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Root, Inc. NasdaqGS:ROOT

FQ3 2020 Earnings Call Transcripts

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S&P Global Market Intelligence Estimates

	-FQ3 2020-			-FY 2020-	-FY 2021-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS
EPS Normalized	(0.32)	NA	NA	(1.62)	NA
Revenue (mm)	50.88	NA	NA	346.03	NA

Currency: USD
Consensus as of Dec-02-2020 2:48 AM GMT

The chart could not be generated due to the unavailability of pricing data

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Presentation

Operator

Ladies and gentlemen, thank you for standing by, and welcome to the Root, Inc. Third Quarter 2020 Earnings Conference Call.

[Operator Instructions]

Please be advised that today's conference is being recorded.

[Operator Instructions]

I would now like to hand the conference over to your speaker today, Chris Mammone, Investor Relations.

Chris Mammone

Good afternoon, and thank you for joining us today. Root is hosting this call to discuss its third quarter earnings results for the period ending September 2020.

Participating on today's call are Alex Timm, Co-Founder and CEO; and Dan Rosenthal, Chief Financial Officer. Earlier this afternoon, Root issued an inaugural shareholder letter announcing its financial results. While this call will reflect items discussed within that document, for more complete information about our financial performance, we also encourage you to read our final initial public offering prospectus dated October 27, 2020, and filed with the Securities and Exchange Commission, and our quarterly report on Form 10-Q for the third quarter of 2020 to be filed with the Securities and Exchange Commission this week.

Before we begin, I want to remind you that matters discussed on today's call will include forward-looking statements related to our operating performance, financial goals and business outlook, which are based on management's current beliefs and assumptions. Please note that these forward-looking statements reflect our opinions as of the date of this call, and we undertake no obligation to revise this information as a result of new developments that may occur.

Forward-looking statements are subject to various risks, uncertainties and other factors that could cause our actual results to differ materially from those expected and described today. In addition, we are subject to a number of risks that may significantly impact our business and financial results. For a more detailed description of our risk factors, once again, please review our final IPO prospectus, in our upcoming Form 10-Q, where you will see a discussion of factors that could cause the company's actual results to differ materially from these statements as well as our shareholder letter release today.

A replay of this conference call will be available on our website under the Investor Relations section. I would also like to remind you that during this call, we will discuss some non-GAAP measures in talking about Root's performance. You can find the reconciliation of those historical measures to the nearest comparable GAAP measures in our shareholder letter released today in our filings with the SEC, each of which is posted on our website at ir.joinroot.com. I will now turn the call over to Alex Timm, Root's Co-Founder and CEO.

Alexander Edward Timm
Co-Founder, CEO & Director

Thank you, and good afternoon. We are thrilled to be speaking to both new and prospective investors today on our first earnings call as a public company. We hope you have an opportunity to glance through our shareholder letter, which we posted to our Investor Relations site. The letter does a great job in providing insights into why we built Root, but perhaps even more importantly, lays out how we are executing on our aggressive vision to fundamentally and positively drive change in the U.S. auto insurance industry.

This is a very exciting time to share our story with you. The opportunity we see before us is monumental, and we follow 3 core objectives to guide us as we execute on our plan. First and foremost is our objective to drive significant growth. Next is to enhance profitability via loss ratio and retention improvements. And our third core objective is to optimize customer acquisition via direct marketing and a strong user experience. But we have accomplished so much already in the 5 years since I co-founded the company with my partner, Dan Manges. We remain obsessed with building the Root of the future

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with a proprietary telematics algorithm and a burgeoning and integrated data set in a highly skilled responsive, smart and productive team of people.

I'll double-click on some of these main themes before turning the call to our CFO, Dan Rosenthal, to walk you through our successful execution across the core objectives I just laid out, as well as to introduce you to our financial principles and share our guidance, after which we will open the call for your questions. We are still in the very early days of Root. As we look to the future, we believe the opportunity in front of us is massive and that we have what it takes to create a historic market-defining company.

We align all of our strategic decision-making with delivering long-term profitable growth driving our market leadership with technology innovation and pushing our commitment to revolutionize the insurance industry. We founded Root on the belief that machine learning and modern technology could fundamentally revolutionize a state insurance industry that's ripe for disruption while delivering a vastly superior consumer value proposition and experience.

More simply put, we wanted to utilize technology and data science to solve some of the most challenging big data questions out there and fundamentally change the way auto insurance is underwritten. With $266 billion in annual premium, the U.S. auto insurance sector is an enormous market. The product is a government-mandated purchase for the vast majority of motorists. Nevertheless, pricing of auto insurance is very little to do with how consumers actually behave behind the wheel.

Consumers have little to no control over their auto insurance. Their policies are often priced using stale demographic information that is hard or impossible to change, such as age, gender, marital status or education. It's also an industry where historically, lower-risk good drivers are systematically overcharged to subsidize losses that emanate from the higher-risk bad drivers. There's a fundamental element of unfairness inherent to the traditional insurance industry. This is the industry that I grew up in, and it's the thing that has always bothered me the most.

Consumers deserve better, and we believe technology and data science are the keys to unlocking products that will enable that change. While technology has radically altered and improved so many aspects of our lives, the insurance industry mainly still operates the same way as it did a century ago. The industry continues to principally rely on archaic variables that do not measure driving behavior and are unfair to consumers.

Further, it has not awakened to the reality that consumers are walking around with supercomputers, otherwise known as smartphones, in their pockets that can offer a deluge of individualized driving data on a daily basis. We built Root as a mobile app to capture telematics data that uniquely emanates from the smartphone.

As data and predictive analytics are the foundation of insurance, the industry is in a prime position to be disrupted by an innovator, leveraging advanced data science and machine learning techniques. We believe that Root has a material first-mover advantage, given our central focus on telematics and mobile-first consumer experience, combined with our balance sheet strength.

In the 5 years since founding Root, we've developed industry-leading and highly proprietary telematics and data science capabilities. We are particularly proud of our ability to discern distracted driving, a meaningful driving risk that cannot be measured effectively by OEM-integrated car data or dongle devices provided by carriers.

The National Safety Council reports that 1 in 4 accidents in the United States is caused by distracted driving. So the ability to measure distracted driving is paramount to a strong telematics program. In addition, actions like hard braking cannot accurately be used to forecast loss cost without a corresponding claims data set and other contextual behavioral data captured via mobile telematics, which Root possesses in spades.

We have been asked why most of the industry isn't focused on implementing something similar. The answer is that it's extremely hard to construct and even harder to apply to an existing book of business, particularly with legacy systems. Our telematics are different because they are built on a proprietary integrated data set of complex behavior data tied directly to actual claims experience.

And we use the power of this data across our entire portfolio. In fact, behavioral driving data is the first thing we look at when considering a customer's risk. And in the case of the 10% to 15% highest risk drivers, we underwrite these customers out without considering any other variables. To highlight how this differs from the legacy carrier side, one of the large national players recently acknowledged publicly that although telematics is their "most powerful rating variable," they solve it last in terms of their pricing algorithms.

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So why is this the case? Incumbents face a classic innovator's dilemma. If an industry incumbent sought to implement telematics-based pricing across its customer base, it would risk large-scale lapses as customers react to those price changes. This risk of cannibalization simply outweighs the benefits to the legacy players.

Some have argued that industry players face such innovators' dilemmas all the time. But unlike the traditional rating variables, telematics data is collected by these carriers after they have already acquired the customer and spent an entire 6 month term with them. We believe Root is the only carrier with scale and focus working to implement telematics-based pricing upfront.

Moreover, no other carriers built on proprietary modern technology like Root. That allows us to rapidly test new behavioral data elements and retrain our underwriting pricing models in real time. Our data advantage and engineering capabilities allow us to streamline quote flows, create faster and better claims experiences, and in the future, will allow us to even further differentiate our product, pricing and service.

Ultimately, our goal is to implement a full behavior-based pricing model. We've already removed the use of education and occupation from our pricing, and we are committed to removing credit score as well. In conjunction with the National Association of Insurance Commissioners Summer meeting in August of this year, we announced our Drop the Score initiative, outlining our plan to remove credit score from rating factors.

We have made a commitment to remove the use of credit score from our rating variables no later than 2025, and we're advocating for and challenging the broader insurance industry to follow our lead and do the same. We are still in the very early days of Root. With the successful completion of our IPO and concurrent private placement on October 27, 2020, and our revised reinsurance program in place as of July 1, 2020, we now have more than $1.2 billion in fresh capital, and a capital-light business model to take full advantage of the massive growth opportunity in front of us.

You can say that we're competing with legacy carriers who have really deep pockets and have been building their brands for nearly a century. But our real competition is inertia. The inertia of an old and archaic industry that is slow to adopt new technology and even slower to embrace meaningful change. So how do we know it's all working? I'll now turn the call over to Dan to take you through the significant progress we continue to make across our core objectives as well as provide financial highlights in the quarter and share additional color on our outlook. Over to you, Dan.

Daniel Harris Rosenthal
CFO & Director

Thanks so much, Alex, and good afternoon, everyone. Full details of our third quarter results are available in our shareholder letter. So I'm not going to repeat many of the numbers, but I would like to discuss a few key results and strategic milestones, highlight some aspects of our financial framework to help you understand the fundamentals of the Root model and provide more detail on how we are thinking about the rest of the year. I'll do all of this through the core objective framework that Alex spoke about at the top.

A successful insurance technology business like Root needs to drive significant growth, enhance profitability via loss ratio and retention improvements and optimize customer acquisition via direct marketing and a strong user experience. Across each of these 3 core objectives, our year-to-date trends have improved significantly as our business continues to mature.

Growth is our top priority as it enriches our flywheel with more data. To this end, we posted strong growth during the third quarter and year-to-date periods by all measures that we deem important. We ended the quarter with premiums in force of $600 million, up 41% from last year.

Total policies grew 35%, and average auto premium increased 6% compared to the prior year period. Direct written premiums were $471 million for the 9 months ending September 30, 2020, up 53% versus prior year. And the amount of our policies earned year-to-date, direct earned premium, grew 93% to $450 million compared to the 9 months ending on September 30, 2019.

The 41% growth rate in premiums in force based primarily on strong share expansion in existing markets launched in 2019 or earlier demonstrates the depth of share available in our currently active states. Our team is obsessed with understanding the local factors that drive our customers' decision and allow us to continue to grow in each market we serve.

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Now that we have a more mature product informed by millions of customer experiences, we plan to bring Root nationwide. After disciplined expansion into 30 states, we're ready to accelerate that reach. To this end, we are incredibly excited to announce that in November, we closed the acquisition of a shell insurance company with property and casualty licenses in all states, plus the District of Columbia.

With this new access to the vast majority of the U.S. market, our teams are gearing up to launch in new states throughout 2021. We recognize from experience that state expansion requires individualized rate plans, tailored state management and methodical growth. Beyond state expansion, we can further tap into this massive market by addressing the customer's need for insurance holistically.

Although we firmly believe auto is the gateway product, we've recently expanded our offering to include both homeowners and renters as additional tools to building a strong and lasting customer relationship. Protecting our customers' other investments with these additional products is a natural way for us to improve retention and grow our premium base.

Our data-driven edge has been built on the significant volume of rich data fueled by our customer growth. We believe we have a powerful first-mover advantage here, now 5 years in the making, which only strengthens as we continue to grow. Collecting more data enhances our predictive modeling capabilities in a virtuous cycle to power our flywheel. Our proprietary telematics solution integrates driving activity data with actual claims experience and applies our machine learning capabilities to derive precise insight from the growing dataset.

We collect roughly 4 terabytes of rich behavioral data on a daily basis directly from powerful sensors within our customers' smartphones. These sensors allow us to track driving patterns that are most relevant in determining a person's driving ability such as hard braking, abrupt turning and distracted driving. In the third quarter of 2020 alone, we collected an additional 1.5 billion miles of integrated driving and related claims data increasing our total miles collected to more than 14 billion.

But it is not just the number of miles or claims that matters, it is the ability to translate this data into behavioral insights with a high degree of accuracy across hundreds of phone models and then understand how these behaviors cause losses, not explained by other variables. And when they do cause a loss, how much exactly that claim will cost. It's also the ability to improve our business by identifying underwriting and claims fraud and managing our claims cost with real-time data.

Not only are we constantly monitoring and analyzing this rich data internally for the benefit of our proprietary telematics program, but given our commitment to transparency, we now share our cumulative mileage data with the world. As the COVID-19 pandemic began to unfold in early 2020, a we utilized our unique access to real-time driving trends and started providing it for all to see via our website.

This transparency helps our industry answer important questions such as how much driving actually decreased as well as the ways in which driving patterns changed. Beyond a simple mileage measurement, we've been able to gain additional insights through our telematics focus about drivers profiles to more accurately assess their true driving exposure during this unique time.

Our growing data set powers our flywheel and plays right into our second core objective, leveraging our data science expertise to enhance profitability via loss ratio and retention improvements. Through continued improvement in our telematics scoring with the industry's largest and growing data set of behavioral data and claims experience, we are creating a risk segmentation advantage and making auto insurance fairer for consumers.

As our unique approach gains traction and we amass more customers, it improves the overall seasoning of the book and drives down our direct loss ratio over time. Our quarterly results reflect our strong progress in this area. Our direct accident period loss ratio was 85% in the third quarter, a 16-point improvement from 101% in the third quarter of 2019. Meanwhile, our direct loss-adjustment expense was 10% in the third quarter, a 3-point improvement from 13% in the same prior year period.

The increased predictive power of our telematics and our state management program have driven material total direct loss ratio improvements. Through the first 3 quarters of 2019, as we entered 7 new states, only 4 states in our footprint had direct accident period loss ratios below 90%.

Conversely, through the first 3 quarters of 2020, as the predictive power of our telematics improve and we matured in our existing states with only 1 new state launch, a total of 26 states had direct accident period loss ratios below 90% and 21 states were below 80%.

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We believe that our first term post telematics underwriting loss ratio compares favorably to first term loss ratios at legacy insurance carriers. However, our total direct loss ratio cannot be compared apples-to-apples against other auto insurance players. Many of whom have been in business for several decades and have less than 20% of their total premiums coming from new customers as opposed to the approximately 50% share of new customers at Root during the trailing 12 months.

Moreover, it is overly simplistic to directly compare a personal auto insurance loss ratio to another personal line like homeowners or renters given massive differences in complexity of rating models, average premiums and retention. Forget about apples-to-apples, comparing auto to home to renters loss ratios is like comparing stake to yogurt to penne, all are nice foods, but they have little else to do with each other.

Finally, our business model is uniquely based upon underwriting out the highest risk drivers due to their disproportionate likelihood to be involved in an accident. In fact, our year-to-date direct loss ratio for the pre-telematics underwriting period is more than 20 points higher than the post-telematics period.

Given the youth of our book and how quickly we are growing, this significantly weighs on the total loss ratio in the short term. We expect to reduce this loss by more rapid identification of high-risk driver characteristics and underwriting out the unacceptable risk as well as improving the lifetime value of customers that we bring into the marketing funnel.

Similar to loss ratio, a mature portfolio will naturally experience higher retention rates at a macro level as the longer customers have been with an insurance provider, the stickier they become. For now, our current portfolio is at a disadvantage in this regard. Also related to maturity is price volatility, which, of course, can also impact retention.

A young insurance company like Root naturally experiences more price volatility as we launch new states, transition to company models for underwriting variables and develop new telematics scores. As we are managing the business for its long-term potential, we believe near-term volatility is always worth absorbing to drive the right long-term decision.

While select markets will experience price volatility as we open new states and address some existing states, we expect price volatility across the book to reduce over time. We are actively targeting retention improvements through product offerings and features, customer engagement via proprietary techniques and customer targeting, which all can drive meaningful improvements in this metric as the portfolio scales and matures.

As an example, the addition of renters and home insurance offers twofold retention improvement potential. First, through cohort mix shift as customers who desire to bundle can now shop with Root; and second, with cross sell. As auto customers with root who add an additional policy have shown to retain approximately 15% better than non-bundled customers at the completion of their first term. Product flexibility includes the ability to easily adjust coverage with one click and even to rejoin Root in a simple new streamlined app feature called Boomerang.

Since testing began earlier this year, Boomerang has successfully reinstated more than 15,000 policies, or the equivalent of 4.7% of our auto policies in force at quarter end. This is a great example of how basic blocking and tackling within our proprietary technology stack can capture meaningful improvements in our unit economics. Our data science-led customer targeting strategies allow us to better identify potential high-frequency shoppers as well as potentially longer retaining customers and pay the appropriate customer acquisition price to drive a target customer mix into our funnel.

Furthermore, we believe claims is the most important moment of truth for our customers and a long-term driver of retention as we build a more mature book of business. Our claims experience is truly differentiated and will allow Root to stand out to customers. From the beginning, we have always built claims with technology in mind, enabling us to handle claims faster and better than any of our competitors. We continue to automate a higher percentage of our claims volume in the third quarter, allowing customers to take pictures of an accident, answer a few questions, and within 24 hours, get a complete resolution and money in their bank accounts. This has improved customer satisfaction as well as reduce both claims and claims handling costs.

So back to that important question, how do we know it's all working? Adjusted gross profit, our key non-GAAP profitability measure shows how our growth, underwriting, maturation of our customer book and capital disciplines come together to generate variable profit and mark our progress towards building a sustainably profitable business.

We measure our progress towards profitability with adjusted gross profit to direct earned premium in order to best capture the contribution margin of our customer revenue. Loss ratio and customer retention are significant drivers in our profitability, and we expect these to improve over time. As our company grows and accumulates more internal loss and

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premium data, our data science and actuarial teams can construct more accurate predictive models. This is the flywheel at work.

We are now deploying the third iteration of our internal pricing model. Due to the increase in size of our internal data set, this iteration reflects a step-change in our approach, whereby we are able to accurately adjust more rating elements. This in turn allows us to provide fair and more accurate rates to our customers. Insofar as we've improved our loss cost accuracy by about 20%.

Early signs are that the fourth iteration of our pricing model will produce even more substantial benefit once it is deployed. We also expect further improvement in loss adjustment expense. Which we believe already is in line with industry-leading levels and will naturally experience further operating leverage as the business scales and our claims-related technology continues to improve.

Third quarter gross profit was $1 million, and our adjusted gross profit was $10 million. Again, the latter of which is our key profitability measure and was substantially better than a loss of $27 million in the third quarter of 2019 due to an improvement in direct loss ratio, loss-adjustment expense ratio and variable expenses, net of reinsurance ceding commissions.

Adjusted gross profit fully incorporates the work we've done on our reinsurance program, a critical efficiency lever for Root. We set out in 2020 to land the right reinsurance structure for our business today. We're proud to say that beginning July 1 this year, we transfer 70% of our premiums and related losses to reinsurers, while also gaining a 25% commission on written premium to offset some of our upfront and ongoing costs.

This reinsurance program is exactly what we need to allow our equity capital to drive growth and build a deeper moat around our technological advantage, and that's what ultimately matters. Reinsurance has implications for GAAP revenue, and our new reinsurance program will cause a reduction in GAAP revenue versus prior quarters. This is why we use direct earned premium as our primary top line metric for the business. It removes the volatility of our reinsurance program and really captures the revenues received from our customers.

Our third core objective is to optimize customer acquisition via direct marketing and a strong user experience. The structural tailwinds at play, whereby consumers are migrating from agency to direct channels and driving accelerated growth for direct-to-consumer brands leveraging mobile plays right into our hands.

We acquired 75% of our customers through direct mobile channels, driven by our unique onboarding experience that can be completed as fast as 47 seconds, which is highly differentiated and not easily replicated with legacy systems. This is our primary distribution source, our lifeblood. Yet this is only one part of an equation driving a long-term cost of acquisition advantage versus the industry.

Our data-science-led marketing strategy is another vital part of this equation and inherent to the data DNA of Root. We use data-driven targeting strategies across our marketing channels. Our digital distribution model also allows us to be more agile when we see opportunity present itself or, in some cases, slow with caution.

At the onset of COVID-19 in March, we reduced our performance marketing spend, maintaining and monitoring it with a watchful eye during the second quarter. In the third quarter, we resumed pre-COVID levels of marketing spend as we saw signs that the pandemic was accelerating structural shifts in auto insurance that support Root's direct-to-consumer and telematic strategies.

Our third and fourth quarter marketing strategies focus on a test and invest approach as we set the stage for our push into more states in 2021. We are targeting a build-out of new channels such as streaming video to establish a set of diverse acquisition channels that work together.

Additionally, we launched a brand focused campaign in the lead up to the presidential election in an effort to make Root more of a household name. The campaign features NASCAR driver and advocate Bubba Wallace. This work highlights the importance of bold progress and reflects Root's culture and commitment to fair pricing based on driving performance rather than demographics. We are extremely pleased with the positive exposure Root has garnered from this campaign thus far.

At Root, we are always looking for new ways to solve a problem by leveraging technology. While we have a team building a differentiated customer acquisition funnel, the question was posed in the quarter, "What about the customers that

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we underwrite out? Could we help them find insurance elsewhere and potentially launch a new revenue stream for the company?"

In less than a month, we launched a program to redirect customers with their permission to other carriers. And in so doing, we're able to offset 3% of our customer acquisition spend in the month of October, yet another example of what is possible with the nimble technology infrastructure we have at Root. In the near term, we expect the amplified brand spend will take time to drive acquisition efficiency and could result in temporarily elevated customer acquisition cost levels. However, the longer-term benefit will far outweigh any near term pressure, particularly as we expand our footprint nationally.

I'll close with some thoughts on how we're thinking about the business in year-end 2020 and beyond, and then we will welcome your questions. We will continue to prioritize growth because we believe our business only gets better as more data flows in. Which turns our flywheel and helps to unlock the full potential of our business model. More data allows us to deploy even more advanced algorithms, which allows us to further differentiate our product from the rest of the market while becoming an even better underwriter.

As our flywheel continues to develop, we expect our operational scale will realize economies of scale and grow margins. To be clear, we base all our strategic decision-making on building a business for long-term sustainable growth and profitability. The near-term targets that we're establishing today demonstrate that we are on track in delivering this framework. While 2020 has been a year that few could have expected and no one will soon forget, Root will continue to deliver strong financial results. Our current expectations for the full year of 2020 are as follows: direct earned premium of $595 million to $600 million, adjusted gross profit of $14 million to $16 million.
Root is a long-term focused company and management team. We're excited about our 2020 accomplishment, but even more about what is to come. We'll share our 2021 outlook when we report our Q4 and FY 2020 results in the new year. Until then, we look forward to pounding the virtual pavement actively engaging with our new and prospective investors and keeping you updated on our progress as we continue on this exciting journey together. Operator, please open up the lines for questions.

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Question and Answer

Operator

[Operator Instructions]

Our first question comes from the line of Elyse Greenspan from Wells Fargo.

Elyse Beth Greenspan
Wells Fargo Securities, LLC, Research Division

My first question is on policies in force, that obviously slowed down a little bit sequentially, and you guys have talked about just kind of pulling back on advertising, just given the uncertainty surrounding COVID. In your prepared remarks, you pointed to picking up on the ad side from here as there's more certainty in the environment. So can you give us a sense of how you think policies in force growth within auto could trend on in the fourth quarter and then also some initial views on 2021?

Daniel Harris Rosenthal
CFO & Director

Elyse, this is Dan. Thank you so much for the question, and nice to speak with you again. I think what you see on policies in force is a result of the way we've managed marketing spend this year. And if you think about it in the first quarter of the year, we spent about $36 million in sales and marketing.

And we dropped down to $18 million in the second quarter. And now we're showing $37 million in sales and marketing spend for the third quarter. And that dip, as you said, was really related to COVID. The uncertainty in mid-March of what the world was going to look like. How consumers are going to treat their auto insurance. And as we then had a good grasp on where things were going, we ramp back up the marketing spend in the third quarter.

And what I think you'll start to see, as we fine-tune our algorithms and continue building, is a progression on that in policies in force that won't necessarily show up in the fourth quarter, but will show up as we grow towards 2021.

We're not providing guidance today on 2021. But as we show in the shareholder letter and as we just talked about, we do envision now that our marketing spend is back to the pre-COVID levels, and we're excited to build upon that.

Elyse Beth Greenspan
Wells Fargo Securities, LLC, Research Division

Okay. That's helpful. And then my second question, throughout your prepared remarks, you mentioned targeting retention improvement. Obviously, you guys being a newer company, the new percentage of your business a lot higher, right, versus some of the incumbent carriers. So could you just -- whether you want to share targets or just as we should think about, right, that 50% and how it could trend over time as we think about the potential for your profitability to improve, right, as the retained portfolio represents a larger piece of the pie. Can you just give us a sense of how we could think about that trending over the longer term?

Alexander Edward Timm
Co-Founder, CEO & Director

Absolutely. This is Alex. And you bring up a fantastic point on retention. Near term, as you mentioned, our retention rates will certainly be lower than a blended age book -- mature book, and that's simply because new business obviously has a higher churn rate and turns out of your book faster than once it's been with us for a few terms.

And then you see usually substantial improvements in that number as you go out terms. The other thing, though, that's probably at least as big too, as is having an early book, though, is really the fact that we've launched in so many new states and that we've aggressively had to test and learn our ways in when it comes to our pricing algorithm. So the #1 reason, and this is both true at Root, and true if you just look at industry studies, that folks chop their auto insurance, it's because of a price change.

And when we launch into a state -- we don't have a ton of data when we launch into that state. So not surprisingly, usually, that first rating plan is a little crude. As we then go in and acquire some customers in that state, we observe some

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claims data. We adjust our pricing. And when we do that, it does result in a short-term spike in churn. And that's what you've seen in several states. And so when you look at the blended number, it's really not indicative of the long-term run rate of the business, which we do expect to at least get to around industry average.

Now we do underwrite out the worst drivers. And so we don't necessarily anticipate that changing, and we think that that's actually a competitive advantage. This is not retention for retention's sake, so to speak.

The other thing, though, that's really important here, too, is the customers that you're -- that we're actually acquiring. And so we measure our book very detailed from segment to segment. And what we've been able to do over the period of the last year or so, as we've done this, is really start to skew our book more towards higher retaining customers, particularly in those states that we've had a successful -- where we've had a successful number of iterations on our rating plan. And so we've gotten a lot of the rate shocks out of the book.

And that we've actually seen come through the book very successfully and is driving up retention. And we're doing that through highly targeted marketing initiatives. And then the last thing that we are seeing also improve retention considerably is our product features. And so Dan mentioned Boomerang in his prepared remarks, which we've now seen, I think he said over 15,000 policies. That allow customers to come back to us, but there's also other things like cross-sell. So we've noticed, we're still really in the early days of cross-sell. We're only in a few states when it comes to renters insurance and home insurance.

And we see a substantial reduction in churn when we do cross-sell a policy -- a second policy to an insurer. And so as we scale that, we expect there to be even more upside, quite frankly. So I think the answer really is that in the near term, as we continue to launch more states, there may be some short-term volatility. But long term, there's no real reason to believe that it wouldn't trend up quite substantially. And that's exactly what we're seeing in the data.

Operator

Our next question comes from the line of Youssef Squali from Truist.

Youssef Houssaini Squali
Truist Securities, Inc., Research Division

Just a couple of questions on something you just talked about, maybe, Alex. On the plan to launch in other states, can you just help us understand the pace of rollout that you guys plan on doing? How does that compare to your thinking just a few months ago, pre-acquisition, does this basically dramatically accelerate your plans, and therefore, could have a pretty material impact on your sales and marketing? Would be great to hear how you're thinking about sales and marketing next year, although not necessarily asking for guidance.

And then just quickly, what steps are you taking to identify some of these policyholders with high propensity to shop around? That's something you also talked about earlier.

Alexander Edward Timm
Co-Founder, CEO & Director

Absolutely. Those are fantastic questions. So the first question around the acquisition of the 50 state shell that gives us a license in pretty much all states. That we aren't currently operating in and how we're going forward in launching those states. So the answer is we're doing it. We certainly are going to accelerate our state expansion plan via that acquisition.

And so you should expect us to continue to launch in new states, and that obviously will be a very large growth lever that prior to the acquisition was, quite frankly, not available to the company as we were having to go state by state. That being said, we still have to do filings, our product filings, and we are aggressively working on that now. And so you should expect us to continue to add more states really throughout all of 2021. And that will be a substantial growth lever for the business.

We will clearly put investment and marketing dollars behind those new regions. We will also be monitoring those regions very, very closely to make sure that the models are performing well. To make sure that our initial rating plans -- again, we don't have data in those markets yet, so our initial rating plans we will launch in those markets. And we'll be ready to adjust those very quickly.

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In terms of the pace, it varies by state. Some states take a very long time to approve things regulatorily. Other states are very quick. And so it will be a cadence really throughout the year.

In terms of the second question and how do we identify customers that have a high propensity for shopping upfront? And there's a variety of ways we do this. But the first is the marketing channels that we leverage, these digital marketing channels, they actually provide us lots of rich data even well before we decide whether or not we're going to show an individual consumer in advertisement.

And so I may very well know what an individual's -- if they have -- currently have prior coverage, whether or not they're a homeowner or not, their age, how many times they've switched insurance in the last year or so. And those are data sets that we can gather from a lot of these customers even before -- again, even before we market to those customers. And so we actually have a data science model that's running that optimizes for the lifetime value of a customer on a lot of our digital channels.

And then that allows us to say if a customer we believe is very sticky and not going to churn we're then okay with a higher customer acquisition cost on that customer. Whereas if a customer looks like they're probably going to churn very quickly, there then we manage those customers to a lower customer acquisition cost and a lower first term loss ratio as well, which we're launching in our current rating plans as well.

And so we do a lot of that through marketing. And then as the consumer continues to progress through the funnel, we automatically update basically our expectations via that model to try to predict how long that customer is going to stay with us. And then that allows us to basically appropriately triage these customers. So it's a mix between both targeted marketing as well as then making sure that within our rating plans, we are appropriately accounting for the different propensity to shop.

And so that longer retaining customers, we might be okay with the first term loss ratio being higher than a very churny customer. We may demand a lower loss ratio.

Operator

Our next question comes from the line of Michael Phillips from Morgan Stanley.

Michael Wayne Phillips
Morgan Stanley, Research Division

I guess, we'll start off with -- I thought your graph that you put in the state loss ratio -- loss ratio distribution by state in your annual letter was pretty telling. And you talked about it a bit in your commentary. So state expansion is challenging on a loss ratio perspective for any company, probably more so for a company that's testing its mobile technology and distracted driving pricing algorithms that you guys are doing.

That's going to bring pressure on the loss ratio. So I guess, question would be, how do you weigh this plan for national expansion and the pressure that will bring on the loss ratio versus focusing on where you currently are? And getting kind of loss ratio improvements in your current states?

Daniel Harris Rosenthal
CFO & Director

Mike, this is Dan. Thank you so much for the question. And you're right. We decided to share that data on the loss ratio because we thought it was very compelling. And what you're seeing there is a function of time, more than anything else. As the business has time for policyholders to mature in each state, you can see the loss ratio performance trend really be quite strong.

So then the question around state expansion, Mike, is a good one because you're right, if we just enter a state, and prioritize expansion, without prioritizing the overall portfolio, it will put pressure on the loss ratio. So for us at Root, it's not when we enter a state. It's how we enter the state. And we've done that in a couple of different ways. First is we've really fortified our team. We've invested a lot on the team side to bring in professionals who have really strong state management experience in some of the states where we are not today.

We brought in a new VP of product and pricing in late August with nearly 3 decades in the industry. We brought in a new head of claims, who understands the pitfalls that you can find when you enter a state and we also have the learnings from

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the 30 states that we've already entered, that we can apply in large part to the states that we are not yet writing business in.

So we are, frankly, very bullish on not just turning or flipping the switch and saying, let's go into 48, 49 states immediately, but let's do it the right way. And I think that what you'll see as we enter 2021 is we'll be very thoughtful about that. We'll be prudent stewards of capital. We'll be testing because that's what we do at Root. We're very data-driven. We're very test-oriented. And so you'll see us do that pretty consistently. And the bigger difference versus, say, 2017, 2018 or 2019 is we have this very nice installed base of in force premium in states that are already maturing, as you can see on Page 12 of the shareholder letter, and are going to continue to mature next year.

And that's very powerful for us. Our largest state is Texas, Mike. And just look, in Texas, in 2020, we took base rates down. And year-to-date, we've seen loss ratio improvement of about 36 points on 59% earned premium growth. That's quite significant when you look year-over-year at a state which is our #1 state and really shows the benefits of maturity. So you've got that installed base to support the loss ratio as we dip our toe in some of the state expansion.

Michael Wayne Phillips
Morgan Stanley, Research Division

Okay. Dan, that was helpful. Second question, kind of related, you might have even mentioned this in your answer just now, so I apologize. But on that same page and your commentary that you believe your first term policy -- first-term post-telematics underwriting loss ratios compare favorably to legacy players. Can you quantify that? Like, what kind of number are you talking about, Dan?

Daniel Harris Rosenthal
CFO & Director

Yes. We look at some of the publicly available data in some of the reports and see a first term loss ratio estimated to be in the mid-80s, somewhere in there from the large direct carriers. For us, that story is complicated. By just comparing apples-to-apples for 2 reasons. First, as we identify, part of our business model is underwriting out the poor drivers during that first term.

And so that's where it's very hard to compare our loss ratio and retention to legacy industry players and what we identify today is that the loss ratio delta between the pre-telematics period and the post-telematics period of that first term is around 20 points. So quite significant.

The second thing is that today, for us, about half of our premium comes from new writings versus renewal customers. And obviously, as you know, Mike, renewal customers have a lower loss ratio, not just at Root, but throughout the industry. And that premium difference is north of 80%, for renewal premium at legacy carriers. So you also see what happens at some of the legacy carriers is absorbing that first-term loss ratio with a bigger base of renewal customers. So on a blended basis, when you're comparing direct loss ratio, it's very hard to look apples-to-apples.

At Root, again, a function of time. We are trending that way as the book matures as we have a larger percentage of our premium come from renewal customers, we expect to trend in that direction from the overall blended rate. But we feel very good about where our first term loss ratio is, particularly in that post-telematics phase.

Operator

Our next question comes from the line of Ross Sandler from Barclays.

Ross Adam Sandler
Barclays Bank PLC, Research Division

Two questions, one on CAC, and then on retention. Any color on the new ad campaign, the TV campaign? And did CAC in 3Q -- I noticed sales and marketing was pretty consistent with our plan, but how did CAC perform in the third quarter? And then, Dan, you mentioned the price increases and the third-generation of your pricing model. So I guess how do these pricing decisions in general foot with retention? And is there anything you guys can do during that customer acquisition stage or the initial test-drive period to drive up retention rate, either just acquiring more selectively or pricing maybe a little bit differently during the test-drive period in light of improving retention? Any color on that would be helpful.

Daniel Harris Rosenthal
CFO & Director

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Thanks, Ross. And although this is our first earnings call, I have a feeling that wouldn't be an earnings call without a question from you on CAC. So I'm excited, and I'll look forward to that continuing quarter after quarter in a good way. CAC was in line with our expectations during the quarter. As we talked about in our shareholder letter, we're expecting elevated levels, not just in the third quarter, but in the fourth quarter, because we're testing -- we're investing to support the state expansion plans that I was just talking about.

And we're investing on the brand side as well. And we think the longer-term benefit of that spend is going to far outweigh any pressure particularly as we expand the national footprint. We do expect sales and marketing overall will be up a little bit from the third quarter as we build on the launch of the campaign you mentioned around Bubba Wallace, around the election. And really capitalize on some of the momentum from national publicity related to the IPO as well as just the overall campaign and expanding our footprint.

The Bubba Wallace campaign itself was very strong for us. Received about 13 million organic impressions on social media. We had more than 400 million earned media impressions. It was really strong, and I think it really represented our brand in a very powerful way. If there's one word around Bubba Wallace that I think you'll hear resonate from us in the years ahead. It was authenticity. And we really strive to have group be an authentic brand, an authentic community for our customer base. And Bubba Wallace and his story really represented that authenticity incredibly well. So we did not intend to move into the endorsement space early on. But we saw this as really a golden opportunity, and we're thrilled with the results of the campaign just thus far and look forward to continuing the partnership with Bubba. As for your second question, I'll turn it over to Alex.

Alexander Edward Timm
Co-Founder, CEO & Director

Yes. So I believe the second question was primarily around how we make pricing decisions, particularly with respect to retention. So effectively, the way that it works is we always have a target more or less first-term loss ratio and retention by customer segment within every state. And when we launch these plans, we observe them for a bit of time so that we can get enough claims data, primarily frequency data to understand exactly what's working, what's not working. And then what we do is we adjust those rates so that we are hitting our targets. And sometimes that takes us a couple of iterations. Sometimes it takes us 6 iterations, it varies. And once we hit that, though, what we find is that that's really when you see retention sort of normalize and come back up. So in terms of how do we price, though, in order to really optimize retention? Really, what we do is we try to predict basically retention of a customer segment upfront. And then from there, what we do is if we know you're going to be with us for a long time, we'll actually be okay offering you a lower rate because we know over the lifetime of that policy that your lifetime value to us will be very high.

In terms of how are we changing the pricing, particularly during the telematics period to reduce churn. One of the things that we found is that the faster we can make a decision as to whether or not we believe someone is a good driver or a bad driver, we call this the test-drive period, but the faster that test is and the shorter it is, the better we do in terms of retaining that customer and keeping them happy.

And one of the things we found that not only are the predictive models that we're still shipping the -- not only are they substantially very significantly more predictive than our prior versions of the model that we're even on today in many states. But they also are able to make the determination much quicker. And so we've done that through now several different iterations where we're now able to identify really good drivers and really bad drivers even sooner than we would have otherwise. And what that allows us to do then is get that telematics based rate into the consumer's hands much, much faster. It's not for 100% of the customer base. We have some folks, we still need to monitor for a full extended duration. But for a lot of them, you can figure it out actually fairly quickly. And so we're doing a lot of interesting things on that front, one of which we're using actually the motion chip inside the phone to get very high accuracy readings very, very quickly. And that we have seen have material impact on the number of customers that we can telematically rate, which then, in turn, leads to obviously better conversion and retention.

Operator

Our next question comes from the line of Matt Carletti from JMP Securities.

Matthew John Carletti
JMP Securities LLC, Research Division

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Alex, actually want to follow-up on your last answer there, and if you could expand on that a little bit. And specifically, as the data flywheel goes and you're able to kind of identify at least maybe the tails of the risk spectrum more quickly. How quickly can that get rolled out into results? I mean you kind of quoted in your materials a 2 to 4-week drive or test-drive period now. Is that -- how quickly and how good could that get? In a couple of years' time, could you be talking about a 1 week test-drive period? Or is it more incremental than that?

Alexander Edward Timm
Co-Founder, CEO & Director

Yes. That's a great question. So where it ends up, we don't know, but we can certainly get within a 1-week test-drive period. And in fact, we can get to the point with certain depending on where you are in the tails. On either very good or very bad, you can actually get some pretty accurate readings within just a few days often. And so you can do that very quickly. In terms of how fast we ship those, once we have that model in play, it's very, very easy to ship.

So it goes into R&D. The R&D time and data science can take anywhere from a couple of weeks to a couple of months, depending on the nature of the data science problem. And then once we've identified that, then shipping it is actually pretty trivial. It just it lives on our servers. And so we don't have to do an app update even to actually do that. So we can actually just almost real-time ship that. And so those are things that we deploy very quickly. In terms of showing up in the financial results, and of course, those premiums would have to earn through our book. And so it will take more time, probably a period of 3 to 6 months to maybe a year, to really show entirely through just because of the nature of the business that we acquire customer upfront and then obviously earn that revenue and pay those losses over time.

Matthew John Carletti
JMP Securities LLC, Research Division

Great. And then my other question is you spent a bit of time, and thank you for doing so on kind of outlining your 3 core objectives and giving some incremental data around each of those. My question is, as we look at 1 and 2, which is basically growth and profitability, can you give us -- help us a little bit with the bigger picture of how we should think about how Root goes about balancing those two?

And obviously, the need for growth to capture market share versus show profitability. And particularly, as we think about other stakeholders in the room, whether it be investors on this call or your reinsurers or at some point, potentially needing to go back and raise capital?

Daniel Harris Rosenthal
CFO & Director

Yes, Matt, thanks for the question. This is Dan. It's a constant balance of growth and profitability for us, and we have the ability to focus on long-term execution. And that's really what we're focused on. We feel like we have built out 3 important moats around technology, around the size and quality of our customer base and the capital that we have in place to now go execute on our plan. And that really is our singular focus. So as we gain the benefits to the next iteration of the pricing model or from refining the pre-telematics period that Alex just talked about. We can really choose whether to take some of those benefits to growth or to profitability.

And for us, it remains a balance. So Mike's question earlier about state expansion is a good one. As we decide to ramp up some of our state, which is the right thing to do for the long-term to expand that footprint. We'll also be conscious about pressure on the loss ratio. So we don't want that state expansion to drive the loss ratio really hot. So part of what we will do is take the overall benefits of our telematics and our pricing model and take a bit more of those benefits into profitability. So that's sort of what I'm trying to suggest that it's a constant balance for us, really focused on executing the overall plan.

And you mentioned our reinsurers, our reinsurance have been fabulously supportive of the business model and our growth plan overall. As you know, now we have 5 of the top 10 reinsurers in the world participating in multiple treaties for us. We expect that, that will continue, but we like our reinsurance program because of its flexibility, and because it allows us to be nimble and toggle up and down the percentage of premium that we see over time. And again, a constant balancing act of growth and profitability as we think about 2021 and beyond.

Operator

Our next question comes from the line of Yaron Kinar from Goldman Sachs.

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Yaron Joseph Kinar
Goldman Sachs Group, Inc., Research Division

A couple of quick numbers questions, if I could. First, can you maybe tell us what the new writings were in the quarter? And then also if you could maybe give us, I think, similar to the S-1 disclosures, the renewal book loss ratio?

Daniel Harris Rosenthal
CFO & Director

Yes, I'll take that. On we are -- we do not disclose new writings just from a competitive sensitivity standpoint. So we point you to in force premium, obviously, direct earned premium and policies in force as you're thinking about the top line overall. And so that's where we've decided to focus the business. On loss ratio, what we decided to do here was focus more on questions around that pre-telematics period versus post and also showing the really significant benefits of loss ratio distribution by state for the first 9 months of this year versus fiscal year 2019. So that's the way that we're presenting loss ratio. And ultimately, we think it's the simplest and most direct way to describe the accident period direct loss ratios rather than split them new versus renewal.

Yaron Joseph Kinar
Goldman Sachs Group, Inc., Research Division

Okay. And then if we do look at the loss ratio for year-to-date versus a year ago, is there a way for us to think about the COVID impact there if we try to adjust that out to have a more apples-to-apples comparison?

Daniel Harris Rosenthal
CFO & Director

Yes. I think COVID for us was a story of a couple of different chapters, and we're in the middle of chapter 3. Chapter 1 was March through May, and we saw probably about 15 to 17 points of loss ratio benefit from the periods of March through May due to COVID and due to less driving and obviously reduced claims frequency.

And Chapter 2 is -- was the period in the third quarter. And we didn't really see the extended COVID impact or the size of some other carriers, and we think that's due to our portfolio mix. California, Massachusetts, New York, New Jersey, states with high commuting in normal times and states or cities and have higher levels of COVID restrictions in place right now than other parts of the United States, those are not in our footprint.

So for us, we didn't see quite the COVID impact in the third quarter, really any significant impact from COVID in the third quarter, like some other carriers may have seen.

Chapter 3 is what's happening now? We saw some signs of reduced driving over Thanksgiving. We were frankly glad to see people taking COVID seriously, and we think that, that's obviously important with what the country is dealing with right now. It's just too soon to know for November, and I don't want to make assumptions on the rest of the year. But think of that your own as chapter 3, that I'm sure we'll come back and talk to you about in the near future. We're obviously watching it extremely carefully.

And unlike most carriers, I think we have just the best ability to track this. On literally a daily basis, looking at where our customers are driving, how much they're driving, understanding the claims that tie in. So we're really able to see the impact of COVID, we think as well or better than any carrier out there. And for the benefit of the public, we've shared the cumulative data on our website around how our customers are driving since really the beginning of the pandemic.

So we'll continue to do that on joinroot.com, and we think that we'll be watching that very, very carefully in the weeks and months ahead.

Operator

Our next question comes from the line of Phil Stefano from Deutsche Bank.

Philip Michael Stefano
Deutsche Bank AG, Research Division

Yes. We saw in the shareholder letter that the launch of the next version of the pricing algorithm, it seems like it's poised for the second half of '21. Can you talk to us about how the pricing algorithm will come through in the financials? Is this for

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new business? Is it for retained business as well? Should we expect a stair-step improvement in underwriting? Or as you talk about the acquisition of customers on the algorithm and then the time delay and the earn through of that pricing for them?

Alexander Edward Timm
Co-Founder, CEO & Director

Absolutely. That's a great question. So the new algorithms when we launch them and roll them out, I think you can expect both the third-generation of our traditional models and the fourth generation of our UBI models to be in the market and very soon in probably the first half of 2021. And if you look at how that's going to impact things, what we do is, in certain states where we feel confident in our loss ratio and our loss projections effectively what we do is as we get better and better at segmentation, we're actually able to bring base rates down and maintain the same level of loss ratio performance or even exceeded.

As Dan had mentioned, we've actually reduced rates in Texas and seen lower loss ratio and superior growth. And so states where we feel very confident in our unit economics, you will see it come through quickly in terms of growth and reduce customer acquisition costs. However, in states where we may not be where we want to be in terms of the overall loss ratio as we roll those models out. We may not reduce base rates to the same extent or may even increase base rates with those rate changes.

On those, because that's the loss ratio play, it takes longer to show up in the numbers. So you can say if we launch our model hypothetically speaking, sometime in the first half of Q1, that model would then be in force for the new business. So it does take effect on new business, not renewals. And the -- and then over that period of time, what will happen is those policies will come on under those new rating plans. And then it will take 6 months for those policies to fully earn through to the new business portion of our book.

And then even longer, of course, for all of the policies to sort of get on to those new rating plans. So it is -- the loss ratio side of things does take a longer time to earn through, probably takes really, we start seeing results within 6 months, 6 months and then within 1 year, you see most of those results come through.

Philip Michael Stefano
Deutsche Bank AG, Research Division

Okay. Understood. And switching gears, I wanted to ask about Apple's upcoming changes to the mobile app identifier. And so I get the impression that early next year is going to be much harder when this change comes through to spend money advertising an app and also tracking the performance of it. And I guess, am I off base in thinking that there's a potential risk to Root here? Or how should I be thinking about how this is going to impact you and maybe your mix of customers for iOS versus Android?

Alexander Edward Timm
Co-Founder, CEO & Director

Yes, that's a good question. With each, we've now lived through lots of different iOS permissions throughout the history of Root. And typically, what we see is that each one requires us to do something slightly different. So it's each basically versioning of the operating systems. We're actually going back and looking at the way the code is written and making sure that we can still get the data we need. As part of that, we've actually even developed motion only models and where we really just use the gyroscope and the motion chip so that we don't even need the GPS chip because for a while their location data was what was really, really targeted. In terms of advertisement, I think because a lot of what we'll be doing, too, will be on mobile web. I think you will see a minimal impact to it, but it's certainly something we're monitoring.

Operator

Our next question comes from the line of David Motemaden from Evercore.

David Kenneth Motemaden
Evercore ISI Institutional Equities, Research Division

I had a question. It doesn't sound like we're going to get the renewal loss ratio. But I guess I'm wondering PIF growth was flat in 2Q, was down a bit, and I'm talking sequentially, it was flat in 2Q, down a bit, 3Q. It doesn't sound like there will be much in 4Q -- much growth on a quarter-over-quarter basis in 4Q. I'm just wondering what sort of benefit was there in the

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85% direct loss ratio just from just given less new business drag or new customers as that PIF growth has stepped down and how we should think about that, I guess, in 4Q and into the first half of next year?

Daniel Harris Rosenthal
CFO & Director

Thanks, David, for the question. Yes, look, our renewal loss ratio compared to our new business loss ratio is in line with what we presented in the S-1, there's no material deviation or anything like that. And so we expect that, that will continue. And obviously, we're showing you that as a percentage of our overall premium. Renewal percentage is remaining, to your point, roughly the same or slightly higher. I don't think across the overall base, it's not having a material impact on our loss ratio, nor do I think it will through the end of the year.

I do want to be clear on one thing. In terms of our forecasted guidance range, we are forecasting growth in direct earned premium through the end of the year. And obviously, bringing that forward from about $450 million at the end of the third quarter to a range of $595 million to $600 million as we come through the fourth quarter. But what we're describing to you is the ramping backup of marketing spend, which really, as I said, started in the third quarter. Starting to pay dividends a little bit in the fourth quarter, but really more in 2021. And that's how we expect to go forward.

Operator

Our next question comes from the line of Brian Meredith from UBS.

Brian Robert Meredith
UBS Investment Bank, Research Division

Alex, I wanted to talk a little bit about -- you talked about more targeted marketing and then perhaps maybe improve loss ratios or at least your initial customer you're getting, what other stuff are you doing to try to improve that first term loss ratio?

Alexander Edward Timm
Co-Founder, CEO & Director

Absolutely. So the biggest thing that we are doing that is going to continue to improve the first term loss ratio is our state-by-state management. And so like I said, in lots of states, we're looking at our first term loss ratios and we're happy with where they are. And then in lots of some states, handful of states we're saying, we want to do better. And in those states where we want to do better, we will take base rate when we need to.

However, the other thing that is just going to continually drive the loss ratio to improve is just improvements in segmentation. And right now, we really aren't seeing the ceiling, if you will, to collecting more data and retraining our models rapidly. And so for instance, our UBI 4.0 is looking like it's substantially predictive than UBI 3.0. And what that then allows us to do is really make a choice. We can either grow faster -- although we're planning substantial growth throughout '21, but we can either grow faster or we can reduce loss ratios and float more to the bottom line. And it becomes a strategic decision as to exactly where we want to place our bets at that point.

But continuing to invest at Root and being world-class at pricing leveraging all of the data and the technology off of the phone. And we're still experimenting with new data sources as well, not just from the phone but from everywhere. As we continue to do that, you will see segmentation continue to improve, which is really when you start to see the best of both worlds where you can actually reduce loss ratios and grow as well.

Operator

Our final question comes from the line of Nick Jones from Citi.

Nicholas Freeman Jones
Citigroup Inc., Research Division

I guess just touching on maybe the competitive dynamic today, there's some competitors who are kind of doing a mileage-based insurance pricing, we pay per mile. Then we've also seen some recent announcements such as Ford's partnership with Verisk and GM's partnership with American Family. So I guess, can you touch on how the competition is changing? It sounds like there's some other opportunities within telematics that's a little different than kind of how you're going to

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market? And is that changing faster than it was before? I guess just any color on how you see the competitive landscape today in terms of telematics and trying to use -- leveraging more data and pricing insurance?

Alexander Edward Timm
Co-Founder, CEO & Director

Absolutely. Those are great questions. In terms of the competitive landscape, data is going to -- first, in terms of the pace of change, thinking about OEMs, those are not new. So those have been around for a decade or more the OnStar program has in attempts to sort of sell insurance through connecting vehicles. So I wouldn't call that a change. It's just sort of another chapter to the same thing that's been happening over the last few decades. And there's lots of barriers to those particularly getting traction.

Obviously, it's more difficult. Most consumers, for instance, don't have just a single make of a vehicle. And so having just an insurance carrier or insurance product per vehicle can be pretty difficult, obviously, bundling is a big element to a lot of consumers as well? And then just as well as the technical challenges, the data off of these vehicles, quite frankly, none of the -- none of it looks the same, there are various quality.

But that being said, we do believe that long term, this data is going to continue to proliferate. And this will be data, both again of vehicles but also off of the smartphones, behavioral data that we can gather off of smartphones that isn't on the vehicle. And that's going to continue to proliferate.

And so for instance, at Root, we have agreements with roughly 47% of connected vehicle by market share, 47% of connected vehicle data that we can actually get, and we've got that under contract now. So we certainly are looking at all of that data.

And like I said, some of it's good, some of it's not good. And then the key is really making sure that it works for the consumer. And so how do you actually seamlessly integrate something like vehicle data inside of a really amazing product flow for the consumer. And that's really where we're focused because, again, the data isn't new. That's been around for decades.

The new thing is, how are you going to make it actually work for the consumer to solve a consumer problem in a seamless way. And that's really what we're working on, where we -- if a consumer comes to Root and you -- and we do have connected vehicle data, we have something called skip drive, where you can instantly get a telematics rate of quote. And that's really the only thing out there like that in the market today, and we've had that line for a while and we continue to experiment with that.

In terms of some other competitive landscapes, per mile billing, that's something, again, that has also been around for a long period of time. We think a niche audience is certainly interested in that. It's difficult to -- for us, what we found is when we've tested that, most consumers actually, we found really want a stable bill. They don't want their insurance bill jumping around too much. And so we found that it's actually more beneficial not to do necessarily per mile, especially given that our squared in predicting the number of miles that a consumer is going to drive over a period of a year from the test-drive period is well above 95%. And so it's not like we're really surprised when we see how much somebody is driving.

But I think long term, you're going to continue to see vehicle technologies progress quickly. You're going to continue to see data really come from all sorts of different angles, whether it be the phone, whether it be vehicles, whether it be something else, a wearable device. And who's going to be positioned the best is the insurance company that is the most tech-savvy and data science savvy to actually ingest all of that data and know what to do strategically over the long-term with it, to actually better serve consumers.

And I think that's exactly where we've positioned Root. So I think that's a fantastic answer -- fantastic question.

Daniel Harris Rosenthal
CFO & Director

And I'd just add one thing quickly. Really, Alex is totally right, Brian, in -- I'm sorry, Nick, in terms of how we are approaching our business. I think this is where the moats that I talked about earlier really matter around our technology, around the size of the customer base that we have today. And in addition, around the capital. Our premium is diversified. It's not tied to one state. It's not tied to one type of customer.

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And I think that really matters the maturity of the state matters, as we point out in the shareholder letter and the fact that our telematics is really able to focus on distracted driving, I want to emphasize that. 1 in 4 accidents in the United States is tied to distracted driving, and the integrated car data cannot touch on that, cannot discern distracted driving from the data that they receive.

So hugely important questions that are frankly going to face the industry as we continue to build out the Root brand and the Root community and focus on providing a fair and more tailored customer experience overall.

Operator

This ends the Q&A session, and I'll turn it back to management for closing remarks.

Alexander Edward Timm
Co-Founder, CEO & Director

We just would like to reiterate our thanks for everyone joining today. We are thrilled to talk to you guys today and continue to update you on the business and the company results. So we will talk with you all in about 90 days again. Thank you.

Operator
Ladies and gentlemen, this concludes today's conference call. Thank you for participating. You may now disconnect.

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