AGGREGATORS – Where does pricing go from here?

GENERAL INSURANCE PRICING SEMINAR

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AGGREGATORS – Where does pricing go from here?

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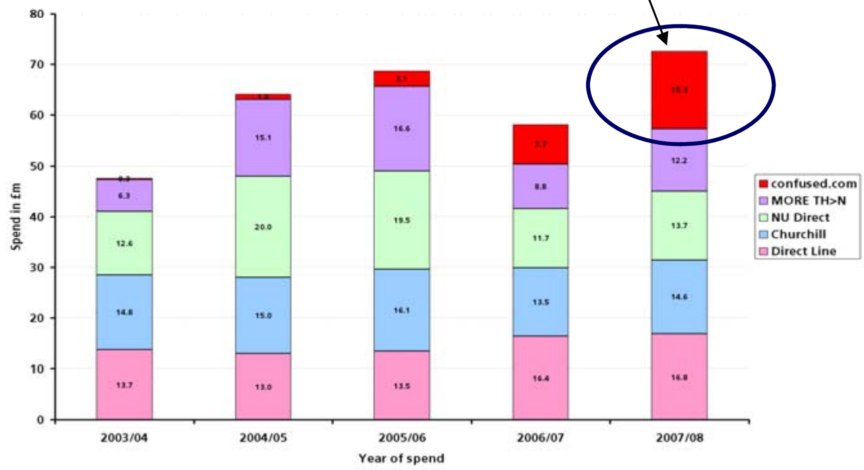
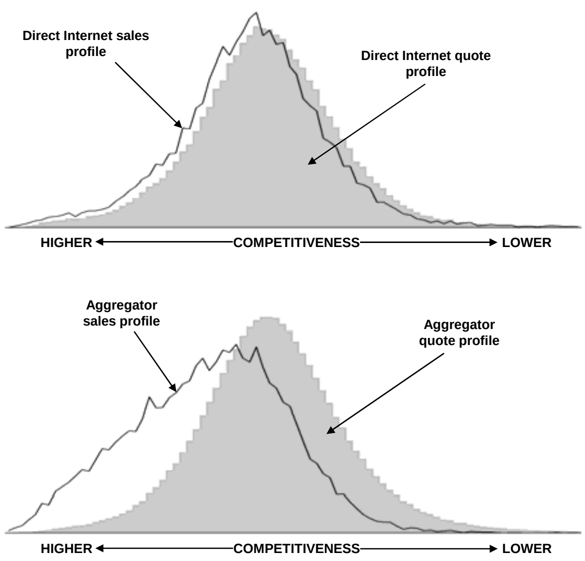
AGGREGATOR CHANNEL DYNAMICS
Brand Dilution

Pure "advertising" spend (TV & Radio) by top 5 aggregate spenders over last five years

- Moneysupermarket and GoCompare would now enter the top 5 spenders, with confused on the verge of displacing Direct Line.
- Increase in marketing spend by top 5 players of 8.5% p.a.
- Leading players consistently spend around £15m per year on TV and radio to secure the top level of brand awareness.

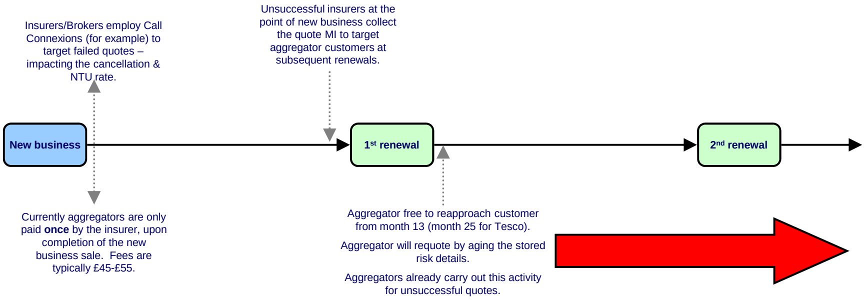


AGGREGATOR CHANNEL DYNAMICS
The effect of anti-selection



- The nature of aggregator distribution means that insurers are only likely to convert their most competitively priced quotes.
- Aggregator and traditional internet business have very similar **quote** profiles by competitive position.
- However, the **sales** profiles are very different, with aggregator business tending to convert only the more competitive quotes.
- Some actuarial consultants estimate that typical insurers will see a **10% increase in loss ratio** for aggregator business over other internet business from the effects of anti-selection.

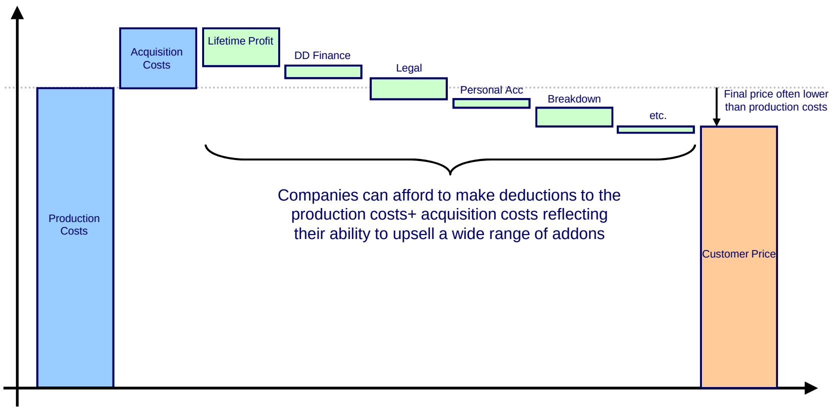
AGGREGATOR CHANNEL DYNAMICS
Reducing Customer Lifetimes



- Aggregator retention data indicates that 1st year retention rates are approximately **10ppts worse** than for traditional internet business – however, it is the subsequent renewals that pose the greater concern as the aggregators are free to re-approach the customer.
- The majority of insurers believe that average policy lifetime will be at least 25% worse for both motor and home business (just over 2 years compared to 2.75 years)
- Customer lifetime will change rapidly and it is not obvious which customer segments, if any, will yield high lifetime value in the future.
- Reduced customer lifetimes imply that the current differential between new business and renewal prices must lessen – meaning that aggregator prices must rise to offset the smaller back books generated by aggregator business.

AGGREGATOR CHANNEL DYNAMICS
The game has become about Value Extraction…….and it's a risky game

- Those writing volume on aggregators are very effective at exploiting up-sell and cross-sell opportunities as well as differential renewal pricing.
- Bring forward part of the anticipated income stream from additional products to fund lower new business pricing.
- The most sophisticated companies operate a target pricing system where complex adjustments are applied to the standard rates dependent on the customer propensity to renew, cross-sell and up-sell.
- However, this is an inexact art in a rapidly shifting environment!



MANAGEMENT OF A PRICING PROCESS IN AN AGGREGATOR WORLD
Production Costs

- The channel dynamics place greater **emphasis on underwriting profits** due to:
  - The Immediate effect of **anti-selection** and the **scale of the downside being greatly increased**
  - **Shorter customer lifetimes**
  - Inherent **risk in customer value management**

- Delivery of underwriting profits and volume achieved through a **competitive advantage in risk pricing**
  - Reinforce the need to **continually improve risk insight and core claims cost models**
  - Look for **new risk factors** and explore **new techniques in risk pricing**
  - Make **use of full aggregator data capture** in pricing and underwriting assessment

- Appropriate **analysis and allocation of operating expenses is key** in the aggregator channel
  - Effect of anti-selection can be felt as a consequence of bad expense allocations and assessment too
  - Are **aggregator fees just a commission** and be priced/budgeted as such? Or should **brand spend be partly allocated to aggregator sales** as well?

MANAGEMENT OF A PRICING PROCESS IN AN AGGREGATOR WORLD
Target Pricing

- With shorter customer lifetimes, **target pricing decisions are weighted more towards accurate production cost pricing**
- The concept of a **walkaway price** must be part of individual pricing assessment and must adhered to with strong discipline
  - Calculate the **price point for every risk which you would not go below**
  - Hugely **dependent on production cost assessment** again
  - **Integrate into pricing decisions** alongside views of the demand prices

- Competitor price information is still important as volume only arises from competitiveness in the near perfect market
  - Make **full use of Aggregator datawarehouses** and management information suites
  - Exploit all opportunities to understand competitiveness in the aggregator channel – focusing specifically on the top tier of competitiveness (top5).
  - Test and understand the optimal use of brand in the aggregator channel

- **Customer value pricing still needed to optimise volume and profit**
  - Dependent on **lifetime and value creation assessments**

MANAGEMENT OF A PRICING PROCESS IN AN AGGREGATOR WORLD
Customer Information

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- Impact of anti-selection creates a need for focusing on **accurate knowledge of individual risk details**
  - Do the **questions and answers from each aggregator site map correctly** to the underwriting and pricing algorithm?
  - What about for **Brokers/Intermediaries** that underwriters use?
  - Integrate **CUE/HUNTER checks** for aggregator quotes?
  - Use of **credit-scoring data** in pricing and underwriting?
  - Are there **data capture items on the aggregator question set that aren't currently used** for pricing or underwriting?
  - What i**nformation** about aggregators do **Brokers/Intermediaries supply to underwriters?**
  - **Post-sale validation** of data provided eg NCD levels

- **Testing of aggregator quotation process** should be as rigorous as anything else, and in isolation
  - **Test at regular and frequent intervals**, and not just when changing something yourselves

MANAGEMENT OF A PRICING PROCESS IN AN AGGREGATOR WORLD
Building Pricing Machines

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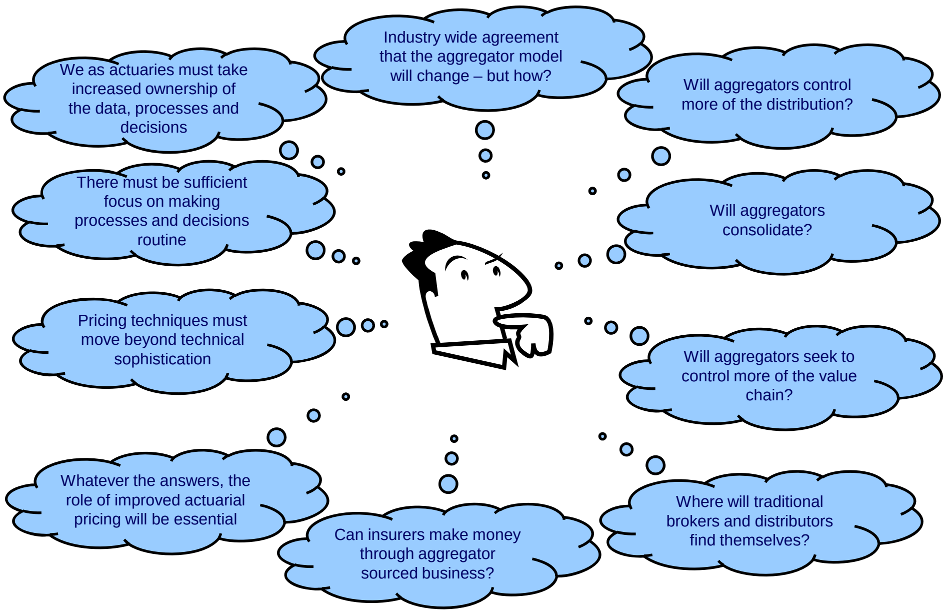
- Competitive advantage in production cost pricing and target pricing, together with ensuring accurate customer information are fundamentals to underwriting success in this channel.
- Must also have a **mechanical process to bring these fundamentals together** to manage pricing and underwriting decisions……..**a Pricing Machine**!
  - **NOT** a machine **to decide pricing actions in isolation**
  - But a machine to be able to manage pricing decision making process, **consistently, efficiently and quickly**

- **Pricing Management decisions need to be focused on portfolio management and strategy**
  - Let the machine decide the **best individual actions based on the strategy**
  - Let the machine **identify opportunities and threats**
  - Let the machine provide **all monitoring and tracking of performance**

- Also must have an agile **enabling technology to deploy decisions accurately and quickly** into the marketplace
  - Must be set-up to be adaptable to analytical and data enhancements

WHAT NEXT FOR AGGREGATORS AND INSURERS?

A personal view on the evolution of the marketplace…..



Questions & Answers

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