

Innovation in Car Insurance – Plus ça change?

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Ça change!

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R E S E A R C H

MEMBERS OF THE SECURITIES AND FUTURES AUTHORITY AND
THE LONDON STOCK EXCHANGE

DIRECT RESPONSE INSURANCE

- THE CUCKOO IN THE COMPOSITES' NEST

DIRECT LINE

- THE JEWEL IN ROYAL BANK'S CROWN

May 1993

“There now exists a prosperous and growing cuckoo in the nest of what should have been the composites most secure stronghold – UK personal lines.”



➤ Plus ça change:

- Major Players
- Distribution

➤ Innovation as a driver of change

➤ plus c'est la meme chose

- ?

Major Players

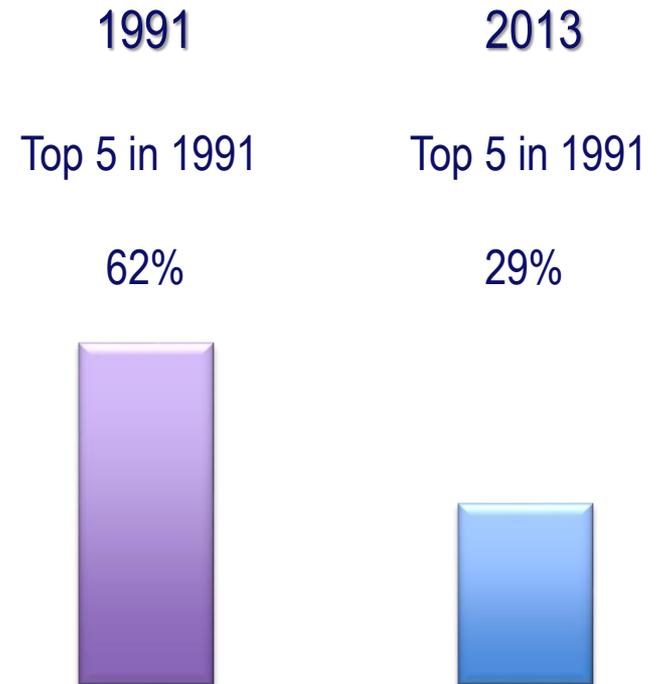
1991 – Top 10

(By premium size)

Aviva	21%	NU, CU, GA, L&E	} 62%
RSA	13%	Royal, Sun Alliance	
Zurich	11%	Eagle Star, Municipal, Zurich	
Axa	10%	GRE, Provincial, Axa/Westgate	
Allianz	7%	AGF, Cornhill	
Co-op	4%		
NIG	3%		
Pru	2%		
NFU	2%		
Direct Line	2%		
<hr/>			
Top 10	75%		

Major Players

1991 (%)		2013 (%)	
Aviva	21	<i>Admiral</i>	15
RSA	13	Direct Line	14
Zurich	11	Aviva	12
Axa	10	<i>Liverpool Victoria</i>	10
Allianz	7	<i>Ageas</i>	9
Co-op	4	Axa	5
NIG	3	<i>Hastings</i>	5
Pru	2	RSA	5
NFU	2	<i>Esure</i>	4
Direct Line	2	Co-op	4
<hr/>		<hr/>	
	75		83



Distribution

1991

Brokers & other intermediaries 73%

Company agents
(including home service) 12%

Direct (Mail, Telemarketing
& Branch offices) 13%

- of which dedicated
“direct response” writers 6%

2013



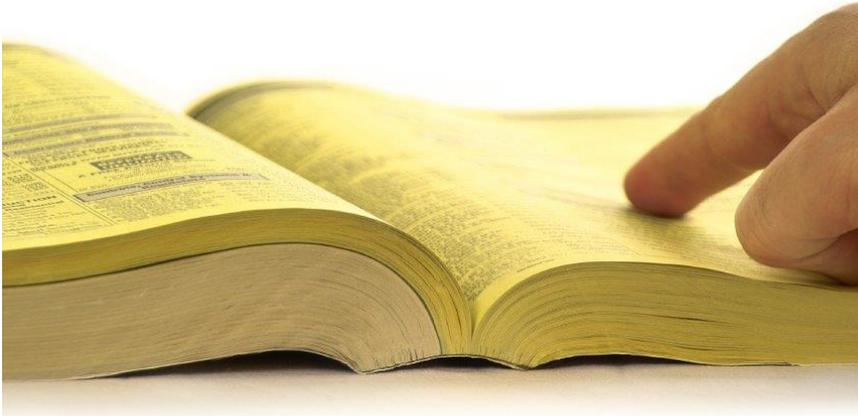
Innovation

- 🚀 Not Rocket Science
- 🚀 “The Perfect Is The Enemy Of The Good”
 - 🚀 Failure Is Allowable
 - 🚀 Test & Learn
- 🚀 Specific Response To Specific Problem
- 🚀 Transitory
 - specific in it's epoch
 - specific in it's location

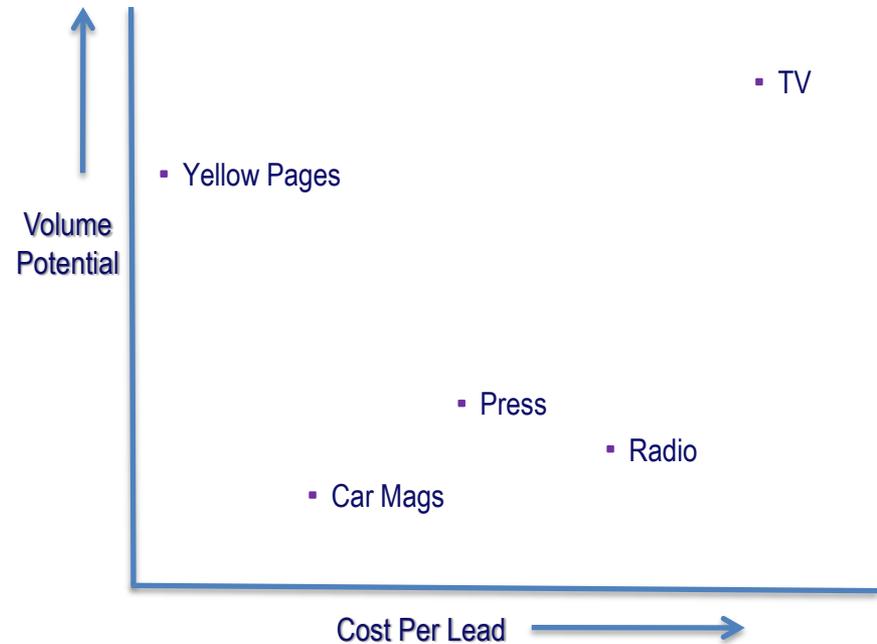
Problem Number One:

Mid-90's
High Marginal Cost of Acquisition

Yellow Pages



Media Sources



Solution: Multi-Brand



Diamond



Multi-Brand: Barriers To Replication

- ✚ No Obvious Barrier
- ✚ Speed of Replication – 2 years to never
- ✚ Possible Reason For Failure To Replicate
 - ✚ Marketing Culture
 - ✚ FS Inferiority Complex v. FMCG
 - ✚ Love TV/Hate Yellow Pages
 - ✚ Established Wisdom (“Power Brands”)

Problem Number Two:

Mid-90's

Automated Shopping

Day One

6 Quotes

1 Purchase



Day 330

5 Automated Re-quotes

1 Renewal Notice



Solution: 10-Month Policy

“Admiral Bonus Accelerator”

Duration: 10 months

Feature: Extra year’s bonus after 10 months of claim-free driving



10-Month: Barriers To Replication

 No Obvious Barrier

 Speed of Replication - Never

 *Possible Reason For Failure To Replicate:*

 I.T. 12 Month Default

 Management Culture

- Focus

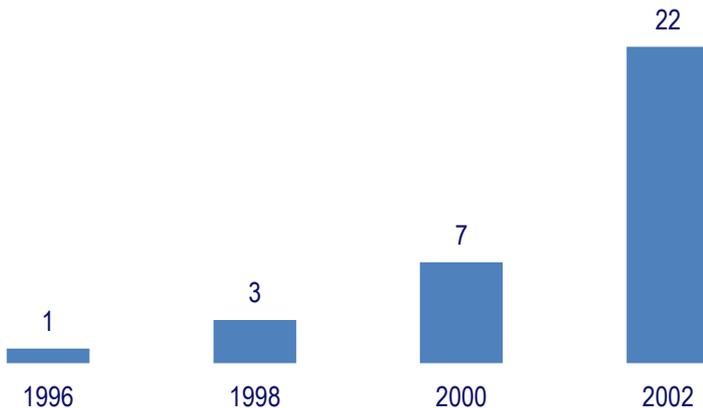
- Time-frame

 Not Invented Here?

Opportunity

Early 2000's Automated Shopping on Insurer's Websites

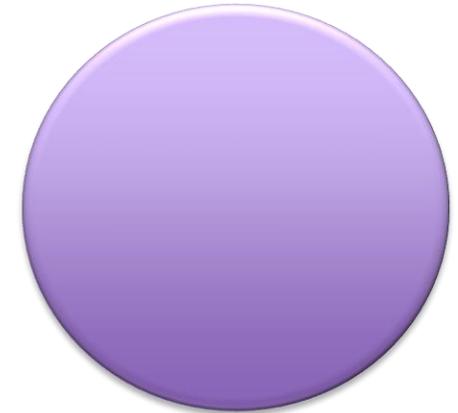
Number of Insurers Providing Quotes on Internet



Potential Value of B2B
Price-Tracking Market

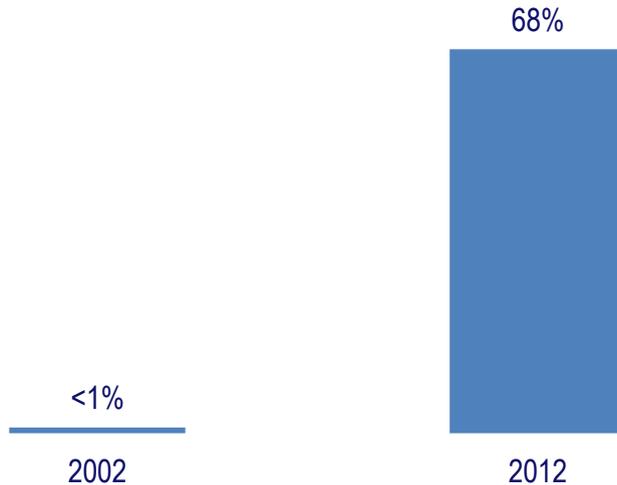


Potential Value of B2C
Price Comparison Market



Solution: Confused.com

Price Comparison Share of New Business Sales



Barriers To Replication:

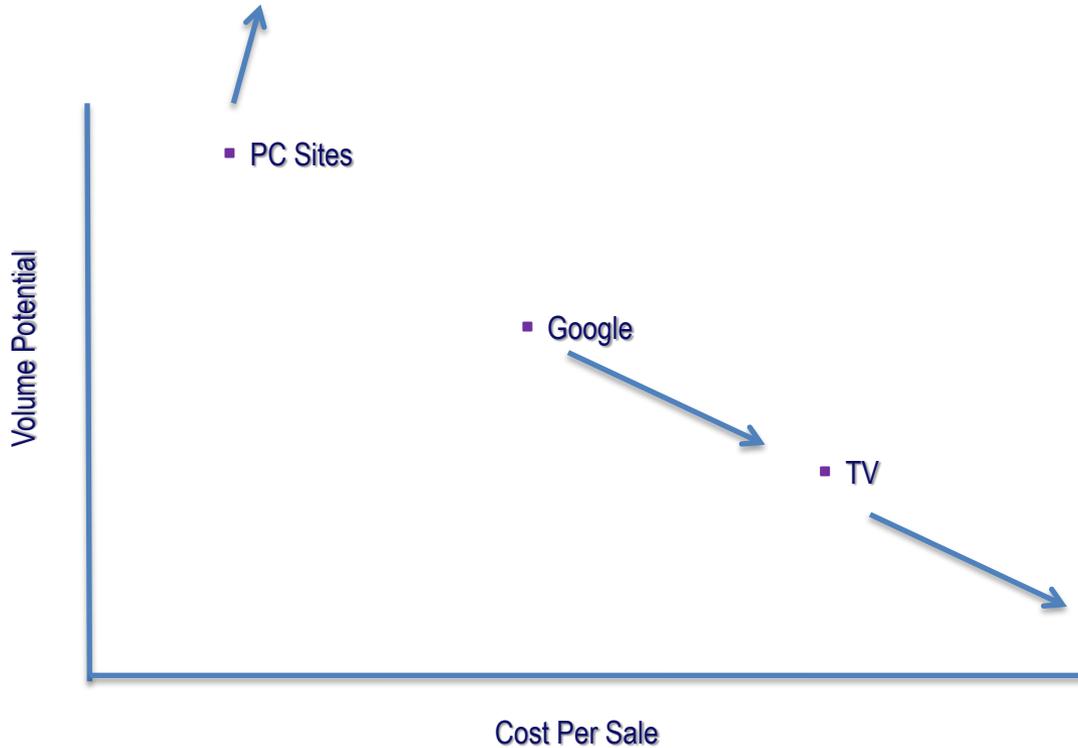


≈ £100m P.B.T. Market



Problem Three:

Mid-Noughties
Over-Reliance On PC Sites



Solution: Multicar

Admiral Multicar – two or more cars on one policy

Consumer Benefit:

 Bulk Buy discount

 Convenience

Our Benefit:

 Reason To Come Direct To Admiral

 Expense Benefit



Multicar: Barrier To Replication

🌐 Speed Of Replication: 5-6 years

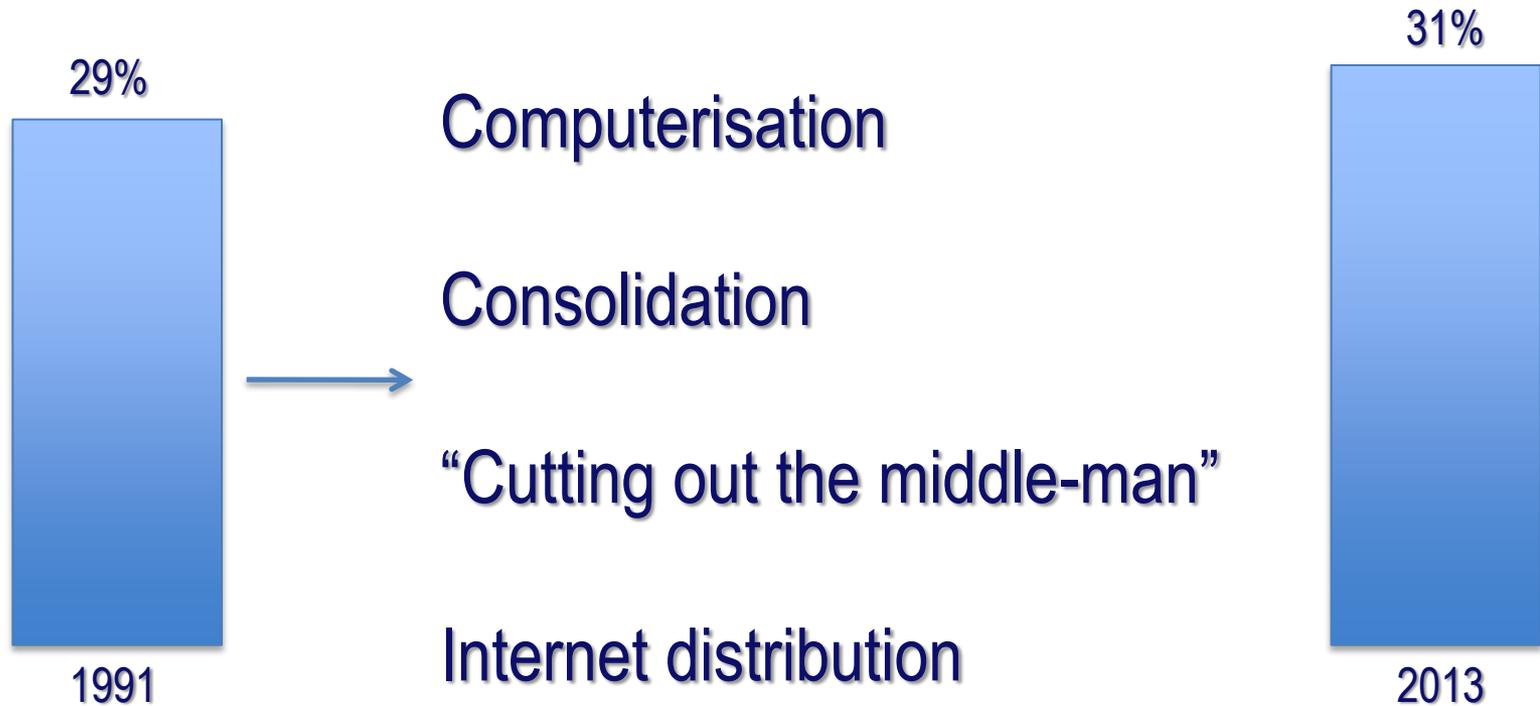
🌐 Possible Reason For Failure To Replicate

- I.T. ?

....plus c'est la meme chose

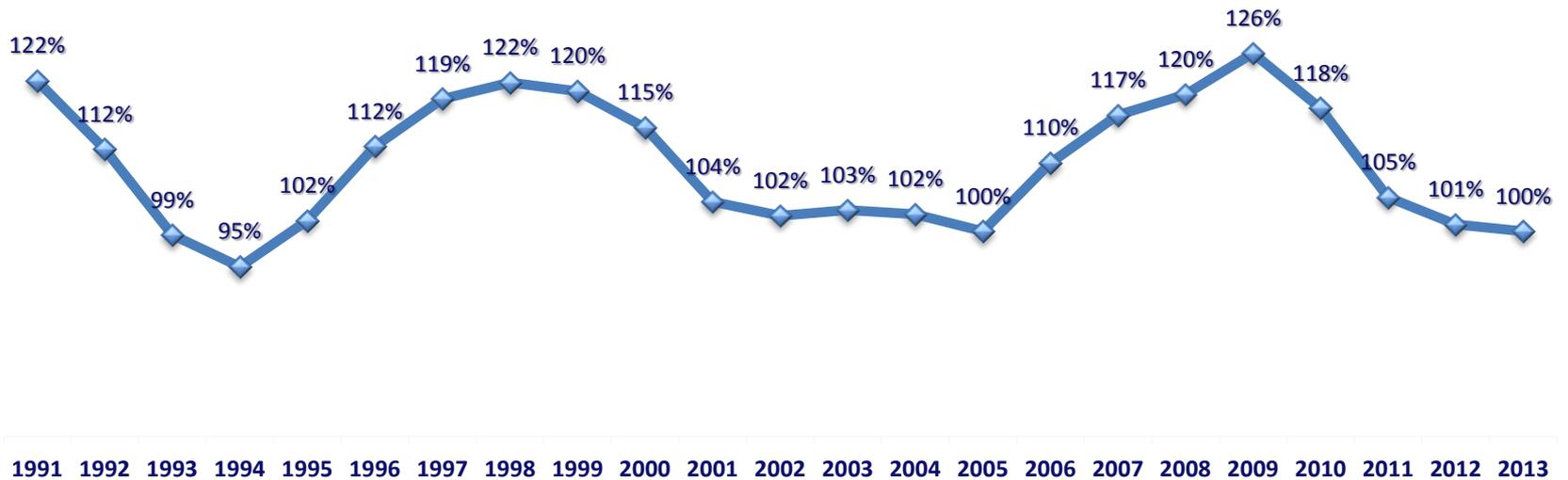
Not hugely efficient

Expense Ratio (%)



Violently Cyclical

UK Combined Ratio (%)



Widely Erratic Pricing

Confused.com Car insurance quote

Back quote | Quote Summary | Save & close

Excess: £150 | Comprehensive

Add or remove your columns

Provider	Premium	Excess	Legal Cover	Courtesy Car	Breakdown Cover	Windscreen Cover	Actions
esure	Annual premium: £522.57 Monthly premium: £43.55 10% £41.48 15% £47.77 Total: £569.74	Vol: £150 Comp: £0 Total: £150	£30.00 extra	✓	From £34.75	✓	Get Insured Learn more
Shutlers Wholesale	Annual premium: £522.64 Monthly premium: £43.55 10% £41.48 15% £47.77 Total: £569.55	Vol: £150 Comp: £0 Total: £150	£30.00 extra	✓	From £34.75	✓	Get Insured Learn more
octagon	Annual premium: £590.55 Monthly premium: £49.21 10% £43.11 15% £56.21 Total: £689.51	Vol: £150 Comp: £100 Total: £250	£29.99 extra	✓	£36.99 extra	✓	Get Insured Learn more
enlight Insurance	Annual premium: £623.34 Monthly premium: £51.94 10% £48.70 15% £56.70 Total: £736.74	Vol: £150 Comp: £100 Total: £250	£36.99 extra	✓	£36.99 extra	✓	Get Insured Learn more
Includes 20% off MOT costs and 10% off servicing costs via National Service Network							
autonet CAR	Annual premium: £646.87 Monthly premium: £53.91 10% £48.81 15% £59.90 Total: £765.60	Vol: £150 Comp: £100 Total: £250	£29.95 extra	✓	From £30.95	✓	Get Insured Learn more
directchoice	Annual premium: £720.14 Monthly premium: £60.01 10% £50.06 15% £56.72 Total: £726.78	Vol: £150 Comp: £100 Total: £250	£36.50 extra	✓	From £38.00	✓	Get Insured Learn more
One Call INSURANCE	Annual premium: £724.85 Monthly premium: £60.40 10% £47.48 15% £57.80 Total: £829.58	Vol: £150 Comp: £0 Total: £150	✓	✓	✓	✓	Get Insured Learn more
AA	Annual premium: £736.65 Monthly premium: £61.39 10% £48.12 15% £58.23 Total: £853.99	Vol: £150 Comp: £250 Total: £400	£35.99 extra	✓	✓	✓	Get Insured Learn more
Special Offer: Includes free breakdown cover							
IGO4 INSURANCE	Annual premium: £738.93 Monthly premium: £61.58 10% £42.36 15% £47.66 Total: £829.59	Vol: £150 Comp: £550 Total: £700	£27.50 extra	✓	£44.00 extra	✓	Get Insured Learn more
IGO4 MORE	Annual premium: £783.93 Monthly premium: £65.33 Chedi with provider	Vol: £150 Comp: £550 Total: £700	£27.50 extra	✓	✓	✓	Get Insured Learn more
Hastings DIRECT	Annual premium: £824.54 Monthly premium: £68.71 10% £52.47 15% £59.80 Total: £944.55	Vol: £150 Comp: £85 Total: £235	£26.99 extra	✓	From £26.99	✓	Get Insured Learn more

Provider	Premium	Excess	Legal Cover	Courtesy Car	Breakdown Cover	Windscreen Cover	Actions
PROUDEN (AL) F&I	Annual premium: £1,492.66 Monthly premium: £124.39 10% £112.15 15% £141.19 Total: £1,695.99	Vol: £500 Comp: £500 Total: £1,000	£26.50 extra	✓	From £15.00	✓	Learn more
DRIVE SMART	Annual premium: £1,577.29 Monthly premium: £131.44 10% £118.29 15% £147.67 Total: £1,843.65	Vol: £150 Comp: £250 Total: £400	✓	✓	£29.48 extra	✓	Get Insured Learn more
Special Offer: Back Seat Insurance: A box is fitted with this policy to monitor how you drive							
Sainsbury's Bank Car Insurance	Annual premium: £1,614.38 Monthly premium: £134.53 10% £121.07 15% £157.84 Total: £1,903.84	Vol: £150 Comp: £500 Total: £650	£26.50 extra	✓	✓	✓	Get Insured Learn more
Special Offer: Free Sainsbury's Breakdown Service for 12 months, provided by Green Flag							
insure drive	Annual premium: £1,824.34 Monthly premium: £152.03 10% £136.87 15% £174.26 Total: £2,135.47	Vol: £150 Comp: £350 Total: £500	✓	✓	£29.48 extra	✓	Get Insured Learn more
GRL	Annual premium: £1,827.77 Monthly premium: £152.31 10% £137.08 15% £175.66 Total: £2,139.85	Vol: £150 Comp: £350 Total: £500	✓	✓	£29.48 extra	✓	Get Insured Learn more
FLUXDIRECT	Annual premium: £1,828.30 Monthly premium: £152.36 10% £137.12 15% £175.06 Total: £2,140.54	Vol: £0 Comp: £2000 Total: £2000	✓	✓	Extra £29.00	✓	Get Insured Learn more
Sainsbury's Bank Premier Cover Car Insurance	Annual premium: £1,861.36 Monthly premium: £155.11 10% £139.59 15% £179.55 Total: £2,220.48	Vol: £150 Comp: £500 Total: £650	£26.50 extra	✓	✓	✓	Get Insured Learn more
Special Offer: Free Sainsbury's Breakdown Service for 12 months, provided by Green Flag							
mce INSURANCE	Annual premium: £1,874.88 Monthly premium: £156.24 10% £140.61 15% £184.59 Total: £2,200.00	Vol: £150 Comp: £100 Total: £250	×	×	✓	✓	Get Insured Learn more
SURE! THING!	Annual premium: £2,349.35 Monthly premium: £195.78 10% £176.20 15% £227.76 Total: £2,753.79	Vol: £150 Comp: £500 Total: £650	£30.00 extra	✓	From £16.99	✓	Get Insured Learn more
TESCO Bank	Annual premium: £2,392.87 Monthly premium: £199.40 10% £179.46 15% £239.13 Total: £2,811.46	Vol: £150 Comp: £350 Total: £500	✓	✓	From £19.50	✓	Get Insured Learn more
IGO4 ESSENTIALS	Annual premium: £2,677.09 Monthly premium: £223.09 10% £198.76 15% £259.87 Total: £3,135.72	Vol: £150 Comp: £200 Total: £350	£27.50 extra	✓	£44.00 extra	×	Get Insured Learn more
carrot	Annual premium: £3,020.97 Monthly premium: £251.75 10% £226.57 15% £297.50 Total: £3,545.00	Vol: £150 Comp: £350 Total: £500	✓	✓	From £16.34	✓	Get Insured Learn more



Conclusion

- 👤 Innovation gives a competitive advantage...

 - ..that helps you make more money than competitors.

- 👤 Innovation is more effective if Pricing is at the heart of it.

- 👤 It is always transitory...

 - ... but the “soft” barriers to replication are surprisingly relevant.

- 👤 Yet to crack major industry weaknesses.

