

In depth overview of geico inc.

[Economics](#), [Insurance](#)



The Company

Geico is the acronym for Government Employees Insurance Company. It is an American company whose headquarters is in Chevy Chase, Maryland. Initially the company was dealing with auto insurance but now has extended its services to motorcycles, all terrain vehicles (ATV), boat, house, commercial and life insurance. Geico also has three affiliates such as GEICO General Insurance Company, GEICO Indemnity Company and GEICO Casualty Company.

Geico works in conjunction with these affiliates to offer more features and options to its customers. Geico also has a subsidiary called International Insurance Underwriter Inc. This subsidiary helps in issuing overseas insurance for people going in foreign countries. Geico's parent company is Berkshire Hathaway headed by Warren Buffet. Geico became subsidiary of Berkshire Hathaway in 1996 (Geico Website, 2008).

Geico was founded in 1936 by Leo Goodwin. In the beginning, Geico marketed its car insurance policy to federal government employees and Military personnel. Geico soon became a successful company and during 1970s it made available its insurance products for general public as well. Today Geico has 8 million auto policyholders and has insured more than 13 million vehicles. And the numbers are still growing at a high rate of 8.8%. This dynamic progress of Geico is made possible by the CEO and chairman of Geico, Tony Nicely and its 22354 employees. (Geico Website, 2008)

In 2007 also Geico has shown a tremendous growth. Its market share has reached to 7.2% from 2.5% in 1995. Its expenses and losses have increased

to \$ 10. 693 billion corresponding to the increase in its sales which stands at \$ 11. 806 billion. Thus Geico earned the underwriting gain of \$ 1. 113 billion in the year 2007 (Buffet, 2007).

External Stakeholders

The external stakeholders of Geico are stockholders, owner (Berkshire Hathaway), Special interest group, government and customers. Geico takes into consideration every stakeholder in order to fulfill their demands and keep them appeased. The stockholders and owners demand large profits and better financial performance whereas community and customers demand that they should be also cared and valued with discounts, welfare events and donations. Thus Geico is faced with a conflict of interest but it has managed a good balance over the years.

Government and special interest group also take part in Geico's operation to ensure that it is working under the laws and regulations. They have set rules for company so that its operations are ethical to protect consumer and community rights.

Major Markets

Geico's major market is US. Geico's products are available in 49 states of US including state of Columbia. Initially the Geico marketed its private passenger auto insurance product to demographic of low risk military and federal government employees. They usually have low incidence of claim and therefore they are usually stable entity. But Geico has expanded its market since 1970s to other high risk customers also.

Geico contacts its potential customers itself through direct marketing, hence bypassing the need of external agents. The medium used are mail, internet, electronic data interchange and telephone.

Mission

The mission of the organization is to be the market leader in serving US people with low rates insurance products whose superior quality makes customers satisfied. In addition, company also wants to benefit the society at large. One example is company strict adherence to Equal Employment Opportunities.

Business Process

Geico has two basic operations such as underwriting insurance and managing investment portfolios. In insurance, the company collects insurance premiums from customers with a promise to repay it in future when needed as insurance claims or benefits. There are three major insurance products such as accident and health, property and casualty and life. Each one of them has their specific premium plans and claim options.

The money collected through insurance premiums is further invested in diverse portfolios which guarantee future return on investment. Thus Geico has revenues from two sources insurance premiums and income from investment portfolios.

The insurance premiums that Geico charges is calculated by the size of future claims (money paid to customers) denoted by loss reserves. If loss reserves are large enough then insurance premiums charged will be high. This is because high loss reserves have an adverse effect on company's

profitability. To counter this adverse effect, the revenues in the form of insurance premiums should be higher.

The loss reserves in turn are calculated by two factors such as incidence of claim (the probability that customer will claim) and size of claim that have to be paid by the company. If both factors are estimated with accuracy the company charges low fixed premium otherwise the premiums are charged at high rates that increases annually till the end of short policy term.

There are three ratios calculated by Geico to ascertain its total expense. They are loss ratio (ratio of loss reserves to premiums), expense ratio (ratio of admin, operating and marketing expense to premiums) and policyholder dividend ratio (ratio of dividend to premium) the addition of three ratio gives combined ratio which is used in calculating total expense of company (Miles, 2003).

Core Competency

The major competitors of Geico are State Farm, Allstate, Progressive, Nationwide, and USAA. Core competency is something a company does better than its competitors and through which it attains strategic advantage. Geico has large customer base in military and government. This is low risk entity and probability of incidence of claim is also low. Thus Geico has an advantage of maintaining low loss ratio and high profits.

We can further say that Geico has attained organizational effectiveness by being the fourth largest auto insurer in US with 7.2% market share. It also has large capital asset of \$ 20 billion and is financially very sound. Its system of direct marketing and high expenditure in ads and marketing campaign

has earned him loyal and satisfied customers. Its marketing expense as of 2007 is \$ 751 million (Buffet, 2007). Furthermore its Claim Centertechnology and web based policy management and premium payments have improved both customer service and productivity. Thus the whole mechanism has given Geico an unprecedented success and unbeatable competitive advantage.

Code of Ethics

Geico certainly has a code of ethics. It has always upheld highest level of business conduct. The first clause in code of ethics is conflict of interest. Geico has always ensured that employees' interests should be consistent with company's interest. Employees should always work effectively for the company's goal and should refrain from obtaining undue advantages. The second clause is about corporate opportunities. It says that employees should refrain from using corporate property, information or position to avail opportunities for personal gains without the consent of Board of Directors. It requires that employees should always work to uphold the interest of company.

The third clause is about fair dealing with competitors, suppliers, customers, and colleagues. Honesty should prevail in all transactions and interactions with other party. The fourth clause is about insider trading. Employees in possession of critical non public information should not engage in company securities trading. Employees should not also share this information to others. This information should only be used for conducting business. The fifth clause is about confidentiality. Critical information provided by

customers and suppliers should not be disclosed. The employee is obliged to follow this clause even after employment ends.

The sixth clause is about protection and proper use of company's asset. Theft, carelessness and waste of asset and propriety information should be avoided. The seventh clause is about compliance with laws, rules and regulations. All employees are required to obey laws of national as well as foreign country government in which the company is operating (Miles, 2003).

Strategic Alliances

EFTAS is an employment program for US military soldiers. It is conducted by Atlantis Business Development Corporation Inc (ABSD). On January 2007, Geico participated in this program along with ABSD to help military men and women find employment after completing their military service. Geico offers insurance to US troops especially at discount rates. Geico has always taken care of military personnel and the association of Geico with ABSD has given a boost and strength to EFTAS employment program.

On June 10, 2008 Geico deployed the Claim Center of Guidewire Software, a leading global solution provider to insurers. This web based claim solution is used by Geico's claim counselors countrywide to help policyholders and improve claim holding efficiency. In its efforts to provide better customer service, Geico has contracted Guidewire to obtain Claim Center to curtail loss reporting process, reduce service agents training times and integrate repair scheduling to provide convenience to customers. Guidewire has further promised to enhance the capabilities of Claim Center which will ensure success to Geico.

In addition Geico has numerous business partners which launch joint ventures with Geico to benefit business as well as society. In a quest to provide complete solution to its customers, Geico has partnered with other companies to provide emergency road service, inspection sites, and car loans and leases. Geico has also partnered in many social welfare events such as educating people about auto and motorbike safety. Geico has partner companies belonging to industry as diverse as accounting, attorney, credit union, education, engineering, federal, financial, medical, military and technical (Buffet, 2001).

Outsourcing and Franchising

An entrepreneur who owns an agency can associate himself with Geico and market its insurance products by becoming GFR (Geico Field Representative). As a GFR; you become local sales and service representative for Geico and its affiliates. GFRs being master of their own business and not an employee of Geico also receives benefits of excellent commission and technical, managerial and marketing support from Geico (Hagstorm, 1997).

Organizational Structure

The organizational chart of Geico starts with CEO of parent company Berkshire Hathaway named Warren Buffet. Then down the line comes CEO of Geico itself named Tony Nicely and Lou Simpson. They then monitor the working of four subsidiary of Geico. Under each subsidiary comes four broad categories of department such as sales, service and claims, auto damage, IT

and corporate department (accounting/finance, actuary, clerical, HR, legal, marketing and operation etc.)

Geico structure is more mechanistic because this structure is best suited for insurance company. This type of company works in the limit of specified rules and regulations and rigidly defined tasks. Moreover decision making is highly centralized with major investment decision is taken by Warren Buffet and underwriting decision by Tony Nicely. (Geico Website, 2008)

Strategies

Geico's two most important strategies are differentiation and low cost. Geico has differentiated through creating unique brand image in customer's mind. It has created a mascot Gecko which accompanies Geico in every marketing campaign and has been appreciated by all. Moreover Geico's funny and interesting TV advertisement with recent cavemen series has created much acceptance of Geico's products among customers.

Geico deals with customers directly through internet. Thus it saves transaction cost and external agent commission. This saving is passed on to customer by providing insurance products at low price. This mechanism has allowed Geico to become cost leader in insurance industry of USA (Hagstorm, 1997).

Technologies

Geico uses internet technology to conduct its business. It has designed very informative and useful website. Here the customer can get an instant quote for its different insurance products. Furthermore customers can also manage its policy online by modifying coverage or changing address.

<https://assignbuster.com/in-depth-overview-of-geico-inc/>

Customer can also pay premiums online through three available options, electronic funds transfer, web pay and phone pay. For availing this service customers have to sign up in Geico's eBill and ePolicy program. All these transaction on web is fast, secure and password protected.

As aforementioned, Geico has recently launched Claim Center to help its customer manage claim efficiently. Geico also has information center which informs customers about insurance terms, discounts, payment options and auto safety rules.

Geico has also developed Business Partner Website to help its business associates communicate with Geico online in a safe and secure environment.

Culture

The corporate culture at Geico is such that it revolves around values of providing superior service to customers. At Geico employees are always motivated to serve customers so that their every insurance needs should be satisfied quickly. This motivation in employees is created through Geico's generous pay and bonus systems. The company has an intensive training and development programs for its associates. The company believes that employees' success is company's success. So Geico strives to continuously equip its employees with new skills and abilities to attain their career goals.

Geico encourages its associates to take initiative. Geico has developed its culture such that its employees are always innovative, energetic and enthusiastic. Geico leads its employees to have a drive for changing status quo for keeping top position in industry. Geico organizes weekly, monthly

and yearly contests and also recognizes winning employees with awards in order to keep employees' morale high.

There are different rewards for employees such as rewards for providing best customer service, achieving highest sales or obtaining graduate/postgraduate degree. Service Awards celebrates employees' long term association with Geico. Volunteer Service Awards are for those employees who volunteer welfare work in their community and area.

The other important thing in Geico's corporate culture is the belief in openness and honesty. The employee feels himself as part of the team. This leads to productive communication and sharing of both explicit and implicit knowledge among employees which helps Geico in doing business. Therefore Geico is very particular about associates involvement and maintaining cordial relationships.

Associate are involved in organizing events and they also participate in company sponsored sports events. They can also venture on marketing events such as road shows, music concert etc. There are varieties of on sites events such as career counseling at schools, talent hunt, picnics, and fitness classes. (Geico Website, 2008)

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