Innovation in Car Insurance –
Plus ça change?

David Stevens, Chief Operating Officer
June 10th, 2014
Ça change!

“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 même chose

- ?
## Major Players

### 1991 – Top 10

*(By premium size)*

<table>
<thead>
<tr>
<th>Company</th>
<th>Percentage</th>
<th>Other Companies</th>
</tr>
</thead>
<tbody>
<tr>
<td>Aviva</td>
<td>21%</td>
<td>NU, CU, GA, L&amp;E</td>
</tr>
<tr>
<td>RSA</td>
<td>13%</td>
<td>Royal, Sun Alliance</td>
</tr>
<tr>
<td>Zurich</td>
<td>11%</td>
<td>Eagle Star, Municipal, Zurich</td>
</tr>
<tr>
<td>Axa</td>
<td>10%</td>
<td>GRE, Provincial, Axa/Westgate</td>
</tr>
<tr>
<td>Allianz</td>
<td>7%</td>
<td>AGF, Cornhill</td>
</tr>
<tr>
<td>Co-op</td>
<td>4%</td>
<td></td>
</tr>
<tr>
<td>NIG</td>
<td>3%</td>
<td></td>
</tr>
<tr>
<td>Pru</td>
<td>2%</td>
<td></td>
</tr>
<tr>
<td>NFU</td>
<td>2%</td>
<td></td>
</tr>
<tr>
<td>Direct Line</td>
<td>2%</td>
<td></td>
</tr>
<tr>
<td><strong>Top 10</strong></td>
<td><strong>75%</strong></td>
<td></td>
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</table>

*62%*
## Major Players

<table>
<thead>
<tr>
<th>1991 (%)</th>
<th>2013 (%)</th>
<th>1991</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Aviva</td>
<td>21</td>
<td>15</td>
<td>Top 5 in 1991</td>
</tr>
<tr>
<td>RSA</td>
<td>13</td>
<td>14</td>
<td>Top 5 in 1991</td>
</tr>
<tr>
<td>Zurich</td>
<td>11</td>
<td>12</td>
<td>62%</td>
</tr>
<tr>
<td>Axa</td>
<td>10</td>
<td>9</td>
<td></td>
</tr>
<tr>
<td>Allianz</td>
<td>7</td>
<td>5</td>
<td></td>
</tr>
<tr>
<td>Co-op</td>
<td>4</td>
<td>4</td>
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</tr>
<tr>
<td>NIG</td>
<td>3</td>
<td>5</td>
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</tr>
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<td>Pru</td>
<td>2</td>
<td>5</td>
<td></td>
</tr>
<tr>
<td>NFU</td>
<td>2</td>
<td>4</td>
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</tr>
<tr>
<td>Direct Line</td>
<td>2</td>
<td>4</td>
<td></td>
</tr>
</tbody>
</table>

**Total:** 75

**Total:** 83

Top 5 in 1991: 62%
Top 5 in 2013: 29%
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

Online

Price Comparison

Other (mainly phone)
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

Volume Potential

Cost Per Lead

Media Sources

- TV
- Yellow Pages
- Press
- Radio
- Car Mags

Mid-90’s - High Marginal Cost of Acquisition

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- TV
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- Press
- Radio
- Car Mags
Solution: Multi-Brand
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

1996: 1
1998: 3
2000: 7
2002: 22

Potential Value of B2B Price-Tracking Market

Potential Value of B2C Price Comparison Market
Solution: Confused.com

Price Comparison Share of New Business Sales

<table>
<thead>
<tr>
<th>Year</th>
<th>Share</th>
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<tbody>
<tr>
<td>2002</td>
<td>&lt;1%</td>
</tr>
<tr>
<td>2012</td>
<td>68%</td>
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</tbody>
</table>

≈ £100m P.B.T. Market

Barriers To Replication:

- Confused.com
- comparethemarket.com
- Money Super Market
- gocompare.com
Problem Three:

Mid-Noughties
Over-Reliance On PC Sites

- PC Sites
- Google
- TV
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 (%)

29% 1991

31% 2013

Computerisation
Consolidation
“Cutting out the middle-man”
Internet distribution

29% 1991

31% 2013
Violently Cyclical

UK Combined Ratio (%)
### Widely Erratic Pricing

<table>
<thead>
<tr>
<th>Insurer</th>
<th>Premium</th>
<th>Cover</th>
<th>Age Group</th>
<th>Gender</th>
<th>Location</th>
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</thead>
<tbody>
<tr>
<td>Direct Line</td>
<td>£1,577.29</td>
<td>Optional</td>
<td>Yes</td>
<td>Yes</td>
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<td>Drive Smart</td>
<td>£1,614.38</td>
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<td>Insure Drive</td>
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<td>Octagon</td>
<td>£590.55</td>
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<td>Octagon</td>
<td>£523.34</td>
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<td>Octagon</td>
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<td>Octagon</td>
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<td>Octagon</td>
<td>£724.85</td>
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<td>Octagon</td>
<td>£776.65</td>
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<tr>
<td>Octagon</td>
<td>£781.93</td>
<td>Optional</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
</tbody>
</table>

Note: Prices and cover options vary widely among insurers.
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.