

GEICO

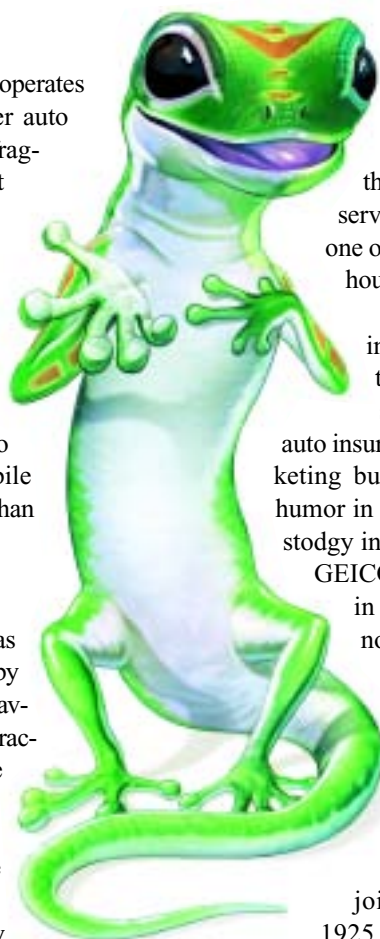
THE MARKET

The GEICO family of companies operates primarily in the private-passenger auto insurance market. This highly fragmented industry is one of the most competitive arenas of American business, as companies go to extreme lengths to maintain market share. Despite this difficult business environment, GEICO has experienced unprecedented growth over the last few years, doubling in size since 1997 to become the fifth-largest automobile insurer in the country, with more than 5 million policies in force.

ACHIEVEMENTS

For more than 65 years, GEICO has remained loyal to its customers by keeping costs low and passing the savings on to policyholders through attractive rates. The company is the premier "direct" writer of insurance, selling directly to the consumer as opposed to using the more traditional network of local agents.

Over the years, the company has refined and improved upon the direct model approach, using direct mail and other marketing initiatives to attract customers to its toll-free number. Well ahead of the competition,



the company in 1981 introduced 24-hour, 365-day telephone service for sales, service, and claims. GEICO was the first major carrier to offer this service to its customers and remains one of the few providing complete 24-hour service.

In 1995, GEICO significantly increased its advertising expenditures to capture a much larger share of the private-passenger auto insurance market. The increased marketing budget, coupled with the use of humor in the commercials (a rarity in the stodgy insurance industry), has made the GEICO brand one of the most visible in the insurance industry. GEICO now places among the top three insurance companies in brand recall among consumers; it wasn't even in the top ten a decade ago.

HISTORY

GEICO founder Leo Goodwin joined the insurance industry in 1925 when he was offered a job with San Antonio-based United Services Automobile Association (USAA). Over the next nine years he learned the technical intricacies of the insurance business while rising steadily

through the ranks to the position of general manager. Goodwin had progressed as high as he could go in the company because only a retired military officer was allowed to hold the top spot at USAA. So he took a leap of faith by leaving USAA to start his own insurance company during the height of the Great Depression.

Goodwin took a page out of the USAA book — which he himself helped create — by choosing a very select group of consumers for his customer base: federal employees and non-commissioned officers. But rather than offer dividends to customers for any favorable loss experience, as mutual companies do, Goodwin chose to sell policies at discounted rates and pass the savings directly along to customers right up front. He also marketed directly to his customer base, allowing him to charge lower premiums and still earn a profit. These same tenets make up the essentials of the GEICO business model that remains successful today.

By the end of World War II, GEICO sales soared to \$1.6 million and then to \$2.4 million the following year, due in large part to the growing number of cars in production and improvements in roads, availability of gasoline, and the overall improving economy. The decade ended on a high note in 1949 with GEICO creating a life insurance company and an auto finance company.

The next two decades were a period of enormous growth for the company, as policies in force passed 2 million. But the days of strong growth had a downside, as the company's loss reserves dwindled because of underwriting and investment losses. Chairman and CEO Jack Byrne arrived in 1976 to turn things around. He developed a recovery plan that included the strictest of cost controls and a complete reunderwriting of the company's entire book of business. The plan worked, quickly returning GEICO to profitability.

The late 1970s and early 1980s brought GEICO back to financial health, and the company embarked on a mission to build stronger internal operations to better service its customers. In 1994, GEICO launched its four-company strategy (see next page), now offering rate quotes and policies to people who did not meet GEICO's preferred-risk guidelines. The new inclusion of standard- and nonstandard-risk business coincided with a large increase in advertising.

THE PRODUCT

The GEICO Companies offer lower-cost auto insurance coverage to consumers through a four-company strategy:

- Government Employees Insurance Company — preferred-risk coverage to military and government employees.
- GEICO General Insurance Company — preferred-risk coverage to nonmilitary and nongovernment customers.
- GEICO Indemnity Company — standard-risk business.
- GEICO Casualty Company — non-standard-risk business.

The four companies operate collectively as GEICO. GEICO sells its policies over the phone, on the Internet, and through a network of local offices located near major military installations throughout the country.

In addition to auto insurance, GEICO offers many other outstanding products, such as emergency road service coverage, mechanical breakdown insurance, motorcycle insurance, and umbrella liability policies. Auto coverage is also available in more than 200 countries overseas.

RECENT DEVELOPMENTS

The year 1996 was significant in GEICO's history as it became a wholly owned subsidiary of Berkshire Hathaway, Warren Buffett's investment organization. Buffett first purchased GEICO stock in 1951. His holdings grew in percentage terms due to GEICO's own corporate stock repurchases, until he owned more than half of all outstanding shares. In 1995, Buffett, through Berkshire Hathaway, made a bid to purchase the remaining shares of GEICO's outstanding stock. Shareholders responded favorably to the offer, and GEICO became part of the Berkshire Hathaway family of companies.



GEICO's Web site, geico.com, which allows users to get a free rate quote and coverage information, also went online in 1996, and the company has continued to refine and enhance its Web site since then. Customers choosing to do business



over the Internet can now complete many sales, service, and claims transactions online. The site is also available in Spanish, catering to GEICO's growing Hispanic customer base.

The Internet was an ideal fit for GEICO, which has more than six decades of dealing with customers using a direct model. The site continues to increase rapidly in popularity, setting weekly records for quotes and sales.

PROMOTION

Awareness of GEICO has soared in recent years, thanks to a large increase in television advertising. The company uses humor to differentiate the spots from the serious tone found in most insurance advertising. Ads such as a dog laughing at his owner's insurance bill and a claims spot showing a jogger colliding with a fake deer convey an upbeat tone for a product that many consumers view as a necessary evil. Of course, too, there's the GEICO Gecko, the company's hugely popular "spokescreature" that burst onto the scene in 1999 in a 15-second "press conference" spot that made him a star.

Since this first ad appeared, the Gecko has starred in numerous commercials, several direct mail campaigns, and outdoor advertising. The campaign has proven hugely successful, particularly among children. These youngsters may not be of driving age yet, but it's never too soon to familiarize them with the GEICO name or have them influence their parents' purchasing decisions.

BRAND VALUES

GEICO aims to be the insurance industry's low-cost operator, passing the savings on to customers in the form of lower premiums, but the GEICO brand stands for much more than low prices. The true value of GEICO auto insurance stems from the outstanding service GEICO provides to its customers.



As one of the first companies to offer 24-hour, 7-day-a-week, 365-day-a-year policy service via toll-free telephone numbers, GEICO pioneered in auto insurance what is today a service standard across industries. Now, with the easy-to-use Web site geico.com, customers can access and update policy information on their own, anytime.

GEICO claim service also receives high marks from policyholders. In a recent GEICO survey, well over 90 percent of claimants surveyed rated GEICO service good or excellent.

The company-wide emphasis on providing excellent service is part of GEICO's roots. When a severe hailstorm hit Washington, D.C., in 1941, founder Leo Goodwin anticipated the huge call for windshield

repairs. Practically before the last hailstone hit the ground, Goodwin had

already arranged for several local glass repair shops to work 24 hours a day exclusively for GEICO. He even had truckloads of auto glass on hand in anticipation of the glass shortage that occurred

after the storm. This swift response to an emergency set the

GEICO standard for policyholder service that still holds firm today.

THINGS YOU DIDN'T KNOW ABOUT GEICO

- GEICO stands for Government Employees Insurance Company. The company originally offered insurance only to government employees and noncommissioned officers because of their steady income and better-than-average driving records.
- GEICO is the largest insurer of U.S.-enlisted military personnel, with almost a 40 percent market share.
- From one tiny corporate office in Washington, D.C., GEICO has grown into a nationwide network of regional offices located in nine states: Arizona, California, Florida, Georgia, Hawaii, Iowa, Maryland, New York, and Virginia. GEICO serves policyholders in 49 states and the District of Columbia from these regional sites.
- GEICO experimented with several different voices for the GEICO Gecko, including a Scottish brogue and a Southern accent, before choosing a British accent. The proper English voice seemed the funniest coming from this little green creature. The voiceovers are actually recorded in Britain using a British actor.