

Distribution

THE BATTLE FOR DISTRIBUTION DOMINANCE

The UK general insurance industry is undergoing a period of accelerated change and both providers and intermediaries will have to rethink their role, warns Mario Aristides.

The shape of the UK Insurance market is changing at a rapid pace. The direct insurers and 'affinity' distributors such as retailers, banks and car manufacturers are taking an increasingly large share of the personal lines market.

Over the past 15 years there's been a seismic shift in how personal lines business is distributed. In 1990 insurance intermediaries controlled the vast majority of business being placed in the UK insurance market. By 2005 over 75% of

insurance and may become the dominant force over the next five to 10 years. This growth of affinities, comparison sites and direct players has led to less advice and lower prices.

Does the customer really care so little for the value of the insurer brand, intermediary advice model and the quality of the product/service? Independent insurance intermediaries have a unique opportunity to offer the customer an added value advice model, which may become their saviour over the long term.

It's only a matter of time before commercial SME customers also fall under the gaze of affinity distributors and the direct insurers. The commercial lines market is already being squeezed by the intermediary networks, intermediary consolidators and 'super-intermediaries' and will therefore remain highly competitive, with too much distribution capacity chasing too few customers. However, unlike the personal lines market, independent intermediaries still control around 90% of the commercial distribution market.

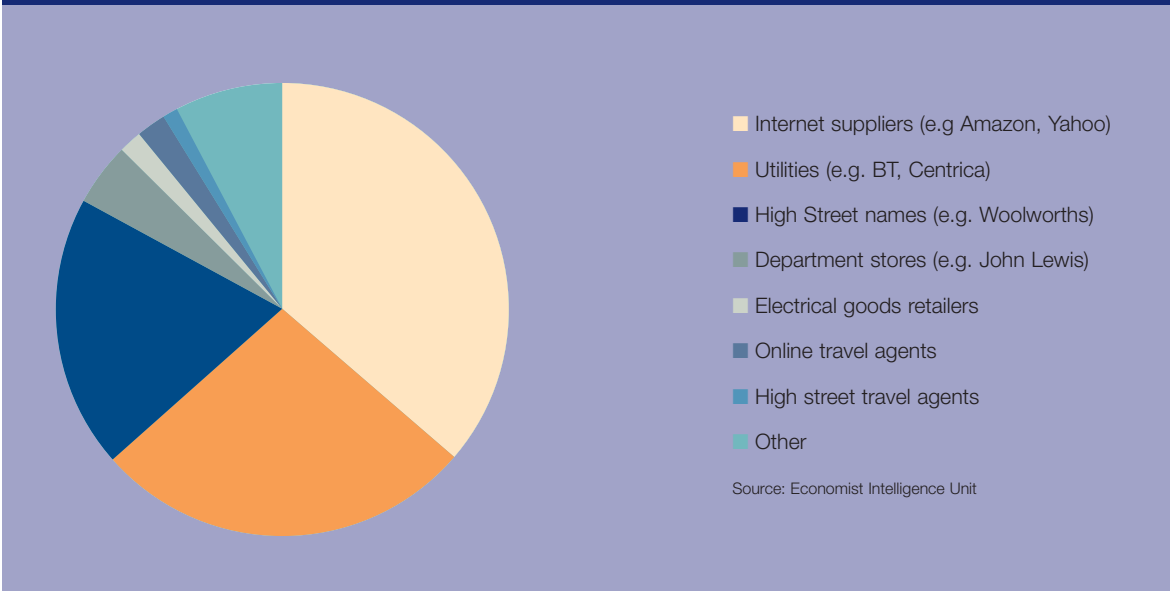
New entrants into the distribution of general insurance (e.g. in the past 12 months John Lewis, Halfords, ING, Liverpool Victoria, More Than Commercial and many others) will add increasing competition to an already highly competitive marketplace. In addition, other 'brand strong'

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personal lines business had shifted into the control of affinity distributors, large chains and the direct insurers.

The birth of aggregators/comparison sites over the past three years has taken the personal lines market into another new direction in the distribution of

Figure 1: Which of the following brands currently not involved in the insurance industry do you most fear entering the market?



organisations such as utilities, technology brands and trade/consumer organisations, are looking at the success of Tesco and others in distributing financial services products and may commit resources to developing their own propositions. It's an inevitability that not all will 'make it' and there will be casualties along the way.

The one constant will be the ability of many of these organisations to leverage the power of their brand to deliver low cost financial services distribution models, products and services to their customers, without the expenses of R & D, networks of sales teams or the burden of regulation and servicing infrastructure costs. The question is whether the customer will remain loyal to one brand or will they become more promiscuous in their buying habits and thereby create the massive issues that surround a 'churning' book of business and the inherent unprofitability that follows.

The evolving distribution market represents both threat and opportunity for the traditional insurer and intermediary. With more power in the control of fewer distributors, whether they're affinities, direct, networks or super intermediaries, many insurers are beginning to re-align their business models to both protect themselves and exploit the opportunities. The AXA 'vertical integration' strategy of controlling the supply, service and distribution chain provides an example.

The chart depicts the views of senior market leaders from within the insurance market and clearly reflects the views of many from within and outside of the industry.

Thinking differently

The task of moving into new markets represents a stretching challenge. Businesses will have to think differently and apply a more creative approach. But

having the idea and spotting a potential market gap is not enough. The collective skills, knowledge and competence in a business must be leveraged in order to achieve distinctive positioning in these new markets.

The challenge for the customer is to decide whether they want the lowest common denominator centred on price or do they want true value for money?

The challenge for insurers is to harness the power of their brand so that customers want to buy their products/services and distributors want to align their own brands in partnership. The challenge in distribution is for the affinities is to create a differentiated proposition that doesn't stretch their brand too far and for independent intermediaries to promote and evidence their unique 'advice model' and ability to source options from a much wider insurer supplier chain than the mono-line affinities or direct players.

There's an opportunity for each to find its place in the market but ultimately the customer will determine which model becomes the dominant force in the next 15 years. The challenge for the customer is to decide whether they want the lowest common denominator centred on price or do they want true value for money? □

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