

Vying for possession

Has the consumer ever had it better as the market continues to struggle with reducing margins? Tom Cooper discusses the latest developments in the aggregator market.



Jupiter

THE fourth price comparison watch, undertaken last month by Igo4, has produced almost the same average best price premium for motor insurance when compared to last quarter — £384.87 versus £385.12 — but the underlying direction of rates is beginning to move upwards, with 58% of the basket of risks seeing an increase. So why has the overall figure remained flat?

Competition between the aggregators and the brands that appear on them has intensified significantly and, as margins continue to come under pressure, there has been a push for higher premium business that brings with it higher non-risk income-earning opportunities. For 44% of risks the aggregator showing the best price had changed, and on a huge 55% of cases the leading brand had changed within the aggregator — albeit sometimes to another brand within the same parent company.

It is becoming much more prevalent for aggregators and brands to develop exclusive offerings as both seek differentiation and, while there has been some innovation, price continues to dominate.

One marketing strategy being increasingly adopted by large brands, such as Swinton and the AA, is the cashback offer. Aggregators have been somewhat wary of these in the past, but are now starting to show them extensively, with the cashback amount removed from the premium. This has a downward effect on the headline premiums, but the customer that uses aggregators for convenience has to go through a lengthy manual process to receive the cashback.

Customer gains

Consumers are benefiting from the continued drive to maintain volume by direct insurers and brokers, which has resulted in offer prices being held down.

There is also a positive knock-on consumer effect of aggregators continuing to aggressively

grow and develop their panels, to increase their chance of conversion. Go Compare has increased the size of its motor panel by one third over the past 12 months and, along with Moneysupermarket, it seems particularly keen to show as many prices as possible, taking themselves some way ahead of the other leading players in terms of panel size. Assuming the additional 28 Go Compare brands all bring something to the table, every time they take a best price from an existing panel member, this has the effect of holding down the overall consumer rate.

So, with easy access to the vast majority of the market, consumers have a huge amount of choice and are able to compare price and cover, relatively simply. This continued development of the aggregator sites is enabling the consumer to be more sophisticated in their comparison search, but with increasingly diverse brand marketing strategies being adopted, they do need to be cautious about ensuring they understand what they are buying.

Direct writer domination

While a number of major direct writers were early adopters of the aggregator model, many others — notably those in the Royal Bank of Scotland stable — were slow to accept them as a cost-effective route to market. They all appear to have been able to evolve their pricing models quicker than some of their composite or broker-reliant rivals to the extent that even with fairly narrow competitive footprints they enjoy prominent

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

positions in terms of sales originating from this source. They are also, of course, in control of consumer pricing.

Admiral, Swiftcover, Churchill and Esure are very much to the fore even taking into account that the latter has managed to implement some decent increases on its rate over the past quarter. Additionally, a relatively new player — Gibraltar-registered 1st Central — has entered the market in the past year and already established itself as a top 10 player.

With complete control over consumer pricing, direct writers have an advantage over broker models to compensate for the narrow footprint and tend to enjoy modest uplifts in conversion on the back of continued above-the-line brand spend.

In terms of creativity, however, it is brokers that are leading the way in the evolution of bespoke propositions and income generation, be that through cash back, additional ancillary products and/or a more focused online customer journey.

Household volume rise

The major aggregators have also started to focus on generating business in other product lines — in particular marketing their home insurance offering independently — and made site improvements in this area. The total monthly quote volume is expected to hit one million in 2010 and it will be interesting to observe how far an aggregated

model can go in establishing itself as a major distribution channel in a part-commoditised market.

Price comparison site acquisition costs on home are fairly expensive when compared to motor given the lack of access to income through the lifetime of the policy, despite the better retention rates. The distribution history of home from mortgage-associated to direct writer has been achieved with the retention of strong commission rates and there will be reluctance on the part of some brands to fully embrace aggregators as this is the first area to come under attack. Cross-sell would always be the preferred route to cost-effective business and it is potentially the lower end of the market that will be most comfortable going through an aggregator. However, if you are writing a lot of £50 annual premium contents-only business there is not an awful lot of fat to go around.

Looking ahead

If participating brands can overcome these challenges and develop compelling and profitable propositions for consumers, then home insurance could start to produce material levels of business quite quickly.

Although the number of new unique visitors to price comparison sites has begun to show signs of levelling off, aggregators are and will remain the dominant force in private car distribution for the foreseeable future.

From a motor insurance perspective, for the first half of 2010 there will be some focus on Tesco Compare's ability to find a seat at the top table and whether the other major players can maintain their volume if marketing spend continues to move from direct response to brand driven. It has a feel of a maturing market that will start to peak around this time next year after which the survival of the fittest — which may also stretch to participating brands — potentially comes into play. **POST**

Tom Cooper is founding director of Igo4

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

	igo4 price comparison watch		Motor*		Home			
	Average best price	Movement +/-	Most brands	Cheapest most often	Average best price	Movement +/-	Most brands	Cheapest most often
December 08	£385.98		Moneysupermarket	Moneysupermarket				
March 09	£386.44	+0.12%	Go Compare	Go Compare				
June 09	£385.12	-0.34%	Go Compare	Compare the market				
September 09	£384.87	-0.07%	Go Compare/ Moneysupermarket	Compare the market	£115.36	N/A	Moneysupermarket	Moneysupermarket