

As Gasoline Rises, Insurer Profits Seen Aided By Less Driving

by dow-jones

CHICAGO -(Dow Jones)- As the increasing cost of gasoline forces U.S. drivers to cool their love affair with their cars, auto insurers may see a silver lining in the breakup: fewer accidents. It makes sense to Lehman Brothers analyst Jay Gelb, who upgraded third-largest auto insurer Progressive Corp. (PGR) and raised earnings estimates on Progressive and larger rival Allstate Corp. (ALL) on his expectation that less driving means fewer accidents, which will help boost auto insurer earnings. The impetus for the upgrade was a U.S. Department of Transportation report on auto mileage released over the weekend, which reported that vehicle travel mileage dropped by 4.3% in March compared to the year-ago month, and that March marks the first 12-month period in which the total number of miles driven dropped from the previous 12-month period since the agency started keeping the records in 1983. The report won't be news to auto insurers, who closely track accident claims and have already seen the effects of reduced driving on accidents. It has long been accepted as fact that the more time a car spends in the garage, the less chance there is for an accident. Skyrocketing gasoline prices could be a welcome boon for insurers that have relentlessly cut their rates in recent years in order to win new business. In marketing literature for its usage-based TripSense insurance program launched a few years ago in some states, Progressive promises that customers who "drive less, pay less" for auto insurance, to reward them for their less-risky driving habits. Progressive spokeswoman Katherine M. Bell said via email that "it's difficult to ascribe one factor, such as higher gas prices," to any one change such as frequency of accidents. She said the company doesn't comment on analyst reports. But the connection between less driving and fewer accidents "intuitively" makes sense, said spokeswoman Susan Murdy of Fireman's Fund Insurance Co., a unit of Allianz SE (AZ) of Munich. Fireman's Fund insures affluent and high net-worth individuals. Murdy said the company expects it "could see some decline in frequency in the second quarter." Even if drivers get into fewer accidents, the benefit could be partially outweighed if the cost of repairing vehicles rises due to higher material costs, Allstate spokesman Rich Halberg pointed out. Gelb sees higher gasoline prices adding 30 cents to his 2008 per-share earnings estimate for Allstate, and 15 cents to Progressive's. "We are not making a call today on the sustainability of high gas prices, but we believe this trend will be strong enough at least in the near term to result in a return to favorable loss frequency trends for auto insurers," Gelb wrote in a Wednesday note. Bob Hartwig, president of the Insurance Information Institute, an industry trade group, said that, through the fourth quarter of 2007, he has seen no evidence that rising gasoline prices has made much of a change in driver habits. But the breaking of the \$4 price barrier for a gallon of gasoline may be the final straw for drivers who have put up with steady increases, and could make a difference for insurer accident costs beginning in the second quarter. He said a similar situation occurred in the 1970s, when oil embargoes cut supplies and raised prices. Hartwig said data indicated "a very sharp drop" in auto accident frequency during the oil embargoes, "but as soon as gas became available and prices fell, people rapidly began to drive again, and frequency moved back to pre-embargo levels," he said. "Conventional wisdom would indicate that there should be a drop in frequency," as long as gasoline prices stay above drivers' comfort level.

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