AGGREGATORS – Where does pricing go from here?

Contents

- Aggregator Channel Dynamics
  - Brand Dilution
  - Anti-Selection
  - Customer Lifetimes
  - Value extraction

- Management of a Pricing Process in the Aggregator World
  - Production Costs
  - Target Pricing
  - Customer Information
  - Building Pricing Machines

- What Next for Aggregators & Insurers?

- Questions & Answers
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
Brand Dilution

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

- Insurers/Brokers employ Call Connexions (for example) to target failed quotes, impacting the cancellation & NTU rate.
- Insurers at the point of new business collect the quote MI to target aggregator customers at subsequent renewals.
- 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!
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?

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
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 information 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

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.....

We as actuaries must take increased ownership of the data, processes and decisions.

Industry wide agreement that the aggregator model will change – but how?
Will aggregators control more of the distribution?

There must be sufficient focus on making processes and decisions routine.
Will aggregators consolidate?

Pricing techniques must move beyond technical sophistication.
Will aggregators seek to control more of the value chain?

Whatever the answers, the role of improved actuarial pricing will be essential.
Where will traditional brokers and distributors find themselves?

Can insurers make money through aggregator sourced business?

Questions & Answers

???