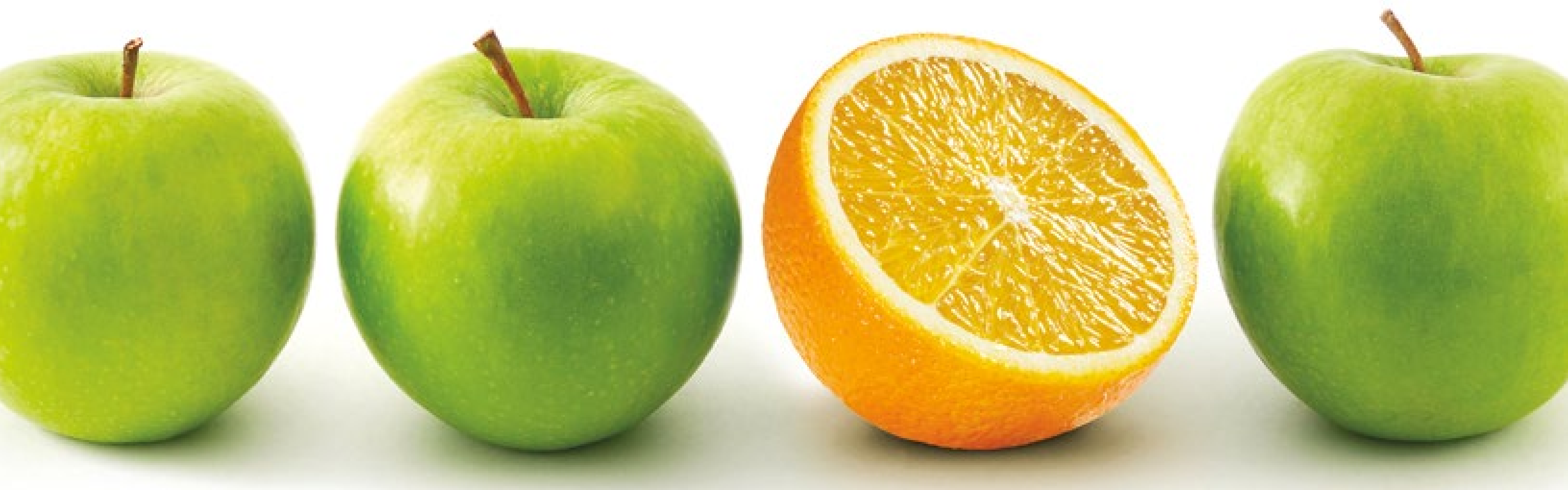
Strategy | Consulting | Digital | Technology | Operations

High performance. Delivered.

Coming to Terms with Insurance Aggregators:

Global lessons for carriers



A few years ago, property and casualty insurers in some markets could have been forgiven for thinking that aggregators would take over the world.

The aggregators' business model—a strong online presence comparing insurance quotes and coverage, supported by extensive advertising to build visibility and drive traffic—attracted customers on the basis of convenience and cost.

The aggregator model has not changed much. Customers seeking automobile or homeowners' coverage click on a site and provide basic information. For an automobile owner, that might be year and make of car, as well as the driver's age and pertinent information about his or her driving record. Based on levels of coverage sought, the aggregator site displays a range of carriers and prices; if the customer is interested in more information, the site allows "click-through" to the carrier's own site for further processing.

Aggregators are compensated by the carriers that choose to participate on the site. The aggregator is strictly "in the middle" with the carrier taking all responsibility for account servicing and claims processing.

In the United Kingdom, consumers were quick to embrace the use of the aggregator channel to buy insurance, particularly automobile insurance. By 2009, aggregator purchases accounted for more than half of total private auto insurance sales in the UK, and for 36 percent of home insurance sales.[1]

Today, UK aggregators have attained an even larger share of the private automobile insurance market, accounting for an estimated 60 to 70 percent of new business premiums.[2] There are signs, however, that their growth has leveled off. New entrants in the field—as well as the incumbents' success in attracting customers—may have brought the UK aggregators to a saturation point, especially as they jostle for position in costly broadcast advertising.

In the US, meanwhile, aggregators have found it difficult to penetrate a market in which large P&C carriers allocate huge amounts of capital to marketing to establish brands and direct customer flow, posing a significant barrier to entry. US carriers leverage programmatic marketing to target customers directly and direct customer flow to the carrier sites. Another barrier to entry for aggregators in the US is state level regulation; each state has its own rules requiring aggregators to attain licenses, making it hard for aggregators to participate at a national level.

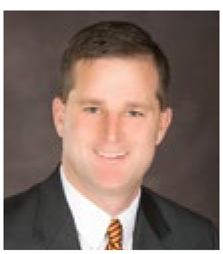
About the Authors

Roy Jubraj leads the digital/innovation agenda for Accenture's Insurance practice in the United Kingdom and Ireland, including its Digital Insurance Solution Centre. He has extensive experience leading business and technology transformation programs for a diversity of clients. Contact him at kadesh.r.jubraj@accenture.com.

"Aggregators will continue to grow, but they will face more competition—from retailers, technology vendors, and online giants—as well as from insurance carriers."

Talbert Thomas is a senior manager in Accenture's Insurance Strategy practice. His experience has been mainly in the areas of growth, operations and marketing strategy as well as distribution and underwriting. Contact him at talbert.thomas@accenture.com.

"In key markets aggregators have proven that they can change the way people think about buying insurance, and in the process change the economics of insurance distribution."



Erik J. Sandquist is a managing director, and leads Accenture's global Insurance Distribution and Marketing Services. He helps insurers reinvent their distribution models through strategic transformational change programs. Contact him at erik.j.sandquist@accenture.com.

"Pricing is always important, but so are brands. We have seen that strong brands can grow even in a market with a large aggregator presence."

Some major US carriers have refused to work with aggregators, leaving the intermediaries with only lesser-known brand names. Other carriers have agreed to work with aggregators, but have been unwilling to integrate their systems. This can be a major obstacle, because if the customer going onto an aggregator site cannot get an immediate, accurate quote and complete the purchase, the aggregator becomes nothing more than a lead generator.

While aggregators have not generated vast amounts of revenue,[3] their impact on the insurance distribution model in the UK and other markets has been much larger than these revenues would indicate.

In a relatively short period of time, aggregators have:

- Levelled the playing field by injecting simplicity of service and transparency into the range of offerings and product coverage provided by insurers;
- Pushed the entire direct channel to change its pricing structures, frequency of customer contact, volume of quotes and many other features, with insurers forced to adapt their systems to integrate with aggregators, generate high volumes of quotes on a near real-time basis, and slash prices to be included in the top tier of cheapest quotes;
- Changed customer expectations and purchasing behaviors; and
- Increased the incidence of insurance fraud, as some customers intentionally provide inaccurate information, and see the prices quoted online come down immediately as a result.

Aggregators have also helped commoditize insurance, with more and more carriers selling customers on an inexpensive, bare-bones product—albeit one from a trusted company—to gain primary position on aggregator sites and then pushing to up-sell the customers by offering needed features.

In addition, aggregators have changed the way people think about buying insurance, with a significant impact on the economics of insurance distribution in general and on the broker channel in particular. In the UK, for example, the broker commission for private auto insurance can range from 10 percent to 20 percent of annual premiums. Brokers can obtain additional fees and revenues from add-ons, negotiating credit packages, and handling claims, although recent regulation has brought these revenue streams under pressure.

Nevertheless, brokers do turn to aggregators to obtain quotes. But, with an average private annual automobile premium of £530 (US$828) in the UK, the aggregator fee of £50 ($78) would erode 50 to 85 percent of broker revenue.[4] This places pressure on brokers to retain existing customers and to cross- or up-sell them rather than risk losing them to an aggregator, or risk using an aggregator to place the business.

While competitive pricing remains critical to the prospective insurance customer, it is not the only consideration in a purchase. Brand attributes—and the perception of value for money—play a vital role, and strong brands can continue to grow, even in a market with a large aggregator presence.

New research from Accenture also indicates that insurers are responding to perceived pressure from aggregators. Our global survey of more than 400 senior insurance distribution executives found that they are adopting a targeted approach to using aggregators—tailoring their products and using aggregators mainly under the heading of sub-brands. The percentage of insurers using aggregators under a sub-brand is set to jump from 43 to 53 percent over the next three years, with an additional 21 percent answering "Perhaps/ Don't Know." Just more than half of the insurers surveyed (51 percent) are defining a set of low-cost products for use specifically by aggregators, and 57 percent said they are thinking about setting up their own aggregators. The aggregators' focus on price drew skeptical comments from some insurers interviewed, who saw commoditization as a dead-end street for insurers and, ultimately, for the aggregators themselves.[5]

Growing around the world

Although they have not attained the same share of market as they have in the UK, aggregators in other countries are enjoying rapid growth. In France, for example, aggregators have grown at an average rate of 18 percent per year over the last five years,[6] and while in Spain and Italy they have low penetration they have achieved the highest growth rates in Europe in the past two years.[7]

The aggregators' growth story is not limited to Europe. In Japan, they now represent approximately five percent of total personal lines insurance sales and are estimated by Celent to have grown by 33 percent from 2009 to 2015.[8] The expanding online market in India is driven by large aggregators such as PolicyBazaar.com and MyInsuranceClub.com.

UK aggregators have taken the basic business model of providing price comparisons—which has worked successfully in industry after industry including travel, energy, and mobile phone services—to other markets in attempts to replicate their success throughout Europe and beyond. For example, BGL, the parent company of comparethemarket.com, one of the leading UK aggregators, has launched Les Furets in France, Hoy Hoy in the Netherlands and comparethemarket in Australia. Admiral Group, the second largest auto insurer in the UK (and the owner of aggregator Confused.com), has launched aggregators LeLynx in France and Comparenow in the US.

In the US there are a large number of life insurance comparison sites (e.g., SelectQuote, PolicyGenius, and AccuQuote) for consumers to use in shopping for simple term-life coverage from widely known carriers. Yet, sales originating from these sites are not a meaningful source of new business for insurers.

The extent of penetration by aggregators in specific markets depends upon a number of factors. These include:

- **Consumer habits and culture**

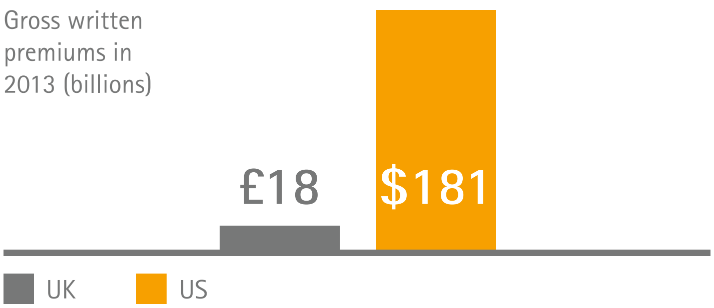
  Buying habits such as consumers' price sensitivity, the value of personal interactions, and consumer loyalty, vary dramatically from country to country. In the UK, for example, 68 percent of respondents in Accenture's 2013 Consumer-Driven Innovation Survey named aggregators as the first place they would go to get insurance information, but only 42 percent of German respondents named aggregators as their first choice. In the US, 45 percent of respondents said they would go first to independent agents to obtain information, with only 34 percent naming aggregators. These consumer traits partially explain the substantially lower level of penetration aggregators have achieved in the German and US markets compared to the UK.

- **Marketing expenditure by insurers**

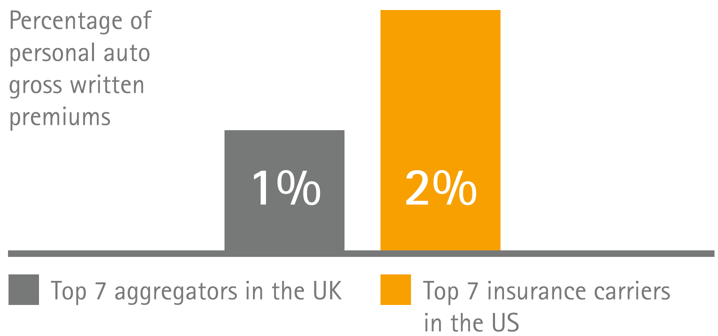
  There is an emphasis on building strong, immediately recognizable brands through high levels of marketing spend to attract customers. The top seven UK aggregators allocate more capital to marketing than their carrier counterparts; aggregators' marketing spend equates to approximately one percent of the total premium of the UK personal auto insurance market. That figure is half of what the top seven carriers in the US spend on marketing, which is roughly two percent of total automobile insurance premiums (Figure 1). The US market is at a much greater scale, with GEICO alone exceeding $1 billion in spend, compared to the top UK aggregators spending some £120 million ($187 million) in total.[9]

Figure 1. Percentage marketing spend by UK aggregators is one-half that of top US carriers

Size of personal auto market in billions



Aggregator and carrier marketing spend



- **Carrier participation**

  Carrier participation in aggregators' quoting and selection services also varies from country to country. In Germany, three of the top ten carriers, including the largest carrier, do not participate in aggregator sites, in contrast to the UK, where the top carriers engage directly with aggregators to meet customer demands for more online interaction and to reduce high acquisition costs.

- **Digital sophistication of carriers and aggregators**

  Some carriers have been much more aggressive than others in offering a digital customer experience, or in using programmatic marketing to quickly identify and target the most attractive customers. Similarly, aggregators have seen more success in markets where they offer a complete purchase experience online and a more advanced user experience than their carrier counterparts.

- **Distribution cost pressures**

  P&C insurers are facing high distribution costs. In the US, for example, distribution costs represent approximately 18 percent of each premium dollar in personal lines, and the top 10 personal lines insurers spend approximately $3.8 billion on advertising in total, with the top five accounting for $3 billion of that amount.[10]

  In the face of such high costs, some P&C carriers are spending heavily on technological advances such as mobile and social media, bolstering their online and contact center presence and essentially bypassing agents, brokers and the commissions they receive. High distribution costs may also drive more carriers to consider engaging with aggregators, especially if aggregators continue to improve the experience they provide to the customer at lower cost.

The future of insurance aggregators

While past performance will not guarantee future results, the recent past does provide strong indications of how aggregators' business strategies will evolve. We anticipate that three major trends will characterize aggregators' future:

1. Continued growth

We believe that aggregators will continue to grow at a rapid pace, both through expansion into new markets and offering new products—such as travel insurance or basic life insurance coverage—in existing markets. This is driven in part by consumers' growing trust in online advice and their comfort with making increasingly complex purchases online. Where aggregators are achieving success they are concentrating on "share of wallet" and extracting more value from the customer relationship; they are also making use of their distribution power to obtain better terms of trade from carriers, whether in the form of new pricing models or other concessions. In addition, aggregators are using new platforms, including social media and mobile, to find and attract new customers.

2. Disruption of insurance industry economics

Aggregators are disruptive by nature and will continue to demonstrate their ability to significantly change distribution economics for carriers, producers and customers.

- Carriers dealing with (or competing against) aggregators tend to suffer from the "winner's curse;" that is, they sell more lower-priced policies, limit the number of product features that they offer or otherwise diminish the quality of the product, develop low-cost brands, or reduce their marketing expenditures in an effort to maintain margins. For carriers with established brands, this represents a competitive dilemma as, in selling through aggregators, they may cannibalize their higher-profit lines. They also run the risk of diluting their hard-won brand value.
- Producers such as exclusive, captive and independent agents find themselves providing at least the same value and personalized services for a lower level of commissions after paying the aggregator. They subsidize the payments made to aggregators, putting more pressure on their own profitability and accelerating the transition to more centralized operating models from branch-based models.
- Customers find it easier to choose insurance products based exclusively on price. This erodes customer loyalty, decreasing retention rates and making switching more prevalent. It also makes customers selecting cheaper options more vulnerable to being under-insured—as evidenced in the aftermath of the record breaking floods in the UK in 2014, when many customers who purchased their insurance through aggregators discovered they did not have the breadth of coverage they needed.

3. Evolution of the business model

As aggregators move into their next evolutionary phase, we expect to see new areas of focus. These might include:

- New geographies

  Successful aggregators are taking their show on the road to markets where they believe the environment is receptive to their proven value proposition, with a particular interest in consumer comfort with online transactions and low digital sophistication among carriers.

- New lines of business

  Some aggregators have begun to expand into commodity-type insurance products such as pet and travel insurance; adding ancillary products such as legal expense coverage or response to home emergencies; or moving into small commercial lines, such as for non-fleet commercial vehicles.

  Aggregators are also in a position to offer simple term-life insurance policies and some basic financial products such as consumer loans and credit cards, as well as online wealth management advice related to budgeting, expense management and other everyday financial concerns. BGL Group has added online life insurance quotes through its Beagle Street subsidiary. Moneysupermarket, another UK aggregator, has acquired Money Saving Expert to offer financial sector advice and product comparisons.

- Larger share of the value chain

  After diversifying into new products and markets, we expect aggregators to increasingly carve out a larger share of the insurance value chain, expanding their value proposition beyond price comparisons. This includes services more associated with producers including evaluations of product features and education, needs analysis, "people like you" comparisons and even some policy servicing processes.

- Expanded services

  Finally, aggregators are expanding into other business-to-consumer and business-to-business services. These include "white label" products, the resale of data and analytics, product endorsements, and experiments with non-risk goods and services such as energy and other utilities. Areas under study encompass renewal shopper subscription services, financial advice, price auctions and "name your price" initiatives.

And, while aggregators seek to expand, they must also remain cognizant of new competitive threats, not only from carriers, but from retailers, technology vendors and online giants.

Aggregators and insurance carriers: Mixed results

When it comes to the impact of aggregators on insurance carriers, some insurers have ridden the aggregator wave more successfully than others. In the UK, the big players in direct insurance have probably lost the most to aggregators, as they have not always been able to leverage their scale and brand.

Aggregators can force insurers to accept wafer-thin margins, hoping to make up in volume what they lose in quality; the alternative is to lose sales. Aggregators can also take advantage of carriers whose unattractive or cumbersome websites cause consumers to explore new options on the Internet.

The carriers suffering the least from the aggregators' presence are those with highly segmented and/or highly differentiated offerings, a low cost base, and leadership ability in terms of price setting. They write high-value business and also tend to have a strong, integrated customer-centric presence on the web. Due to the low barriers to entry that aggregators facilitate, new market entrants, as well as companies with well-known brands, may also find it easier to co-exist (or compete) with aggregators. Aggregators give smaller insurers with less well-known brands an advantage that they may not enjoy when they compete in the open market against more powerful brands.

Insurers have tended to respond to aggregators in one of four ways:

1. Rejection

Aggregators offer large carriers no additional sales; instead, they simply interpose themselves in the sales process and take a share of carriers' revenue. Therefore, some insurers have refused outright to work with aggregators, even making their lack of presence on aggregators' sites a selling point.

These insurers often have large quantities of direct sales and large investments in brand building that they feel they need to protect, and may believe that competing on brand attributes and price can enable them to continue selling at profitable volume levels.

2. Cooperation

An increasing number of carriers worldwide have accepted aggregators as an additional distribution channel and have made their products available through them. Leading price comparison sites in North America and Europe have as many as 50 brands on display including products designed specifically for the online/aggregator channel and distinct online brands. In cooperating with aggregators, carriers may be taking another course of action to support and protect their own direct sales, and may also have confidence that their ability to compete on price can generate profitable volume from the aggregator channel.

3. Crowding out

Another course of action by carriers involves "crowding out" competitors, either by offering multiple brands, or by offering multiple quotes on a single brand, to achieve a dominant position on the aggregators' all-important first page.

4. Participation

Some insurance carriers have chosen to pursue a dual-path strategy, either by setting up an aggregator, forming a close alliance with an existing aggregator or making strategic investments in already established aggregators. For example MAPFRE USA has taken an 11 percent interest in Comparenow in the US.

Dealing with aggregators: Strategies for insurers

In our view, insurers should view aggregators as an additional distribution channel—with its own unique characteristics—and then consider strategies for maximizing the value of the channel. For new aggregator markets, the key lesson from the UK is that carriers and aggregators that work in concert can create a mutually beneficial value proposition that enables the customer with both transparency and high quality products. Insurers that choose to engage with aggregators may do so primarily in one of two ways:

1. Integrate and optimize

Insurers can pursue a digital optimization strategy designed to make the most of both their own online presence and their presence on the aggregators' sites. This may involve closer integration of the carrier and aggregator sites, so that the customer experience is comparable in both locations, or providing a richer user experience for aggregator customers. Carriers could also employ multi-variant testing of the aggregator site to maximize both the rate of conversion and the attractiveness of customers obtained this way.

2. Develop a tailored aggregator value proposition

Insurers can also choose to "play to win" in the aggregator channel by competing in areas outside pricing. They can make exclusive offers, or provide new niche products involving telematics or rewards for "green" behavior. They can take alternative marketing approaches by using vouchers, cash rebates, or promotional gifts.

The foundation for growth

To grow profitably in a crowded, competitive, price-sensitive environment, insurers will need specific capabilities. These are essential for participating in the aggregator channel but are also needed to meet the demands of an increasingly digital customer base.

The four key building blocks are, in our view:

1. A differentiated customer proposition

Insurers need to make it immediately clear what they are offering customers; this means a value proposition that is simple, modular and packaged in a way that is readily accessible and understandable. The offering should be configured to work in a multi-channel world; it should be customer-centric (meaning that it is primarily something the customer wants to buy, rather than something the insurer wants to sell) and it should focus on long-term value.

2. Tight market segmentation supported by sophisticated analytics

Insurers should focus on clearly defined market segments—with a view of the customer that supports profitable pricing right down to the level of the individual policyholder—rather than one-size-fits-all offerings. With a good understanding of customer needs in chosen segments—and the products that such customers want—insurers can engage in aggressive lead generation, branding and pricing to win market share in those segments. Sophisticated risk selection and dynamic pricing capabilities can optimize conversion rates in the market sectors selected.

3. A compelling digital offering

Whether working through aggregators or through other channels, insurers should be using digital optimization tools to fine-tune their real-time performance. Such tools personalize the insurer's value proposition, customize the user experience, and provide immediate feedback on what does and does not appeal to the customer. In conjunction with digital optimization, better digital marketing can enhance the insurer's brand value and maximize the return on marketing investment.

4. Lean and agile operations

A low-cost, configurable technology platform makes it possible for insurers to change course rapidly and to introduce new products and modifications as needs are identified. Process management, automation of previously manual processes, and an iterative, collaborative approach to change management are prerequisites for digital success.

The insurance industry has entered a period of rapid change and we anticipate even more accelerated evolution in the short- to mid-term future. The moving force behind this change is the demand of savvy online consumers who, to put it simply, want to receive more value for less money. Aggregators have grown rapidly in this environment. Insurers, by joining forces with them (or adding their own aggregator-type channels), can protect their own business while adding new customers.

No matter how successful aggregators are in disrupting insurers' distribution models, the future of personal lines insurance is digital. Insurers with integrated, multi-channel distribution models, a clearly differentiated value proposition, and the ability to conduct personalized campaigns aimed at specific market segments—even individual customers—will be in the best position for profitable growth in the years ahead.

Join the conversation

@AccentureIns
@AccentureCapMkt

@AccentureIns

About Accenture

Accenture is a leading global professional services company, providing a broad range of services and solutions in strategy, consulting, digital, technology and operations. Combining unmatched experience and specialized skills across more than 40 industries and all business functions—underpinned by the world's largest delivery network—Accenture works at the intersection of business and technology to help clients improve their performance and create sustainable value for their stakeholders. With more than 358,000 people serving clients in more than 120 countries, Accenture drives innovation to improve the way the world works and lives. Visit us at www.accenture.com.

Footnotes

1. Admiral Group 2013 Full Year Results - presentation
2. AM Best statutory data
3. In 2013, the top four UK aggregators had total revenue of £423 million (US$663.7 million), in a £18 billion ($28.2 billion) personal auto market.
4. Accenture research and analysis
5. Accenture Distribution & Agency Management Survey, 2015
6. Google Trends
7. London-based CP Consulting
8. Celent–The evolution of aggregators in Japan
9. US carrier marketing spend: Statista; UK aggregator marketing spend: Datamonitor, Data Plus Insight, and Accenture analysis
10. AM Best and Statista

12465285