kasko

Perspectives from the future of car insurance distribution.

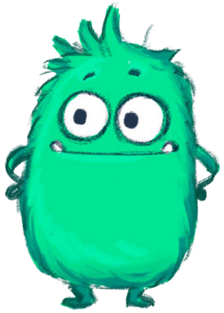
Compilation of articles.

article 1

The evidence: insurance customers are ready to move online, also in the Nordics

i) Sophisticated consumers and high e-commerce penetration

According to the SSB (Office of National Statistics of Norway), more than 95% of the Norwegian population have internet connected mobile devices, with approximately 90% of the population having accessed some form of financial service online over the past three months. The e-commerce penetration in the country is equally high, with more than 75% of the population responding that they have purchased goods and/or services online over the past 12 months, with a considerable share of those having spent more than NOK2,500 (c£250) online in a single transaction. The online and e-commerce penetration among younger generations is even higher, suggesting that these numbers only will continue to increase.



ii) Willingness to buy car insurance online

According to the annual Survey of financial Services by Finans Norge, the share of customers that have ever bought an insurance policy online in Norway has increased from 12% in 2012 to 20% in 2015. Kasko Norway also conducted its own comprehensive consumer survey interviewing more than a 1,000 consumers in Norway regarding their car insurance purchasing habits. The results indicated that approximately 20% of respondents had purchased an insurance policy online (33% responded they had purchased the policy over the telephone), but more importantly the majority of consumers find it difficult to compare terms and price of policies between insurers, 60% have never used an aggregator or comparison site, and 66% would be very willing or willing to purchase an insurance policy online.

iii) Lack of credible online options

These numbers strongly suggests that the knowledge and willingness of consumers to also move insurance purchasing habits online is present, but the Norwegian and (Nordic) market lacks a strong and credible online proposition for customers. A single direct insurer is not the answer. Kasko will change that.

Posted by Kasko, 24th March 2016, LinkedIn

article 2

Why insurance aggregator sites drive 10X more web-traffic than the biggest insurance brands

i) Not just about price

A general misperception among insurance companies is that attracting business on aggregators is about providing the cheapest quote, ONLY. Experience from the UK market, and supported by data from large consumer surveys by the UK data and analytics provider Datamonitor suggests that the customer purchase decision on an aggregator can be motivated by as many as 5-7 different factors, including:

- Cheapest price
- Product features
- Trusted name and brand
- Customer have products with the particular insurer from before
- The customer had more of less already made a decision, and just wanted to confirm that the insurer and policy wasn't out of line with the market

Being the cheapest insurer on the aggregator panel tend to attract "only" 50-55% of customers, while 40-45% of customers are influenced by price but the purchase decision is ultimately driven by either the brand and name of the insurer and/or the features of the policy. Even on the transparent marketplace of the aggregator, traditional competitive advantages such as brand and product remains important differentiating factors for insurers.

ii) Mister Pinchpenny might not be your best risk to underwrite

Insurers with significant experience with aggregators have also indicated that being the cheapest quote on the panel might not be desirable in the first place, as the risk profile of the business you attract as the cheapest quote is considerably less attractive than the business you attract as number 2-5 on the panel.

Presenting an objective and transparent panel that emphasize insurance brand, tariff features and conditions and other relevant information to consumers as well as price (including administration fees, and other charges) is a key responsibility of the aggregator.

Posted by Kasko,
19th April 2016, LinkedIn

article 3

Are aggregators a threat to all insurance companies?

The aggregator serves several purposes for both insurers and consumers that cannot be replaced by insurers themselves. This is arguably why aggregators consistently rank over insurance companies in terms of web traffic in all European countries with a developed aggregator channel.

For consumers, the aggregator provides a user friendly, efficient and arguably entertaining tool for researching the marked, understanding similarities and differences between insurance companies and available policies, and compare all those side-by-side before finalising the purchase. The aggregator saves the customer considerable time by not having to sit on a number of websites or in a conversation with several insurance agents at the same time, providing the same information over and over again. It is a completely independent and objective third party whose main priority is to help the customer making a suitable selection and ultimately purchase. These benefits cannot be provided by a single direct insurer.

For insurers, and in particular smaller players, the aggregator represents an opportunity to reach consumers and provide an online customer experience typically beyond the means of most insurers. With limited marketing budgets and increased competition for attention from consumers in a crowded market place, smaller insurers are finding it hard to attract customers to their own online portals. The aggregators will have marketing muscles to compete with and exceed even the dominating insurers in the market, and importantly also with the ability to develop and deliver a very different, more innovative and bold marketing message than what an insurer can. Together with marketing and branding, IT, online user experience and conversion optimisation is the core business of the aggregator. Experience has consistently shown that aggregators keep delivering unparalleled conversion rates on web traffic, because web design and user experience is the core focus and DNA of the business, which is clearly not the case today for many insurers.

A number of large international insurers have tried to compete with aggregators with their own direct brands, but have found it very difficult to achieve the same web traffic and conversion as aggregators, on the same marketing budget. For all the reasons mentioned in this article, almost all large insurers in the UK, Ireland, Italy, and now increasingly Iberia, are present on aggregators with their direct businesses.

Posted by Kasko, 19th April 2016, LinkedIn

article 4

How aggregators have enabled the creation of some of the most successful and profitable UK insurers

The aggregator as a distribution channel has advantages and disadvantages compared with more traditional distribution channels – arguably increased competition partly driven by increased price and product transparency is one of the more obvious disadvantages for insurers (and vice versa for consumers), while increased automatization and considerably reduced customer acquisition costs are two of the advantages of the channel.

Posted by Kasko, 28th April 2016, LinkedIn

i) Aggregator commissions

Aggregators are typically paid new business commissions in the magnitude of 10-14% percent of premiums, depending on the type of contract and customer, with limited or no trail commission. In some instances like the UK, aggregators also charge a fixed commission (in £), resulting in lower commissions on high-risk, high-premium customers, and vice versa. That makes the aggregator channel highly competitive in terms of commissions compared with other traditional distribution channels such as agents and banks. In addition, one of the main benefits of the aggregator is the ability to integrate the aggregator directly with the CRM system of the underwriter, and thereby fully automate the purchase process and drive costs further down.

ii) Aggregators as a competitive advantage

Dedicated direct insurers with a focused and successful aggregator strategy in other European countries have been able to make the low distribution and acquisition cost a significant competitive advantage compared with larger, dominating and incumbent insurers. By being significantly more cost and distribution efficient, those insurers have managed to write slightly lower premiums than established competitors, and as a result grown considerably at an overall better profitability.

iii) Admiral and Hastings

Recognising the strategic value and possible advantages of the aggregator at an early stage by gaining valuable experience while you still have time to learn can be the determining factor for a successful long term business. Admiral in the UK grew from close to nothing in the late 1990s, into one of the largest and most profitable motor insurers in the market over a 10 year period by being extremely good at understanding and taking advantage of the aggregators. Hastings is another example from the UK market, which has grown its number of customers by 22.5% per year over the past four years, primarily depending on a focussed aggregator distribution strategy. The insurer today holds in excess of 5.5% of the UK motor market.

article 5

How Admiral, ConTe, Hastings and other European motor insurers have multiplied premium volumes using aggregators...

...and remain some of the most profitable players in market

The growth of aggregators have provided new insurance companies with access to distribution, and been a key enabler for the growth of a number of highly successful companies in both the UK and continental Europe. Younger and ambitious insurers have leveraged leaner cost structures, IT systems, and the absence of legacy (IT, operational, underwriting and governance) issues to capture significant volumes through aggregators, by slightly underbidding incumbent insurers, offering attractive tariffs and an overall superior digital customer experience.

Admiral and Hastings in the UK, ConTe and Genialloyd in Italy and Linea Directa in Spain are some of the brands that have taken advantage of changing consumer behaviours and the shift in distribution of motor and home insurance policies towards internet. The list of companies able to develop significant and successful businesses in a changing insurance market will continue to grow, likely at the expense of large, slow and established incumbents, also in other European insurance markets currently less disrupted by innovation and technological innovation.

Admiral launched its own aggregator, confused.com, in the UK late 2002 as the second aggregator in the market after moneysupermarket.com. At that time, Admiral was writing approximately £370m of premiums in the UK market. By the end of 2003, around 30% of all new motor policies sold (new business only excluding renewals) in the market were somehow initiated online, while Admiral sourced approximately 60% or all new business online. By the end of 2005 the internet had grown to initiate 50% of all new business, and aggregators represented around 10% of all internet volumes.

Confused.com was the dominating aggregator with 65% market share of the aggregator business. Admiral with its four brands Diamond, Bell, Admiral and Elephant wrote in excess of £530m in premiums in 2005. The explosive growth of the aggregator channel continued over the next ten years, when the share of all new business written through aggregators increased from some 20% in 2006 to 40% in 2008, to 55% in 2011, to well in excess of 65% today. Between 2006 and 2011-2012, Admiral wrote approximately 15% of all new business written through aggregators in the UK, growing from approximately £530m of premiums in the UK in 2005, to £690m in 2008,

to £1,240m in 2010 and £1,700m in 2011, representing a market share of the total UK motor market of 10-12% from 2011 onwards. Importantly, Admiral has almost consistently for the entire period reported a combined ratio well below 90%, and been 20-25%-points below the UK market average combined ratio. This is driven by both underwriting excellence and a significant 12-15%-points lower expense ratio.

Hastings is another UK insurer that has consistently grown by more than 20% each year since 2009 by predominantly focussing on aggregators as a distribution channel. As a result, Hastings' market share of the private UK motor market has increased from less than 1% in 2009 to approximately 5.5% today, with more than 1.7 million customers as of 2015. The company has been growing profitably with a reported return on capital in excess of 20% each year, in a highly competitively market. A lean cost structure and sophisticated IT platform are again two of the key success factors of the insurer, together with highly efficient claims management process.

ConTe is the Italian brand and a separate business of Admiral that was launched in 2008 as a "de novo" direct insurer. 2008 was also the year when the first meaningful and ambitious aggregators were established in Italy, and the direct market had at the time slowly grown to represent approximately 5% of the total €17bn motor insurance market. Up from zero in 2002 when Direct Line established its presence in the market. ConTe wrote approximately €12.5m of premiums in 2009, and continued to grow to €35.6m in 2010, €110m in 2013, and reported €107m of gross written premiums in 2015 in a very soft and challenging market where premium rates are declining. During the same period, the direct channel in Italy has grown from 5% in 2008 to 10% in 2015, and aggregators represents approximately 1/3 of all directly distributed business, or around €600m. ConTe is one of the more aggregator focused brands in the market, and is estimated to write the vast majority of its business through aggregators. In Italy, all large insurers are present on aggregators with their own direct brands, including Allianz (Genialloyd), Generali (Genertel), Zurich (Zurich Connect) and Axa (Quixa).

Similar opportunities will materialise in other European insurance markets, the Nordics included, as changing consumer habits and technological innovation will continue to impact the dynamics of how more standardised insurance products such as motor and home polices are distributed. The challenge for incumbent players is to determine how to meet and embrace the changing market dynamics at an early stage.

Admiral

ConTe.it
ASSICURAZIONE AUTO E MOTO

Hastings DIRECT

Posted by Kasko, 20th June 2016, LinkedIn

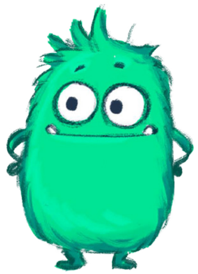
article 6

Reasons why some insurer should sabotage insurance aggregators

The future growth of insurance aggregators and increased digital distribution will not only have positive implications for all players in the market. As insurers have experienced in other European jurisdictions, aggregators also bring with them increased product and price transparency for consumers, easier market access for new competitors, and will often also highlight a lack of lean and consumer friendly digital strategies among incumbent players with legacy IT systems.

i) Consumer behaviour will change

Consumers will likely become more price and product aware and less loyal to large and established insurers given increased transparency and availability of information in the market. This is in particular the situation in markets with super-profits as a result of loyal and generally poorly informed customers. As an illustration, customer retention rates on aggregator distributed business in the UK are understood to be no higher than 60% today, in a market where customer loyalty generally has declined with the growth of aggregators. This has forced the most successful insurers to rethink product and pricing strategies. Aggregators have also encouraged customers to move online, something large and slow-moving insurers with inflexible legacy IT systems have been slow and found expensive to adapt to, resulting in lost market shares.



Posted by Kasko, 25th October 2016, LinkedIn

ii) Insurers will experience increased competition

Insurers have experienced increased competition from new and smaller insurers as aggregators have concentrated distribution, made access to the market easier and reduced barriers to entry. This is particularly true in highly profitable markets where even mediocre insurers historically have been able to succeed. In the UK the number of insurance brands active on aggregators has increased to well in excess of 100 today, however with each insurer often representing a number of brands and also writing business through brokers active directly on aggregators – a particularity of the UK retail market

iii) Dominating and highly profitable insurers have the most to fear

In summary the growth of aggregators is first and foremost a threat to highly profitable and concentrated insurance markets, where a few players is controlling existing distribution. Increased price and product transparency will lead to more aware consumers, which are unlikely to accept that mediocre insurers make super-profits, provided there are alternatives. Aggregators will ensure there are alternatives by lowering barriers to entry and help smaller, leaner and ambitious insurers to grow.

iv) Significant opportunities for others

A market with insurance aggregators will demand more from those insurers who wants to succeed. Clearly defined competitive advantages such as underwriting and claims settlement capabilities, customer niche strategies and segmentation, efficient and dedicated cost structures and digital capabilities, brand name, product innovation and features, becomes a must. Being mediocre is no longer sufficient. However, the opportunities for insurers are also tremendous if the market is approached correctly, illustrated by highly successful European insurers such as Admiral (UK), ConTe (Italy), Linea Directa (Spain), Genialloyd (Italy), Hastings (UK), and Svedea (Sweden).

kasko

Email: kontakt@kasko.no
https://kasko.no