

Progressive Profit Falls 42% to \$150.7 Million on Investments, Storm Costs

By: Maryellen Tighe

Oct. 12 (Bloomberg) – Progressive Corp. (PGR), the fourth- largest U.S. auto insurer, said profit fell 42 percent on declines in the value of investments and weaker underwriting results as Hurricane Irene struck the East Coast.

Third-quarter net income dropped to \$150.7 million, or 24 cents a share, from \$261.6 million, or 40 cents, in the year- earlier period, the Mayfield Village, Ohio-based company said today in a statement.

Chief Executive Officer Glenn Renwick, 56, said the company needs to limit write downs to maximize the funds available to back the sale of new insurance policies. He has reduced the allocation to preferred stocks, which he said could become hard to sell at a time of market disruption.

“We’re trying to avoid some of the risks that are front and center right now, and leaving us with more flexibility,” William Cody, chief investment officer for Progressive, said in a conference call Aug. 11.

The insurer had a net realized loss on securities of \$52.6 million, compared with a gain of \$26.9 million in last year’s second quarter. Book value, a measure of assets minus liabilities, fell to \$9.37 a share from \$9.88 on June 30. The value of the company’s equity portfolio, including preferred and common stocks, fell to \$2.47 billion as of Sept. 30 from \$2.9 billion three months earlier.

Industry-wide Slump

Progressive fell 5 cents to \$18.33 at 9:53 a.m. in New York Stock Exchange composite trading. The insurer slipped 7.5 percent this year through yesterday, compared with the 22 percent drop in the 24-company KBW Insurance Index. (KIX)

Progressive had an underwriting profit margin of 4.8 cents on every dollar in premiums for the quarter, compared with 7.1 cents a year earlier. The insurer had previously said that catastrophe losses in August, led by Irene claims, jumped to \$37 million, or 3.2 cents per premium dollar, from about \$2.2 million in the year-earlier period. Progressive reports results monthly.

Property insurers including State Farm Mutual Automobile Insurance Co. and Allstate Corp. (ALL), the largest U.S. auto insurers, have been pressured by catastrophes including second- quarter tornadoes and Irene. The storm lashed the U.S. from North Carolina to New England, where flooding may have fueled car-damage claims, said Mark Dwelle, an analyst at RBC Capital Markets, who rates Progressive as “outperform.”

“People were encouraged to stay put more than evacuate” in New England states, leaving their vehicles vulnerable to floods, he said.

Sales Gain

Policy sales advanced 4.2 percent to \$3.87 billion. Progressive’s total personal auto insurance policies climbed to 8.41 million from 8.38 million on June 30, led by gains in clients who purchased their policies through the Internet or phone.

Operating income, which excludes some investment results, was about 29 cents a share, beating by 1 cent the average estimate of 20 analysts surveyed by Bloomberg.

Miles traveled in July on U.S. roads fell to the lowest for the period since 2002, as gas prices above \$3 per gallon and unemployment at 9.1 percent limited the number of trips, according to the most recent monthly report from the Federal Highway Commission. Fewer miles driven may result in a lower frequency of collision claims for auto insurers.

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