

Back to black?

The past three months have finally seen private motor prices increase en masse. **Tom Cooper** analyses this and its potential for a return to market profit.

THROUGHOUT 2009, insurers and other pricing indexes claimed private motor rates were on the rise. But, arguably, if 99 brands out of 100 increase their rates on a price comparison site and yet that last one does not, picking up the business, can you honestly say rates are on the up if the consumer continues to pay at a lower level?

In our last analysis, the first 'green shoots' were noted with more rates rising than falling but there was a pressing need for the big players to blink (www.postonline.co.uk/1559312). Well, it would appear they have now — en masse — and at levels even the most optimistic would have scarcely believed possible. For a whole year, best prices refused to budge but, in the past three months alone, this figure has climbed 8% (see table, below). For more than 100 brands to move like this in unison bodes well for 2010, but will everyone continue this approach?

Conservative pricing

With the private car market likely to report it is in the red once again, the pursuit of loss-making new business to maintain market share appears to have been replaced with a more conservative pricing approach. There are still situations under which a controlled negative commission or cash-back proposition makes financial sense for some brands, but when these can equate to 25% and upwards of the premium, it has to be classed as a questionable strategy — as well as skewing the insurer's underwriting footprint.

The message from the major players over the past quarter is that they are struggling to maintain penetrations and income from add-on products, such as legal expenses. Most brands appear to have reacted by increasing their consumer pricing in an attempt to protect margins. The same could be said of instalment margin, where the continued fall in Libor has still not generally fed through in credit charges.

The rate increases have been experienced across all of the major price comparison sites. But it would appear to have affected

Confused less than some of the others, to the extent they became the site where the cheapest price was found on most occasions (30%), beating Compare the Market by a nostril, with Go Compare in third.

Moneysupermarket and Go Compare continue to go head-to-head in having the most brands but, despite positive observations on providers' multi-brand

For a whole year, best prices refused to budge but, in the past three months, this figure climbed by 8%.

approaches, having a second brand that merely includes legal expenses at the same purchase price as the first brand is possibly stretching the credibility of the second offering. Tesco Compare has also been quietly growing its motor panel to more than 70 and this emerging site will be included through 2010.

Despite talk of consolidation and even the emergence of a super-aggregator, it is hard to foresee a situation where aggregators allow the latter to happen and we believe the consolidation argument is something of a red herring. Much has been made of the market exits of Confident Cover and Insurance.co.uk, supported by high profile brands Saga and Lloyds TSB.

However these brands were generating such low quote volumes we would not consider them to have truly been in the market in the first place. When you look at the four big guns, major companies are involved in three and Moneysupermarket is a listed company. Of course, Moneysupermarket could always

be the subject of interest from the likes of Royal Bank of Scotland or Aviva, who may feel the best strategy for understanding this market is to go down the route of owning a leading site themselves.

More likely is that 2010 will result in another year of significant marketing spend and not until the latter part may one of the big players decide enough is enough. That leaves Tesco Compare, and we believe 2010 will be crucial for a business that is used to a seat at the top table in its chosen markets, so it will be looking to break into the upper echelon.

Changes going forward

Assuming the major players intend to be with us this time next year, what changes will occur? Over the past two years, Igo4 has consistently demonstrated that trying to replicate a quote — and get the same price across aggregators — is extremely difficult. In this analysis, only in 9% of cases was the price for a quote on one site matched on even one of the others.

Indeed, since this price comparison watch introduced Compare the Market last summer, it has never been possible to get the same price, for the same quote details, across the big four. A number of the big players have recognised this and think it should work in their favour if this remains the case. The likes of Moneysupermarket are encouraging their brands to differentiate their offering and it makes sense for the market to evolve in this way.

Underwriters pricing business by source will become a widespread reality through

2010 — and indeed may have already started. Furthermore, despite the wording of some of the commercial arrangements currently in place, brokers are largely powerless to stop this happening and why should they?

Returning the market to profitability is the responsibility of everyone in the market and if they are to enjoy an extended stay in the sun, price comparison participants have to recognise this. Changes to question sets and customer journeys — on the aggregators and brand sites themselves — which help to ensure the price being paid is commensurate with the risk, is a vital step forward.

The continued emergence of home insurance is also going to be interesting to observe. Quote volumes continue to rise at quite a pace, though a considerable distance behind motor. Could 2010 be the year in which the profitability of commercial vehicle and SME leads to a joined up aggregated approach that is able to satisfy all of the insurance needs of what is a huge market, alongside the appropriate marketing spend? Will the impact of vet inflation and the improved but increasing cost of treatment mean the pet market is ripe for increased investment?

The key for these sites in 2010 could be differentiation and we continue to believe this market has not yet reached maturity.

The necessary, across-the-board increases experienced at the end of 2009 have to be seen as a very positive move for the price comparison market. Indeed, in 2010 this could lead to even more activity on them as consumers see their renewal price has risen above their expectations, allied to increased sales activity in the new and used car market.

Aggregators continue to develop quicker than participating brands' ability to keep pace, though the gap is narrowing and the 2010 outlook for this market remains particularly positive. **POST**

Tom Cooper is founding director of Igo4

***The Igo4 price comparison watch seeks the most competitive quotes for comprehensive and non-comprehensive private car insurance.**

IGO4 PRICE COMPARISON WATCH — DECEMBER 2009 (BASED ON BEST PRICES QUOTED)

Month	Average best price	Movement	Motor*				Home	
			Most brands	Cheapest most often	Average best price	Movement	Most brands	Cheapest most often
Dec 08	£385.98		Moneysupermarket	Moneysupermarket				
Mar 09	£386.44	+0.12%	Go Compare	Go Compare				
Jun 09	£385.12	-0.34%	Go Compare	Compare the Market				
Sep 09	£384.87	-0.07%	Go Compare / Moneysupermarket	Compare the Market	£115.36	N/A	Moneysupermarket	Moneysupermarket
Dec 09	£415.65	+ 8.00%	Go Compare	Confused	£121.05	+ 4.93%	Moneysupermarket	Moneysupermarket