Rates refuse to budge

Tom Cooper takes us through the results of Igo4's third price comparison watch and asks why motor rate rises are failing to find their way to the customer and the knock-on effect this is having on insurers.

THE third price comparison watch conducted by Igo4 this month clearly demonstrates that, despite prolonged industry calls for increased motor rates, these are once again failing to find their way through to the consumer. In fact, the best prices across the four major aggregators measured fell by 0.34% in quarter two (see table, below).

This conflicts with the AA Premium Index, which estimated increases of 10% to 12% working their way through during 2009.

There is no doubt the phenomenal success of aggregators has contributed towards consumer prices being held down by exposing the less competitive and driving certain behaviour from participating brands. Speaking in Manchester at the recent British Insurance Brokers' Association conference, Hayley Parsons, chief executive of Go Compare, rightly pointed out that it is the brands on the site that set the prices — not the aggregator. Surely only in the UK insurance market could so many insurance providers be given free access to four million quotes a month and manage to moan about it.

Broker battle

Of course, aggregators are not alone in pushing down prices, but they have created a vehicle that results in brand pricing strategies which are not in their own long-term best interests. Aggregators have continued to evolve their proposition so that consumers can get the optimal combination of both price and cover. But our quarterly analysis found the vast majority of providers remain focused on price rather than delivering propositions that support the increasingly sophisticated consumer who compares cover and excess as well as price.

Brands now fall into two distinct camps — brokers and direct writers. Brokers continue to battle to maintain market share, and this is highlighted by the trend towards discounting commission and, in certain segments, discounting the insurer's net underwriting rate. The brokers fund the discount themselves in order to write business where they believe they can profit from high non-risk income.

Insurer impact

So what is the knock-on effect for insurers? They still get their net rate from the broker and many have been able to push through their own rate increases. However does a profitable customer for a broker also make a profitable customer for an insurer? This approach means that underwriting footprints are skewed and insurers become competitive in areas where they had not intended.

They also face a challenge of identifying where negative commission has been deployed and then matching that back to the underwriting result. With insurers trying to increase rates for profitability — and brokers writing business at a very low margin or even a loss at point of sale — this suggests such contrasting strategies are increasingly misaligned.

The question is whether brokers are adopting these strategies in order to compete with direct writers, who also appear to be holding firm on rate to maintain or increase their share? The reality is that with insurers' reserves running almost on empty, someone is going to have to blink soon.

Behaviour by the brands on aggregators in Q2 has continued to be quite erratic with no clear strategy and constant changes to instalment and add-on product pricing. This highlights that profitability remains a challenge and the impact of the recession has seen consumers becoming even choosier over what they will take on top of the core insurance product. Attempts to up-sell are both varied and persistent, with many testing the Financial Services Authority's 'treating customers fairly' mantra to the limit with their use of assumptive selling techniques.

Aggregators have risen to the challenges placed upon them by the FSA and industry over the last 12 months, evolving their sites into clear and transparent portals. As before, this price comparison watch included a review of the customer's subsequent online experience on every quoting brand.

The industry appears to have moved forward considerably, with many consumers now presented with the price on the participating brand site in a single click. This 'deep-linking' will certainly have resulted in increased sales for both parties and it will be interesting to see if other brands, particularly those in the Royal Bank of Scotland stable, follow suit.

Buying barriers

Interestingly, sites remain that prevent a customer from completing the transaction online. Although this is likely to be for commercial rather than technical reasons, it does not allow consumers to take out a policy through their medium of choice.

Fieldwork also highlighted that some aggregators allow as many as the top three quoted brands to contact the customer. While this may well aid overall conversion, what reputational risk are the aggregators exposing themselves to? Confused may be ahead of the game, as it has just started to ask customers if they mind being contacted, which is a further step forward.

The Q1 watch indicated that with the aggregator panels reaching saturation point in terms of brand numbers, there was little price differentiation between sites. This trend had been completely reversed by June and, with the introduction of Compare the Market, we did not find a single risk that resulted in the same price on each site across the basket of quotes completed.

One reason will be subtle differences in the interpretation of potential responses to what are now very extensive question sets across the aggregators. But it would be difficult to put some of the differences identified entirely down to this. There were a number of cases where the same provider was cheapest on all four sites but with pricing that differed by as much as 20%.

Differentiated propositions

It was inevitable that participating brands would eventually develop pricing and propositions unique to each aggregator based on commercial arrangements and performance. This can manifest itself in a number of ways, from straightforward differentiated pricing of the core product, to the inclusion or otherwise of standard cover elements, such as personal accident or courtesy car, and the pricing of ancillary products or instalments.

Aggregators are naturally keen to ensure they are getting the brand's keenest rate and their commercial arrangements will often preclude brands from displaying a cheaper price on its direct site. A number look to take this a step further and insist the rate quoted can't be beaten anywhere. Our analysis would suggest the latter control is quite impossible to police.

Clearly, this is a buyers' market that is becoming increasingly transparent. What remains to be seen is whether it can provide a win-win-win-win scenario for aggregators, consumers, underwriters and participating brands. It will be interesting to monitor what effect the various consortiums and working parties play in the evolution of this growing and ever more important aggregator arena. **POST**

Tom Cooper is founding director of Igo4

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

igo4 price comparison watch	Average best price*	Move +/-	Confused	Go Compare	Money Supermarket	Compare the Market
Dec 08	£385.98		20.9%	38.3%	40.8%	
Jan 09	£382.10	-1.00%	22.8%	32.6%	44.6%	
Feb 09	£389.00	+ 1.81%	24.3%	40.6%	35.1%	
Mar 09	£386.44	-0.66%	34.1%	32.7%	33.2%	
June 09	£385.12	-0.34%	22.7%	22.7%	18.2%	36.4%
Number of brands			82	109	106	58
Change in last quarter			+2	+9	+8	+3

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