

Geico's Advertising, Pricing Luring Customers To Company

by dow-jones

CHICAGO -(Dow Jones)- Geico, the fourth-largest auto insurer in the U.S., just signed up its 8 millionth customer, continuing a growth rate that could push it ahead of next larger rival Progressive Corp. (PGR) in the next year.

The Berkshire Hathaway (BRKA, BRKB) unit, whose caveman mascot even has its own television sitcom, still lags far behind larger rivals in size, but that situation is quickly changing, as Geico outsmarts competitors on advertising and pricing, said one analyst.

"Ask 10 people whose advertising they remember best" of the largest auto insurers, said analyst Donald Light of Celent LLC in an interview. "It's not Allstate, State Farm or Progressive."

At the end of 2006, State Farm Mutual Automobile Insurance Co. reported nearly 40 million auto insurance policies in force. Allstate Corp. (ALL) reported 19.2 million at the end of second quarter, and Progressive Corp. (PGR) had 10.7 million at the end of September, the most recent figures available. The companies' rankings in terms of premium market share are similar.

But none of its larger rivals are growing as fast as Geico, which could put it ahead of Progressive sometime next year, according to an August estimate by Credit Suisse analyst Charles Gates, after the company put out its second-quarter earnings.

"This growth is a function of - (1) capable management; (2) the advertising spend which easily exceeds that of others; and (3) for many it's a better business model," Gates wrote.

Although Progressive was the pioneer in "micro-segmentation," or setting insurance prices individually according to each customer's risk profile, "Progressive has been struggling lately" to stay ahead of rivals such as Geico, which has learned to mimic its pricing acumen, and out-maneuver Progressive in more memorable advertising, said Light.

In its second-quarter earnings report, Geico said that its policies in force rose 9.3% in the first half of the year, though it did not give a number. Progressive reported 3% growth in personal lines policies in force through the first half of the year.

Geico plans additional policy rate cuts throughout the second half of the year, a tactic many insurers are using to win business. Unlike its larger rivals, Geico sells its policies almost completely through direct-to-customer means, either by phone, Internet or direct mail.

A Geico spokesman did not return a phone call for comment.

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