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GEICO's Q3 loss ratio surges even after excluding Harvey, Irma impact

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GEICO Corp.'s loss and loss-adjustment-expense ratio rose to its highest level since the fourth quarter of 2000 even before taking the impact of hurricanes Harvey and Irma into account.

The nation's No. 2 private-passenger auto insurer continued to grow written premiums at a rate well into the double-digits during the third quarter, according to a review of results reported in Berkshire Hathaway Inc.'s 10-Q, but its losses expanded at an even faster clip.

Premiums written and earned increased by 16.5%, apiece, but losses and LAE climbed by 20.6% excluding the approximately \$500 million of Irma- and Harvey-related losses that the company reported in the third quarter. Including those catastrophes, losses and LAE rose by nearly 30% to \$6.93 billion.

GEICO's third-quarter loss and LAE ratio totaled 91.9% including the hurricane-related losses and 85.3% excluding them. Those figures compare with loss and LAE ratios of 84.3% in the second quarter and 82.4% in the year-earlier period.

Between the start of 2003 and the third quarter of 2014, GEICO had only twice produced a loss and LAE ratio of 80% or more in any quarter. Since then, its loss and LAE ratios have equaled or exceeded 80% 11 times in 12 quarters. GEICO's loss and LAE ratio last exceeded 85.3% during three of 2000's four quarters.

Outside of the catastrophes, the company observed increases in average claims severities during the first nine months of 2017 for property damage and collision coverages of between 4% and 6% and for bodily injury coverage of between 5% and 7%. Its stated ranges for average claim severities in the first half of 2017 were from 4% to 5% for property damage and collision and between 4% and 6% in bodily injury, potentially suggesting a slight worsening in those trends during the third quarter. The ranges of increases in average claim severities observed by GEICO through the first nine months of 2016 were in line with those the company attributed to the same stretch of 2017.

In addition to the impact of severity, GEICO's new business surge during the trailing-12-month period ended June 30 may also factor into the company's higher ex-catastrophe loss and LAE ratio.

With Berkshire Hathaway Chairman Warren Buffett declaring in his 2016 annual letter to shareholders that GEICO was seeking to "make hay while the sun sets, knowing that it will surely rise again" amid a "profit squeeze" in the private auto insurance industry, the company has posted large leaps in voluntary auto policies in force going back to the third quarter of 2016.

Based on reported year-to-date changes in voluntary policies in force, S&P Global Market Intelligence calculates that the company added more voluntary auto policies during the third and fourth quarters of 2016 and the first two quarters of 2017 than in any comparable periods since the statistic became available on a quarterly basis in 2004. There is considerable seasonality to the rate of increase, and the first quarter typically sees the largest jump in voluntary auto policies in force. That was demonstrated in 2017 by GEICO's reported increase of approximately 568,000 policies for the first three months of the year.

S&P Global Market Intelligence estimates that GEICO increased its voluntary auto policies in force by approximately 268,000 in the third quarter of 2017, down slightly from the torrid pace of 276,000 in the year-earlier period as it begins to lap its acceleration in growth. During the previous 12 third quarters, S&P Global Market Intelligence estimates that GEICO added an average of 154,000 policies. Results for the fourth quarter of 2016 and the first and second quarters of 2017 were similarly well above historical averages for those periods.

Despite the rising ex-catastrophe loss and LAE ratio, GEICO's expense ratio is sufficiently low that the company still would have reported a sub-100% combined ratio for the third quarter when excluding the Harvey- and Irma-related losses. Its ex-Harvey and Irma pretax underwriting gain for the first nine months of 2017 of approximately \$378 million puts it on pace to produce a full-year result comparable to the \$460 million and \$462 million in pretax underwriting profits it achieved in 2015 and 2016.

And assuming no further deterioration in claims severity trends, GEICO's underlying results figure to improve as the significant amounts of new business it has brought onto its books over the past five quarters season.

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