THE WALL STREET JOURNAL. ONLINE

April 9, 2008

Auto Insurers Paying Up To Compete For Drivers

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April 9, 2008; Page B5A

For auto insurers, 2008 is shaping up to be another tough year.

Insurance prices are being driven down by tough competition even as accident costs are edging up after years of steady declines. The price of competition is rising, too, with the top insurers spending around $500 million a year to keep their names in front of potential customers.

Allstate Corp., the nation's largest publicly traded auto insurer by market share, says it is poised to outperform its rivals in the toughest auto-insurance market in years. It won't be easy.

Allstate is locked in a fierce battle for U.S. drivers with State Farm Mutual Automobile Insurance Co., **Progressive** Corp. and **Berkshire Hathaway** Inc.'s Geico unit. In 2007, Allstate's overall premiums dropped a bit, with decreases in its homeowners business outweighing a 2.1% increase in auto premiums.

"I think there is still room for auto-insurance prices to go down a little more through 2008," said Robert U'Ren, senior vice president of auto-insurance research firm Quality Planning Corp. "I don't look for it to turn around until the industry gets noticeable losses."

At a J.P. Morgan Chase insurance conference last month, Allstate's investor relations chief said he expected auto-insurance rates to begin to bottom out this year as competitors that had been cutting rates begin to put through some increases. But not everyone agrees that raising prices will be a winning, or even workable, strategy.

Allstate offers auto, homeowners and retirement products through a combination of exclusive and independent agents, brokers and financial institutions, but its auto business is by far the largest revenue generator, bringing in more than $18 billion in premiums in 2007.

Allstate's recent share price of $49.02 is down 6.1% so far in 2008, trading down from its all-time high of $66.14 in 2006, when insurance premiums began edging down. But the company is ahead of Progressive's 14.7% drop over the same period, and better than the Dow Jones US Property & Casualty Insurance Index, which is down 11.5% for the year to date.

A big part of Allstate's strategy is its Your Choice Auto program, which launched in late 2005. The policies now sell at a clip of around 100,000 new sign-ups a month.

The premise behind Your Choice is to offer drivers a choice of insurance perks, such as a 5%

rebate on premiums for accident-free drivers, or accident forgiveness, which guarantees that insurance rates won't go up if a customer has an accident. The extras carry a fee above the cost of the basic insurance policy, but Allstate President and Chief Executive Thomas J. Wilson says the product strikes a chord with customers who want to feel they are getting something tangible in return for their premium checks. Most customers offered the choice decide to upgrade their policy.

This year, the innovations of Your Choice may not stand up to the lure of a lower insurance premium from a competitor, as drivers reeling from record gas prices shop around for cheaper insurance.

Claims may run higher in a down economic cycle when drivers turn to their insurer to pay for minor accidents they might have covered themselves in better times.

As the Atlantic hurricane season in June approaches, some investors will shy away from insurers that have exposure in vulnerable states. That anxiety should ease as the season ends, if storm damage is light, as it has been for the past two years.

Another blow for Allstate came recently in California, where regulators ordered Allstate to cut its average auto premium by 15.9% starting in this month. The cuts will cost Allstate an estimated $245 million.

Allstate has headaches in Florida, too. On Friday, an appeals court ruled that Florida insurance regulators have the authority to suspend Allstate's companies from writing new insurance policies in the state because the insurer hasn't complied with subpoenas. The Office of Insurance Regulation had suspended Allstate from writing new policies in January because it didn't supply pricing information requested in an earlier subpoena. Allstate said it believed the court's ruling wasn't final, so it will continue to write new business.

Some stock analysts have responded to the soft insurance market by lowering their rating on the entire property/casualty sector. CreditSights Inc. analyst Rob Haines put an underweight recommendation on the sector earlier this year, predicting "bloodbath pricing" for the year.

The recent quiet hurricane seasons put insurers in a bind, with "more and more capital chasing a declining premium pool," he said in a research note.

Geico says it expects its average premium per policy to stay about the same in 2008 as it was last year, a view that sounds about right to the Insurance Information Institute, a trade group.

David Anthony of Argus Research also has a hold rating on the sector, and said that his inclination is not to gamble "when trends are going the wrong way."

But there is a rosier interpretation that has Allstate moving past the worst of its problems.

Bernstein Research analyst Todd R. Bault upgraded Allstate to outperform from market perform. Both the softening auto market and the issue of reserve releases "have played out," Mr. Bault said. He calls the stock oversold and sees a potential 32% upside in the shares.

Even in a bad insurance market, some insurers have a knack for doing all right, said Robert P. Hartwig, president of the Insurance Information Institute.

"Many have made improvements elsewhere, such as by lowering expenses," Mr. Hartwig said. "Price is only one dimension. Insurers also compete on service and amenities on policies."

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