

Drivers of change

THE price comparison market continues to have a dominant grip on UK private car insurance, with Igo4's second price comparison watch indicating that consumer prices remained static in the first quarter of 2009. The average price of the most competitive quote increased by only 0.12% to £386.44 — despite insurer attempts to force through rate increases.

As highlighted in the last watch, January's marketing spend resulted in six million quotes being carried out that month for four million unique visitors, presenting significant processing challenges for a large number of participating brands (*Post*, 5 February 2009, p16). On Confused, for example, quote volumes doubled between October and January due in part to the increased spend but also site changes encouraging customers to carry out multiple quotes, for the same risk, by playing around with their voluntary excess. This caught a number of brands on the hop in January. While there were 70-plus brands on Confused at the time, nothing like that number were able to return prices on each individual quote. Insurers addressed these issues through January and February and it has had a considerable knock-on effect on Confused's competitive position, to the extent that displayed prices are now completely comparable with the other two major players.

Brands numbers also continue to grow unabated, with Go Compare having hit the 100 mark. This is despite a noticeable slowdown in the number of truly new brands appearing, with Salaam Halal and Endsleigh's female driver proposition, Women on Wheels, the only new entrants of note in the last quarter. At the same time, Policies4Less, Nationwide, Evolution, Insure & Go and Barclays have all come off the sites they were on — although some are likely to reappear via different providers — and the total number of brands on the various sites is holding steady at around 140.

The fact the three main aggregators are getting close to complete coverage of the major players means price differential has become minimal. Indeed almost one in three quotes now generates the exact same price across sites — up from just 15% in January.

Tom Cooper takes us through the results Igo4's second price comparison watch and questions why Direct Line does not use the service of aggregators.

Innovation still appears sadly lacking within the vast majority of customer propositions, with the blunt instrument of a higher excess still being used to drive down prices and forming the basis of most 'economy' products. This will become an issue as additional Igo4 research indicates more mainstream customers are being attracted to aggregators and, by and large, these high excesses are rejected.

Instalment confusion

LIBOR, the inter-bank lending rate, continued to fall in the last quarter, yet the market seems confused about how to handle instalment payers. Thirteen brands have reduced their instalment charge since January, though many were the most expensive providers in the first place, while 16 chose to increase it. Five elected to increase the up-front deposit required, while 10 reduced it. This was quite significant in some cases, such as Kwik Fit, where the deposit is now 0% and naturally comes with an attached credit risk. Virgin meanwhile has moved away from free instalments for now, which appears to leave just Saga in that space.

The market's overall reluctance to reduce instalment costs would suggest the increased income from these charges is being used to offset reductions in earnings in other areas, such as add-on products like legal expenses and breakdown cover. Additionally, negative commission, with some of the large national brokers part-funding the insurer premium, is

now common practice in the fight to win top position.

Despite the latest watch assuming Go Compare, Moneysupermarket and Confused remain the leading three, BGL aggregator Comparethemarket is closing in quickly. Backed by an innovative marketing campaign that encompasses a complementary brand and direct response approach, as well as a steadily increasing panel of 56 providers, it will feature in future watches, as will home insurance.

Direct Line comparison

This quarter, the price comparison watch also looked at Direct Line, as it has been so vocal in its dismissal of aggregators as a route to market.

A historic but now invalid criticism of price comparison sites has been the use of assumptive answers to relevant questions. But the question set facing customers on aggregators is far more comprehensive than that faced by a prospective Direct Line client (see table). In addition, the responses available to some questions asked by Direct Line are fairly limited and could result in a selection issue if used on an aggregator. For example, the response options for the length a licence has been held on Direct Line are zero, one, two or three-years plus — resulting in the same rate for someone with 20 years driving experience as those with three. Adopting the same underwriting approach taken on its direct site on the aggregator would result in Direct Line being competitive for

BREAKDOWN OF FINDINGS

Insurer rate increases are not finding their way through to consumers on price comparison sites, as prices remained static through the first quarter of 2009

70% of all new private car policies are now sourced through a price comparison site

The three main aggregators are close to complete coverage of the major players, resulting in minimal price differential between them — the average price difference being only £10.04

The market is adopting contradictory strategies for instalment payers, as point of sale income comes under pressure

Direct Line does pay middlemen — such as Google — and could be competitive if it joined price comparison sites

customers who have held their licence for exactly three years, as others would adopt a wider underwriting approach to this question. Indeed using the online question set approach, Direct Line's competitive footprint was found to be fairly narrow, with every quote where they came out top being for a driver aged between 20 and 30 for example.

Again, assuming the adoption of its direct underwriting approach, the good news overall is that Direct Line came up with the best price on a healthy 10% of the risks when compared to the main three aggregators. On this basis, Direct Line would have a leading brand position on all three — particularly Confused.

The main reason given by Direct Line for non-participation is that it does not pay middlemen — a position not adopted by other RBS brands and one that does not stand up to close scrutiny. By far the most popular search term on Google is 'car insurance', the results of which would include a number of providers at the top and down the right-hand side, known as 'sponsored' or paid-for links. And Direct Line features very much to the fore of these. Position is determined by how much the brand is prepared to pay multiplied by a quality score — primarily the propensity of the customer to click through to that site. So you could argue Google is a form of aggregator without customer prices and with positioning determined by how much the insurer is prepared to spend. This makes it no different to the role of price comparison sites as middleman or potential provider of quotes.

Igo4's research suggests that Direct Line is walking away from as much a half a million sales each year at a manageable acquisition cost, and this should surely lead it to review an approach that is somewhat flawed. **POST**

Tom Cooper is founding director of Igo4

IGO4 PRICE COMPARISON WATCH — APRIL 2009 (BASED ON BEST PRICES QUOTES)

	Average best price*	Move +/-	Confused	Go Compare	Money-supermarket	Direct Line
December 08	£385.98		20.9%	38.3%	40.8%	
January 09	£382.10	-1.00%	22.8%	32.6%	44.6%	
February 09	£389.00		24.3%	40.6%	35.1%	
March 09	£386.44	-0.66%	34.1%	32.7%	33.2%	
March 09 with Direct Line			29.3%	30.4%	30.3%	10.0%
Number of brands			80	100	98	1
Number of questions			43	51	49	30
Quotes returned			100%	100%	100%	89%

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