doubt that unconventional services like Immediate Response and powerful tools like Claims Workbench have created an advantage for Progressive. But Peter Lewis traces his company's ascent to something simpler - two no-nonsense operating principles: "hire the best" and "pay the most."

As far as Lewis is concerned, around-the-clock service and cutting-edge software aren't worth a thing without topflight talent. "We have the best people in the industry as measured by education, intelligence, initiative, work ethic, and work record," he asserts. "We find them and go after them. Then we put them through our crucible. This is a highly competitive, challenging place to work. We work harder than most companies, and that becomes sort of seductive. Many people wash out. The ones who remain are fantastic."

Lewis is something of a fanatic about creating clear, measurable objectives that employees understand and agree to meet. Those who fall short don't last long. "The other side of hiring good people is firing people who aren't good," he says. "We evaluate people against their objectives, which they negotiate with the company and then put in writing. If people aren't doing their job, it's good-bye. This is not a bloodthirsty place. It is a humane environment. But we do not suffer nonperformance."

Progressive maintains what its CEO calls "an aristocracy of performers." Those who perform well get paid well. And Lewis knows how well people perform, because Progressive tracks virtually every aspect of its business. "If you want to improve something, start measuring it," Lewis says. "Then attach rewards to positive measurements, or penalties to negative ones, and you'll get results."

Once Immediate Response got off the ground, for example, Glenn Renwick, 43, a technology-process leader, became eager for customers to report losses sooner. So he created a sophisticated metric called the Claims Reporting Index (CRI), a logarithmic

scale that monitors how long it takes customers to report accidents.

On the CRI, a score of 100 means that every customer reports a loss within 24 hours of when it occurs. Early on, just as Renwick expected, the CRI was high (around 130) - which meant that many accident victims were filing claims after the 24-hour mark. A score that high created an incentive for Progressive to experiment with ways to change customer behavior. The most effective innovation was the Progressive Gold Card. It looks like a premium credit card, except that it features the company's toll-free claims number and a space to write in a policy number. It also breaks in half - to facilitate the exchange of information after an accident. The card grew out of Progressive's research on credit cards, from which the company concluded that the durability and prestige of a physical card were important to consumers. In the six years since Progressive introduced the Gold Card, the CRI has dropped from 130 into the 70s.

"It's like FedEx: Customers know that it delivers overnight," Renwick says. "More and more people know that we handle auto-insurance claims differently - and quickly." Now, after a lifetime of doing things differently, Peter Lewis finds his company in a position that he never imagined for it: competing with the biggest names in the business. "We're in the big leagues now, up there with State Farm and Allstate," he says. "The question is, Can we win the pennant? Today 4 out of 100 cars in the U.S. are insured with Progressive. People laugh when I talk about 100% market share. But if we can get better than everybody else in every aspect of the business, why would anybody buy from another company? Of course, I'd settle for 25%. People tell me that 25% can't be done either, but people have been telling me things like that my whole life."

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