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The Consumer & The Regulatory Environment

07 June 2018

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Agenda

- Market Pricing (Motor)
- Changes In The Market
  - Ogden
  - MFN clauses
  - Renewal Transparency
- Future Horizon Scanning

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Market Pricing

New Business Motor Pricing

Long term view

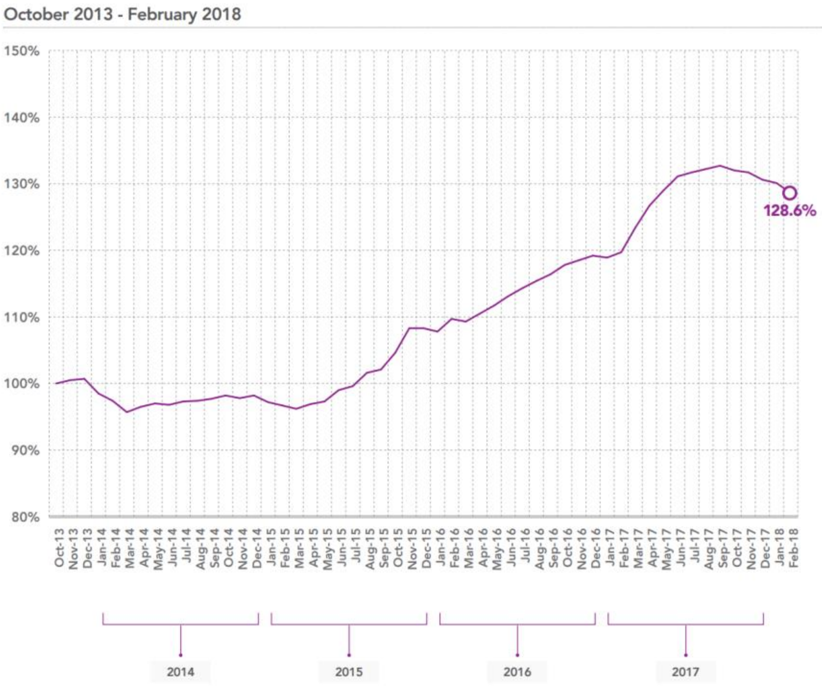
Over the longer term, average premiums have increased 28.6% since October 2013, when Consumer Intelligence first started collecting data.

> **"In the past few years, we have seen increased claims costs, Insurance Premium Tax hikes, increased fraud, new – and more expensive – technology fitted to vehicles and the huge impact of the Ogden reforms,"** says Blevins.

However, there has been a noticeable downward trend following the high-water mark of September 2017. It is the first time since our records began that prices have fallen for five consecutive months.

Motor insurance is 28.6% more expensive than in October 2013

+28.6%



Prices continue to drop another c. 3 % since Feb

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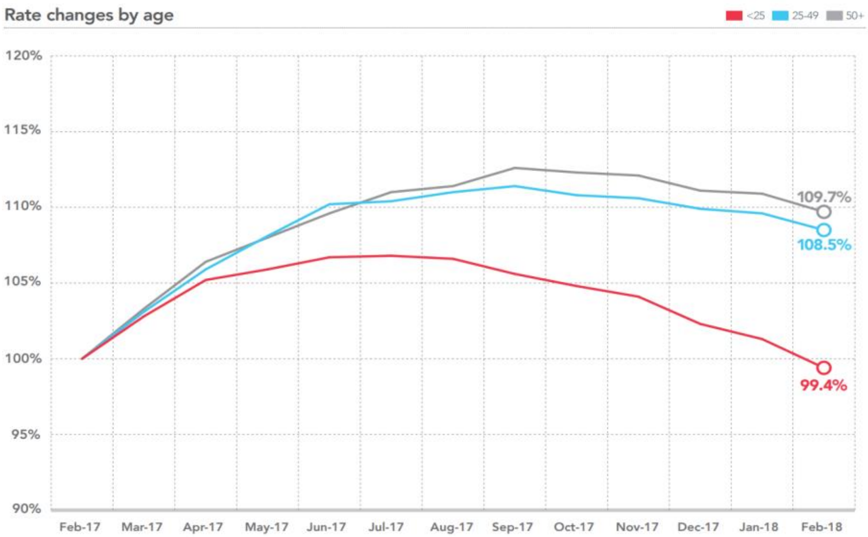
By Age

Age differences

Average premiums for drivers aged under 25 are now £1,612, which is 0.6% cheaper than 12 months ago. Changes to the Insurance Premium Tax and Ogden rate over the past couple of years have seen the under-25 demographic disproportionately affected by government policy.

But an increasing uptake of telematic products – 'black box' technology which monitors driving style and rewards safe driving – is helping insurers to cut prices within this age bracket.

Drivers aged 25-50 saw an 8.5% rise over the same period, while the over-50s cohort witnessed a 9.7% escalation – the largest of the three groups. The average premium paid for motor insurance by the over-50s is now £404.



£1,612 Average premium for drivers under 25

£686 Average premium for drivers 25-50

£404 Average premium for drivers aged 50+

'Black box' technology is helping insurers to cut prices for the under-25 demographic.

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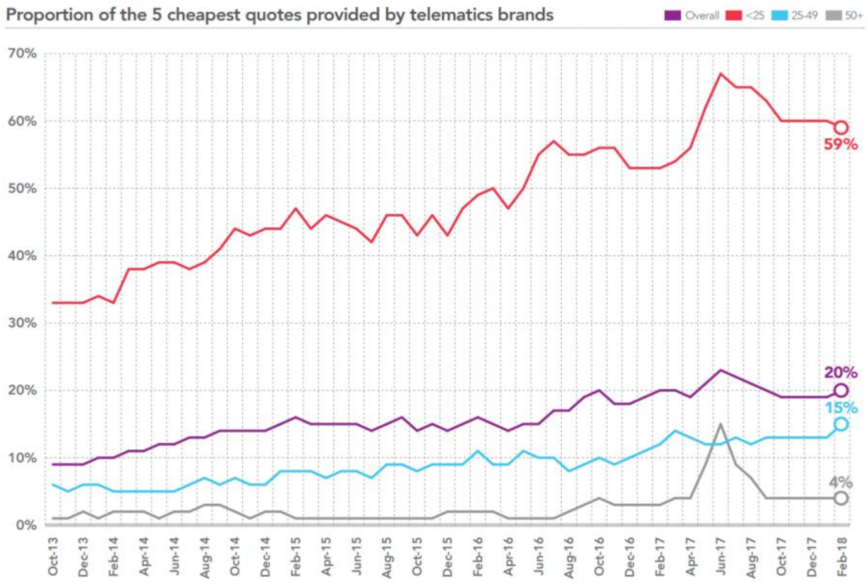
Telematics

Telematics

Telematic-based motor insurance policies continue to dominate the market for younger drivers, returning 59% of the top five cheapest quotes for the under-25s. This is 6% more than the same period 12 months ago and 26% higher since records began in October 2013.

The technology is increasingly being installed in older drivers' cars, too. Around 15% of the cheapest quotes provided to drivers aged 25-50 are now from telematic brands – a jump of 2% in the last month. For those aged 50 plus, just 4% of the cheapest quotes on the market are provided by telematic firms.



Just 4% of the cheapest quotes on the market are provided by telematic firms for those aged 50+.

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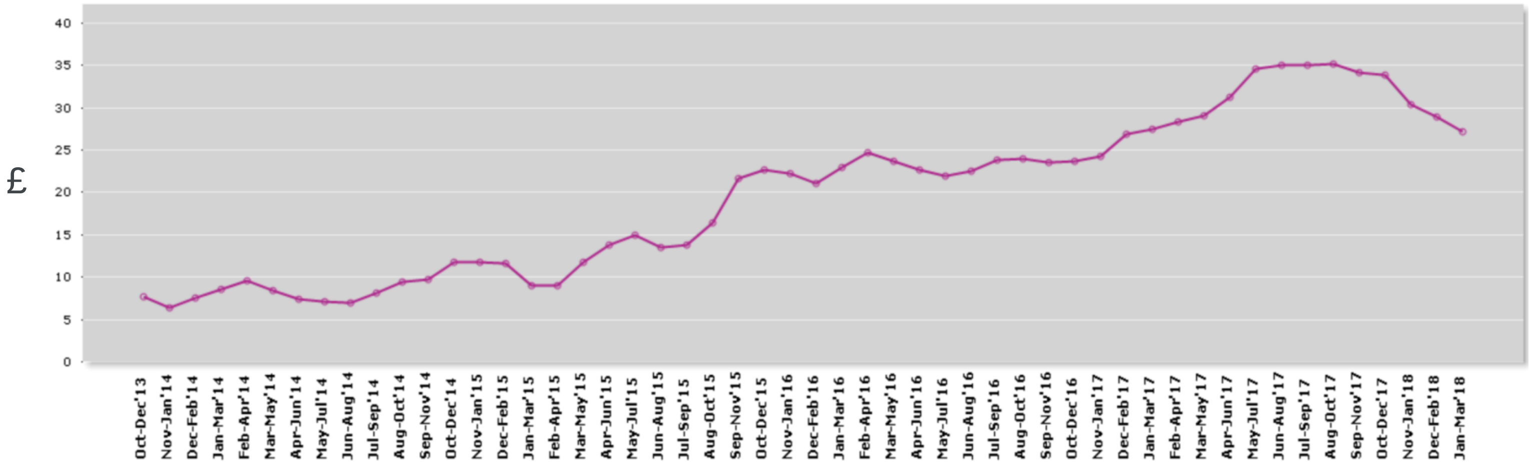
Renewal Pricing



Mirroring NB pricing at an overall level

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What is this all doing to Consumer Behaviour ?

- Both Motor Shopping and Switching rates are now in decline
- At the moment shop around rates are starting to fall from around 84% to 82% from the first part of this year compared to the same time previous
- Switching is also starting to reduce compared to the same period last year from 49% down to 47%
- After shopping around the main reasons consumers don’t switch are
  - Insurer offering a lower premium or matching the best quote found
  - Couldn’t get a cheaper quote coming up as the 2nd most common response.

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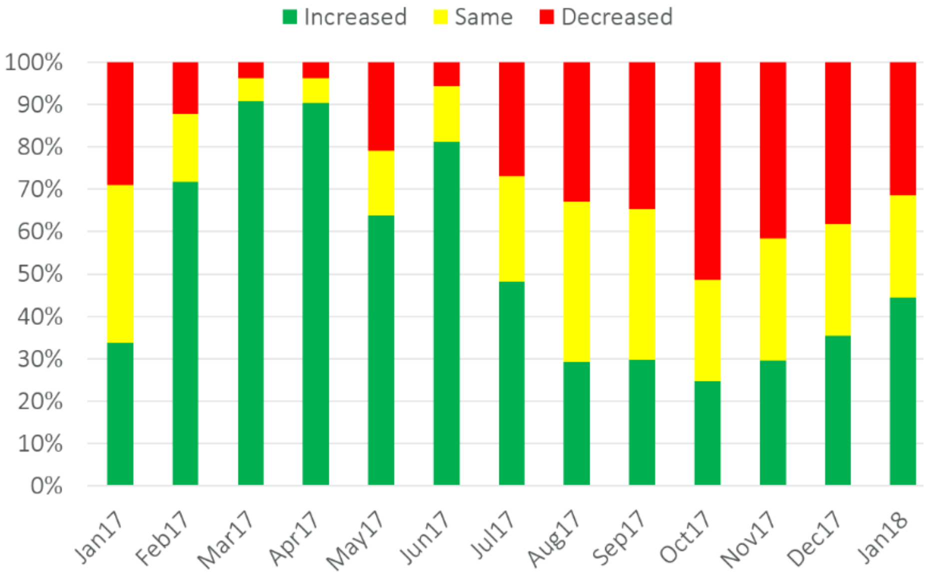
Changes In The Market

Ogden In Retrospect

- Rating volatility was the defining characteristic of the motor market in 2017. While premiums shifted no more than 3.5% in any month overall, we saw huge variance between brands, particularly in the second half of the year



Data from CompareTheMarket

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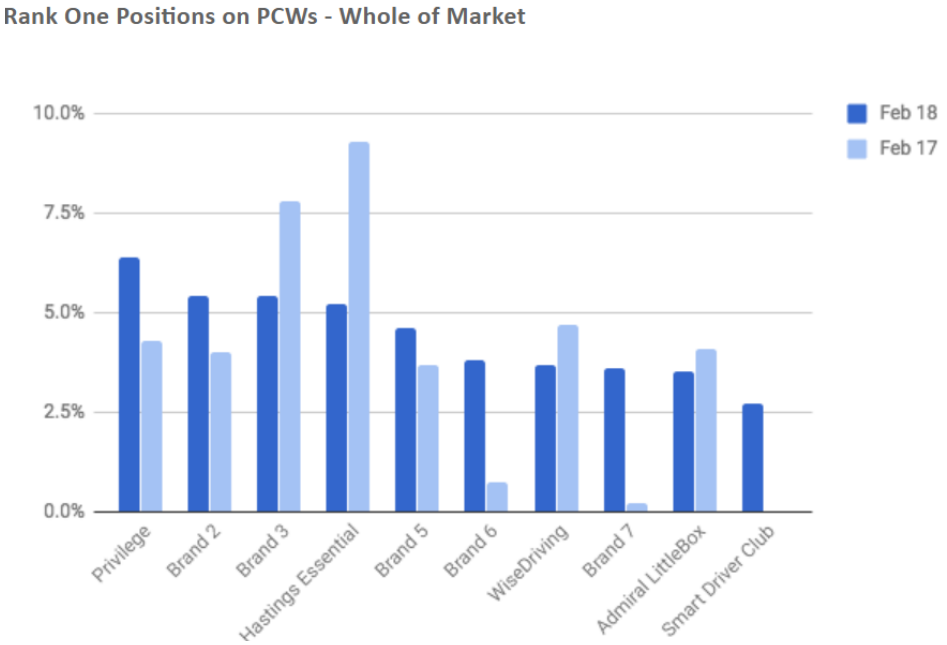
Ogden

- 7 of the most competitive 10 brands have remained the same. Privilege accounted for around 6.4% of rank one positions — a 2.1% jump from 4.3% in 2017
- As a group, the top 10 account for a smaller share of top rankings (45% vs. 51%) suggesting the marketed became more competitive overall.
- There is also much less daylight between the top 10, with the gap between first and tenth place falling sharply from 6.6% to 3.6%.
- Emergence of new player & telematics.
  - Smart Driver Club, with a 2.7% share of top rankings, appears in 10th place on our list.
- We see 2 other telematics brands in the top 10.
  - WiseDriving (7th, 3.7%) and
  - Admiral LittleBox (9th, 3.5%).
- Telematics products however made up fewer ranks year on year declining from 13% to 11 %.



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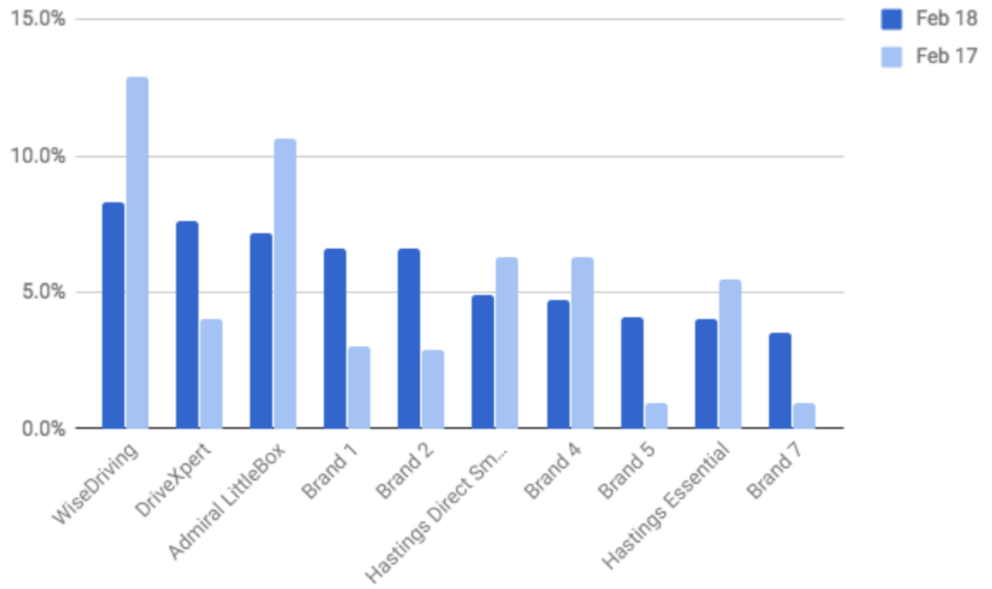
Ogden – Younger Ages

Rank One Positions on PCWs - Ages 17-24



- We see similar, but more pronounced impact at the demographic level. For those aged between 17 and 24, 8 of the top 10 brands are the same, with WiseDriving remaining in first place.
- As with the overall market, we see a far tighter spread between the largest brands, with less than 3.5% separating the top 10, compared to over 10% at the beginning of 2017.
- The overall contribution of the top 10 to total rank ones has fallen slightly from 59% to 57%, while the top 7 are all telematics players.
  - Smart Driver Club does not appear here, however, because it targets a slightly higher age group.

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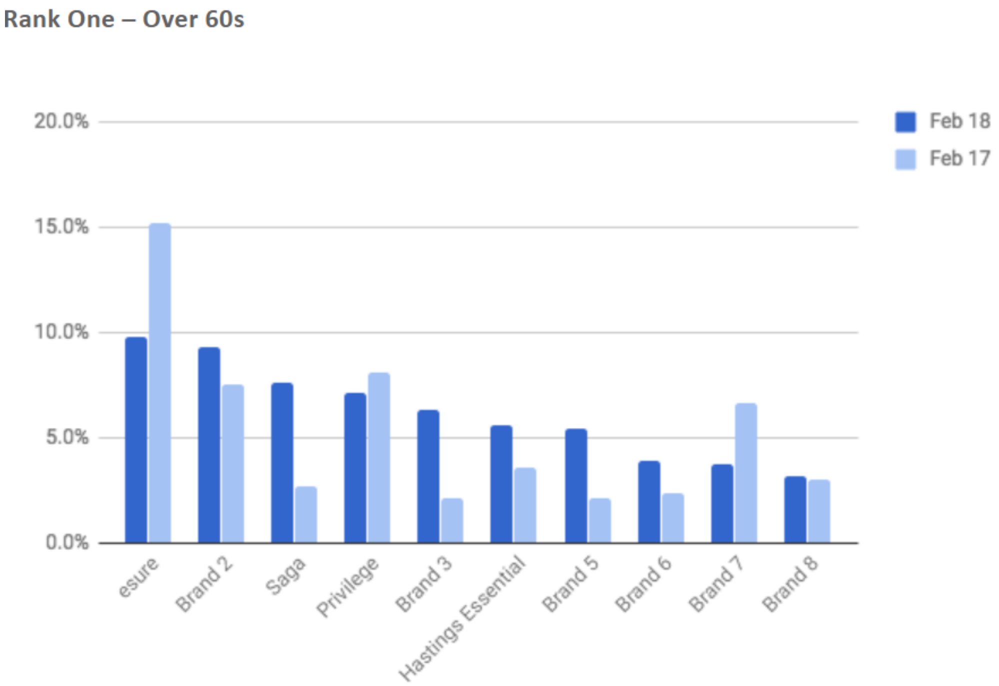
Ogden – Over 60s



- 6 of the top 10 brands (and 3 of the top 4) are the same compared to the same period in 2017, while the gap between first place and tenth has almost halved from 12% to 6.5%, ensuring a tight spread.
- Esure, which at the time reported a 25% rise in premium — and 36% jump in profit — as a result of expanding its motor footprint, remained the most competitive brand in the segment
- We also noted the resurgence of Saga, while Privilege maintains its strong position.
- Ogden may have caused enormous and cascading ripples in terms of rating action, but a year on the field was and is more tightly packed than ever.

Most Favoured Nation Clauses

- No surprise that consumers are not aware of this
- We have observed change in pricing strategies across different channels inline with the rulings
- In terms of shopping around before the MFN rulings the number of PCWS consumers used was on average 2 and is now on average 2
- This average can be misleading as we see a split between the numbers of people who just use 1 PCW and those that use 3 +
- As a result no change in behavior seen

Pricing Transparency post 1st April 2017

- Modest uptick in shop around at renewal at the time of the change increasing by 1% to 85%. For homeowners, the rise was a steeper 3% to 78%
- This included customers who had been with their previous insurer for a longer period. This group, which the regulator particularly thought needed an extra prompt, still shopped around far less than average, but they moved in the right direction.
- In motor 71% of customers who had been with their insurer for four years or over shopping around after 1 April, compared to 67 % before.
- The incumbents are did a good job of fighting back and hanging onto the customers who do shop around.
- In both cases, a slightly higher proportion of those who stayed reported that they had been offered a better price. Indeed, offering a better price to customers who went to the effort to shop around helped 46% of motor brands to hold onto customers they were at risk at losing.
- In other words, there are better deals for loyal customers — they just have to threaten to walk first.

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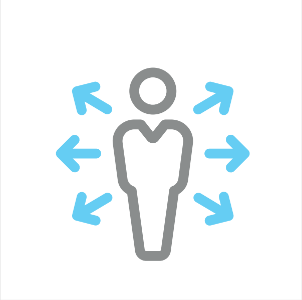
Horizon Scanning

Looking towards the future

- Horizon scanning is a proven methodology for spotting, interpreting and analysing emerging trends over a 1-5 year time horizon
- It's also a framework for identifying potential innovation opportunities and emerging risks

Some key trends we see impacting the consumer and the regulatory environment

- Personalisation
  - People increasingly want products and services customised to their individual requirements.
  - Risk pricing: a price based on someone who looks similar to “me” will no longer be sophisticated enough to win business.
  - Product: levels and types of cover will increasingly need to reflect what a person wants to insure, rather than what they don't
  - Communication: communication (through whatever channel) will need to be individual and personalised at every interaction



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Some key trends we see impacting the consumer and the regulatory environment

- The ‘race to insure only the insurable’
  - Increasing amounts of data allow Insurers to better assess a customer’s risk profile
  - This could lead to a higher risk individuals facing increasingly expensive premiums or the choice of fewer providers
  - This results in trend where the perceived 'good risks' receive more choice and more competition, whereas the perceived 'poor risks' become increasingly unable to afford insurance
  - **As a result the Regulator intervenes to ensure access to insurance for all**

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Some key trends we see impacting the consumer and the regulatory environment

- Micro / ‘on demand’ insurance
  - Connected with the sharing economy, on-demand insurance allows consumers to pay for just what they need when they need it for 'micro' policies that last a fraction of a traditional policy's duration.
  - The focus is on ‘ease of use’ and making the consumer experience frictionless
  - Insurance could become embedded in product rental / hire process
  - **This creates a risk that consumers are not aware of the level of cover or how to access it when required**

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Thank You For Listening