

Progressive Gains as Record Gasoline Curbs Driving

by Bloomberg.com

July 9 (Bloomberg) -- Progressive Corp., the third-biggest U.S. auto insurer, stands to benefit from record gasoline prices and a slowing economy as fewer drivers take to the roads.

With gas prices above \$4 a gallon and the unemployment rate hovering at the highest point in almost four years, Americans are driving less for the first time since 1980, data compiled by the Federal Highway Administration show. The rate of accidents per insured vehicle fell 0.5 percent in the first quarter from a year earlier after increasing in 2007, according to Insurance Services Office Inc. in Jersey City, New Jersey.

"We may be at a very special point where things have changed dramatically," Progressive Chief Executive Officer Glenn Renwick said at an investor meeting last month.

Americans drove about 20 billion fewer miles during the first four months of 2008, down 2.1 percent from a year earlier, according to the Federal Highway Administration in Washington. Progressive of Mayfield Village, Ohio, is the top performer on the 24-member KBW Insurance Index in the past three months, gaining 18 percent. The firm fell 10 cents to \$20.03 in New York Stock Exchange composite trading at 4:15 p.m.

The number of drivers probably fell again in May when gas prices approached \$4 a gallon, said Meyer Shields, a Baltimore-based analyst at Stifel Nicolaus & Co.

Progressive may say tomorrow that second-quarter earnings fell about 14 percent to \$243 million after the company lowered prices last year to gain market share, according to a survey of analysts by Bloomberg.

Driver Anxiety

Historically, rationing was the only thing that actually influenced miles driven," said George Ruebenson, the president of the property and casualty business at Allstate Corp., the second-largest U.S. home and auto insurer after State Farm Mutual Automobile Insurance Co. "It's not just the gasoline price itself. The publicity that it gets creates some anxiety in people" and may cause them to spend and drive less, he said.

Progressive has minimal revenue from home insurance and few investments tied to subprime mortgages, making it one of the purest bets in the auto insurance market, said Shields. Twelve of 17 analysts who follow Progressive increased their estimates for second-quarter profit during the four weeks ended yesterday.

State Farm of Bloomington, Illinois, is owned by policyholders and doesn't report quarterly results. Northbrook, Illinois-based Allstate may say later this month that second-quarter net income dropped about 46 percent because of increased claims from homeowners whose property was damaged by tornadoes.

Allstate, Berkshire

Allstate declined about 5.4 percent in the past three months. Warren Buffett's Berkshire Hathaway Inc., owner of No. 4 auto insurer Geico Corp., dropped 9.2 percent on concern that revenue from commercial coverage may decline.

Progressive may benefit more than most auto insurers from the decline in driving because a larger portion of its customers are so-called non-standard drivers, a group judged more likely to get into an accident, Shields said. Such drivers are typically younger and among the first to reduce the numbers of miles they drive because of unemployment or budget constraints, he said.

Not all trends are positive for auto insurers. The rise in commodity prices causes an increase in repair costs because petroleum is an ingredient in auto parts such as tires and paint, said Michael Murray, assistant vice president of the Insurance Services Office. The ISO contributes records to the industry's Fast Track Monitoring System.

The Family Budget

A sluggish economy may also alter consumer behavior, causing customers to submit claims for minor damage, file fraudulent claims, or take a second or third car off the road, said Bill King, senior executive vice president at State Farm.

If the family budget is strained, they may be more apt to turn in a claim," King said in an interview.

New car sales, which provide insurers with a chance to attract customers, fell 12 percent in the second quarter as consumers turned away from gas-guzzling trucks and found smaller cars in short supply, according to industry data compiled by Bloomberg. A shift from expensive SUVs to smaller cars would lower the average premium each customer pays, and reduce the cost of fixing a car after a crash, Progressive's Renwick said.

Those kinds of things are all things we need to stay on top of," Renwick said. There are a lot of vectors of

change here."

Copyright 2008 Bloomberg L.P. All Rights Reserved.

Progressive Gains as Record Gasoline Curbs Driving by Bloomberg.com