PRIVATE MOTOR INSURANCE MARKET INVESTIGATION

Background to private motor insurance (insurers, brokers and price comparison websites)

Introduction

1. This working paper is in four parts:

   (a) The first part provides background information on the legal and regulatory framework underpinning the private motor insurance (PMI) industry.

   (b) The second part provides background information on the provision of insurance policies, including types of PMI and claims costs, information on each of the ten largest PMI insurers, costs of selling PMI and claims experience by channel, common measures of industry profitability, a high-level analysis of profitability, and a description of the bilateral agreements between PMI providers. The ten largest PMI insurers are: Admiral Group plc (Admiral), Ageas NV/SA (Ageas), Aviva plc (Aviva), AXA Insurance UK plc (AXA), CIS General Insurance Limited (CISGIL), Direct Line Insurance Group plc (DLG), esure Insurance Limited (esure), Liverpool Victoria Insurance Company Limited (LV), Royal & Sun Alliance Insurance plc (RSA) and Zurich Insurance plc (Zurich). We estimate that the top ten PMI insurers made up 64 per cent of the total UK PMI market in 2012. The information we set out on these insurers includes the type of each company, its distribution channels and brands used to sell PMI, its gross written premiums (GWP) and the number of policies sold in a year (as rough measures of size), and whether the insurer owns PMI-related companies such as brokers or a price comparison website (PCW). This information was gathered directly from insurers and is more up to date than the data on types of PMI and claims costs which we extracted from a 2012 Datamonitor report.[1]

[1] Datamonitor report: 'Personal General Insurance: UK Private Motor Insurance', published September 2012.

(c) The third part provides background information on PCWs, including customers' use of PCWs, business models and financial results, and information on each of the four largest PCWs as well as some of the smaller PCWs.

(d) The fourth part provides background information on brokers, including types of broker and distribution channels, market shares, and information, including financial data, on some of the major brokers.

Part 1—Legal and regulatory framework

Legal framework

2. Under the Road Traffic Act 1988 (RTA 1988), motorists are obliged to hold a valid insurance policy to cover 'third party' risks, ie the risk that they will cause death or personal injury to another person or damage to another person's property while driving and consequently have to pay damages. Third party motor insurance is the only form of motor insurance that is compulsory by law.

3. The legal framework governing motor insurance is currently being revised following national and European initiatives. For instance, as from 21 December 2012, any gender differentiation has been prohibited and insurers must offer 'unisex' premiums. According to the European Commission, this should not lead to an unjustified increase in overall prices but it is monitoring the implementation and its effects.[2]

Regulatory framework

4. Partially in response to the financial crisis, UK and EU authorities have also taken several initiatives to amend the institutional and regulatory framework of insurance regulation.

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[2] Guidelines on the application of Council Directive 2004/113/EC to insurance, in the light of the judgment of the Court of Justice of the European Union in Case C-236/09 (Test-Achats), *OJEU*, 13 January 2012, (2012/C 11/01).

5. Until 31 March 2013, regulation of the insurance industry in the UK was carried out by the Financial Services Authority (FSA) under the Financial Services and Markets Act 2000 (FSMA). From 1 April 2013, the FSA was abolished and, under the terms of the Financial Services Act 2012 (which amended FSMA, the Banking Act 2009 and the Bank of England Act 1998), insurance companies are now regulated by two new regulatory institutions.

   (a) The Prudential Regulation Authority (PRA), which is part of the Bank of England, is responsible for the prudential regulation and supervision of insurers, which includes the authority to grant and, in specific circumstances, to vary or cancel permissions to carry on insurance business and to require the maintenance of adequate financial resources (prudential supervision).

   (b) The Financial Conduct Authority (FCA) regulates insurance firms for conduct purposes. This includes the authority to ensure that regulated firms treat customers fairly as well as to investigate marketing, sales, claims and complaint handling practices (conduct of business supervision).

6. An insurer providing motor insurance cover in the UK will fall within this regulatory framework.

7. One of the principal regulatory objectives in the regulation of insurance companies is the protection of policyholders and third party claimants, rather than shareholders or general creditors.

8. In 2009 the EU revised the current supervisory framework by adopting a new legislative framework for the banking industry (Basel III) and insurance industry (Solvency II). The new Solvency II regime is likely to enter into force by 1 January 2014 (unless the date should be postponed at EU level). The provisions of Solvency II would therefore need to be transposed into UK law (and be in force) by 1 January 2014.

9. The changes brought by Solvency II will entail, among other things:

(a) a new, more sophisticated, approach to risk and capital requirements, requiring valuations to be done in a prudent and market-consistent manner;

(b) higher standards of risk management and governance;

(c) increased supervision powers for authorities, eg increased powers to challenge firms on risk management issues; and

(d) increased disclosure and reporting requirements.

10. According to some analysts' commentaries on the capital requirements of Solvency II, this regime could increase consolidation in the insurance industry, since costs of compliance for smaller insurers may become prohibitive, and smaller insurers with limited diversification of risk may need to hold relatively more capital than larger, more diversified insurers.

11. In 2010 the European Insurance and Occupational Pensions Authority (EIOPA) was created. EIOPA is responsible for monitoring the insurance industry as a whole and for facilitating collaboration between national authorities.

Part 2—PMI insurers

Types of PMI

12. As outlined in paragraph 2, the RTA 1988 requires that insurance against liability for death or injury to third parties, as well as damage to property of third parties, is obtained before a vehicle can be driven. This type of insurance is commonly known as third party only, or non-comprehensive insurance. In addition to the risks which are compulsorily insurable, risks covering fire and theft are often covered ('third party, fire and theft'). However, the most commonly sold type of PMI is comprehensive insurance, which also covers damage caused to the insured's own vehicle and the insured's own medical expenses arising from an accident. Over 90 per cent of PMI

GWP in 2011 related to comprehensive policies.[3] Comprehensive cover may also provide extra benefits such as a temporary courtesy car, roadside assistance, or windscreen repair or replacement, but these may not be standard. If these extra benefits are not standard, they may be sold as add-ons to the basic cover.

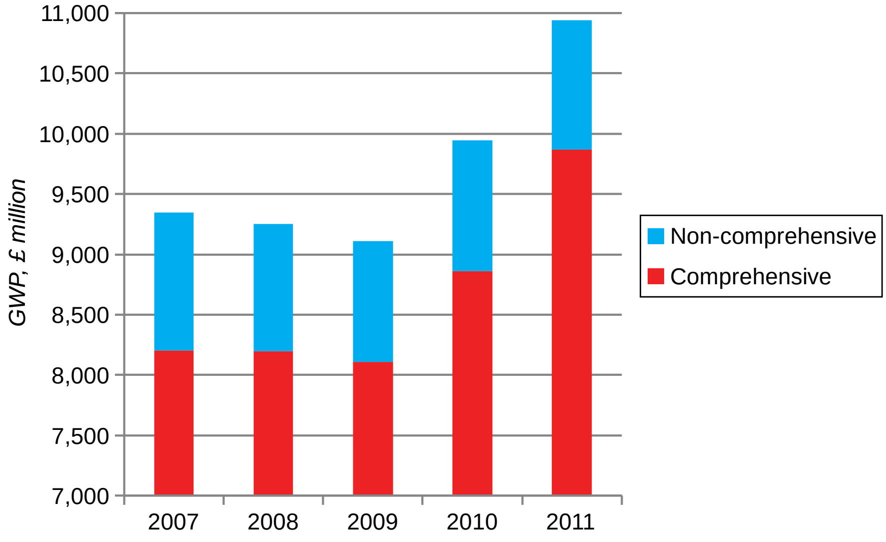
13. The proportion of non-comprehensive policies written has declined year on year since 2007. Insurers told us that high competition in the comprehensive insurance market and the knock-on effect on pricing had rendered non-comprehensive products obsolete for many customers. Insurers told us that they had also sought to limit their risk exposure as, historically, non-comprehensive policies, being most popular with young and/or newly-qualified drivers, accounted for greater underwriting losses. In particular, these policies do not prevent insurer exposure to third party personal injury, which has represented an increasing cost for insurers recently (see paragraph 17).[4]

14. Figure 1 shows total industry GWP split between comprehensive and non-comprehensive policies, 2007 to 2011.

[3] Source: Datamonitor 'UK Private Motor Insurance 2012, Table 1, p30.
[4] ibid, p31.

FIGURE 1

Split of GWP between type of policy, 2007–2011



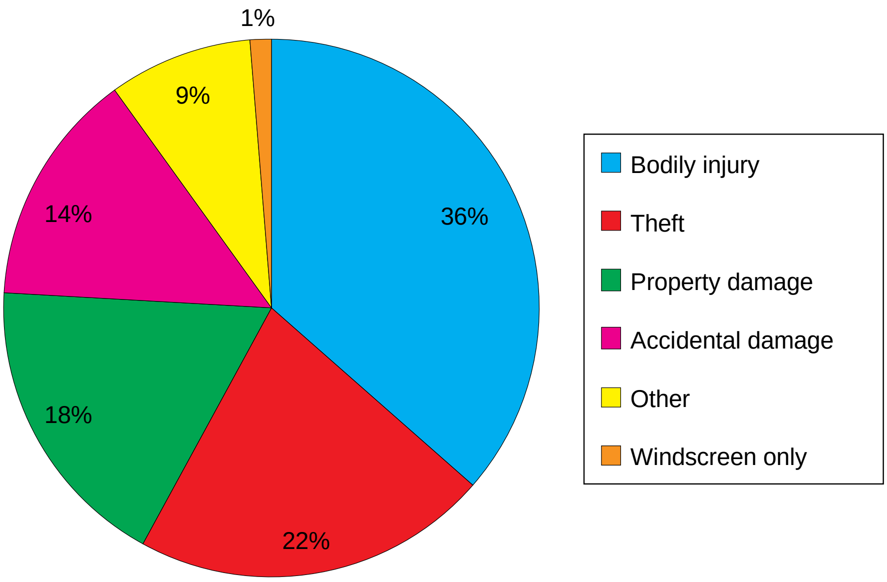
Source: Datamonitor.

Claims

15. Figure 2 presents an analysis of claims costs in 2010.

FIGURE 2

Claims costs, 2010

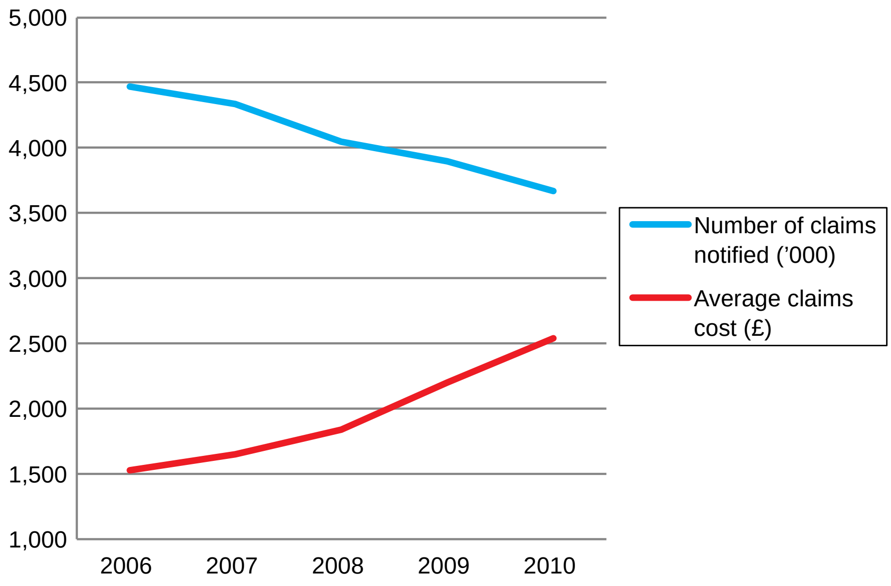


Source: Datamonitor, ABI.

16. Claims incurred amounted to £9.3 billion in 2010, which was an increase of 9 per cent on 2009. Claims costs have been rising year on year since at least 2006, which is despite a fall in the number of claims over the same period. The average costs of a claim rose from £1,527 in 2006 to £2,541 in 2010. Figure 3 shows the number and average cost of claims over the same period.

FIGURE 3

Number and average cost of claims, 2006–2010



Source: Datamonitor.

17. More than one-third of claims costs in 2010 related to personal injury, of which 70 per cent was estimated to be due to whiplash injury claims. While the average cost of a motor insurance claim rose by £219 between 2006 and 2010, the average cost of a personal injury claim rose by £906.

18. Accidental damage made up only 14 per cent of total claims costs in 2010, with the average payout of this type of claim being £1,379. Theft claims reduced between 2006 and 2010.

Background information on each of the ten largest PMI insurers

Introduction

19. In this section we present some background information on the ten largest PMI insurers: the type of company; its distribution channels and brands used to sell PMI; its GWP and average number of policies in the year (as rough measures of size); and whether the insurer owns PMI-related companies such as brokers, a PCW, etc.

20. All ten of the largest PMI insurers supplied us with information on their GWP and their average number of policies for each of the five years ended 31 December 2008 to 2012.

21. Table 1 shows the ten largest PMI insurers' GWP, average number of policies in 2012, and average GWP per policy.

TABLE 1 **GWP, average number of PMI policies, and GWP per policy, 2012, for the ten largest insurers**

	2012 GWP £m	*Average number of policies in year*	*Average GWP/policy £*
DLG	[✂]	[✂]	[✂]
Aviva	[✂]	[✂]	[✂]
LV	[✂]	[✂]	[✂]
Admiral	[✂]	[✂]	[✂]
AXA	[✂]	[✂]	[✂]
Ageas Insurance	[✂]	[✂]	[✂]
esure	[✂]	[✂]	[✂]
RSA	[✂]	[✂]	[✂]
CISGIL	[✂]	[✂]	[✂]
Zurich	[✂]	[✂]	[✂]
Total	[✂]	[✂]	**393**

Source: The ten largest insurers.

Share of the market estimated to be covered in this paper

22. From the figures provided by the ten largest PMI insurers, GWP totalled £[✂] in 2012. With an estimated total market size in 2012 of £10.9 billion,[5] we estimate that the ten largest PMI insurers represent about [✂] per cent of the total market. The

[5] 2011 GWP estimated in Datamonitor report, p30, based on ABI data; assuming GWP stayed flat between 2011 and 2012.

largest PMI insurer is DLG, which is responsible for almost a quarter of the sales made by the ten largest insurers. The GWP of the four largest PMI insurers accounted for [✄] per cent of the GWP of the ten largest insurers (and [✄] per cent of the estimated total market size in 2012), with a large drop in GWP between the fourth largest PMI insurer ([✄], with [✄] per cent of the total market) and the fifth largest insurer ([✄], with [✄] per cent of the total market).

Distribution channels

23. We asked the ten largest insurers to provide a split of their GWP and policies sold by sales channel for 2012.[6] All the insurers provided figures for new business but excluded renewals so the figures do not tie to the total GWP. Most insurers allocated sales to the original quote channel, regardless of the channel through which the sale was completed (eg if a quote was generated online but then completed by telephone, the channel designated for the sale was online). Some insurers also applied this approach with regard to renewals in subsequent years, where the designated channel for the renewal sale was that through which the original sale was made.

24. Overall, across the ten largest PMI insurers, over one-third of GWP was sold direct (telephone and online), with 31 per cent of GWP sold via brokers and nearly one-quarter of GWP sold via PCWs.

25. Table 2 shows the overall split of GWP and the number of policies sold across the top ten insurers by sales channel.

[6] Due to the timing of our request (shortly after year end), some providers were able to give us 2012 figures but other providers could only give us 2011 figures (all the providers have a December year end).

TABLE 2 **Split of GWP and number of policies by sales channel, 2011/12**

per cent

	Sales channel split	
	by value (GWP)	*by volume (number of policies)*
Direct—Internet	20	23
Direct—telephone	17	15
Brokers	31	32
PCWs	24	21
Retail p'ships	2	2
Banks/building societies	1	1
Other	6	7
Total	**100**	**100**

Source: CC calculations based on data provided by the parties.

The ten largest PMI insurers

Admiral

26. Admiral launched in 1993 and floated on the London Stock Exchange in 2004 (it is currently a FTSE 100 company). It specializes in car insurance and does not sell other types of insurance.

27. Admiral operates 13 brands in seven countries. In the UK its brands are Admiral, Bell, Diamond, and Elephant.co.uk.

28. Admiral also owns Confused, one of the four largest PCWs, which was launched in 2002.

29. In 2012, Admiral's total PMI GWP was over £1 billion, making it the fourth largest PMI insurer in the UK. Over 80 per cent of its sales are made via PCWs; its other sales channels are direct (own websites) and direct (own call centres).

Ageas

30. Ageas is an international insurance group ranked among the top 20 insurance companies in Europe. Its activities are grouped in four geographic segments: Belgium, the UK, Continental Europe and Asia. Ageas operates partnerships in Belgium, the

UK, Luxembourg, Italy, Portugal, Turkey, China, Malaysia, India and Thailand and it has subsidiaries in France, Hong Kong and the UK. Ageas is the market leader in Belgium of individual life and employee benefits, as well as the leading non-life insurer through AG Insurance. Ageas employs more than 13,000 staff and has annual revenues of more than €21 billion.

31. In the UK, Ageas (UK) Limited is a provider of life and non-life insurance products. Ageas (UK) Limited owns a 50.1 per cent shareholding in Tesco Underwriting Limited.

32. Ageas Insurance has a different business model from the other ten largest PMI insurers as it does not have any of its own brands and does not sell directly to customers, typically selling through the brands of others. 89 per cent of its PMI policies are sold through brokers. It also sells through retailer partnerships (Age UK, General Motors, John Lewis, Lloyds Banking Group, Post Office Financial Services and Toyota). Ageas (UK) Limited owns a number of brokers: Ageas 50 Limited, Kwik-Fit Insurance Services Limited, Express Insurance Services Limited, The Green Insurance Company Limited, and UKAIS Limited.

33. In September 2012, Ageas (UK) Limited acquired Groupama Insurance Company Limited, boosting its presence in personal and commercial lines, and adding a million customers in the UK.

34. In 2012, Ageas Insurance's total PMI GWP was over £500 million, making it the sixth largest PMI insurer in the UK.

Aviva

35. Aviva is the UK's largest insurer and one of Europe's leading providers of life and general insurance. In the UK it provides home, motor, life and health insurance and annuities. The group was formed by the merger of CGU and Norwich Union in 2000. CGU came from the merger of Commercial Union and General Accident in 1998. It is a FTSE 100 company.

36. Aviva has three brands: Aviva, Quotemehappy (launched in August 2011) and General Accident (launched in April 2013). Aviva sells PMI via many distribution channels: direct, through brokers, corporate partners and PCWs (only using its Quotemehappy and General Accident brands). In 2012 approximately 50 per cent of its sales came from the broker channel.

37. Aviva also owns a vehicle repair company, Solus Accident Repair Centres (Solus), and a salvage company, bluecycle.com.[7] Solus carries out vehicle repairs, including collection and delivery, and the provision of courtesy cars. Solus also has some arrangements to carry out fleet repairs for the police and other repair networks. Bluecycle.com manages salvage, including collection, disposal and administration of vehicles.

38. Until September 2011 Aviva was also the owner of the RAC,[8] which it sold to Carlyle Group, a private equity group. Aviva continues to sell RAC breakdown cover to its customers and is an underwriter on RAC's panel of motor insurers.

39. In 2012, Aviva's total PMI GWP was over £1.1 billion, making Aviva the third largest PMI insurer in the UK.

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[7] Aviva has announced that bluecycle.com will be closed in August 2013.
[8] The RAC motoring organization no longer has any connection to its previous owners, the Royal Automobile Club.

AXA

40. AXA SA is a French global insurance group headquartered in Paris and quoted on the Euronext Stock Exchange. In the UK, AXA specializes in wealth management, insurance, and healthcare.

41. AXA sells PMI under two brands, AXA and Swiftcover, and through three channels: direct online (which is responsible for [✄]), via brokers (responsible for [✄]), and via PCWs (responsible for [✄]). It operates call centres but these are only to assist customers as it does not sell PMI by telephone.

42. In 2012, AXA's total PMI GWP was over £[✄] million, making it the fifth largest PMI insurer in the UK.

CISGIL

43. The Co-operative Group is the UK's largest consumer co-operative. It is owned by over 7.2 million consumers and approximately 80 independent co-operative societies. The Co-operative Group includes the Co-operative Banking Group, which in turn includes CISGIL, the general insurance company within the Group.

44. CISGIL sells PMI under only one brand, The Co-operative Insurance, but it sells three different PMI products through different sales channels: 'Car Insurance' is sold direct, both online and via telephone, 'ecoinsurance' is only sold via PCWs, and 'Young Driver' is sold only direct online.

45. In 2012, CISGIL's total PMI GWP was over £[✄] million, making it the ninth largest PMI insurer in the UK.

DLG

46. DLG is a leading general insurer and one of the largest PMI insurers in the UK. It also has businesses in Italy and Germany. Following an EU decision to separate DLG from the Royal Bank of Scotland Group plc as a condition of the bank receiving state aid, DLG floated on the London Stock Exchange in October 2012 where it has a FTSE 250 position. DLG is still 48.5 per cent owned by RBS, although RBS has committed to selling its entire shareholding by December 2014.

47. In personal lines insurance, DLG sells home insurance, breakdown cover, pet insurance, travel insurance, PMI and income insurance. Its commercial business also offers a range of products primarily targeted at small businesses.

48. DLG offers PMI through the Direct Line, Churchill and Privilege brands, and also through the brands of a range of partners, including Sainsbury's Bank, RBS Group, Prudential and PSA (Peugeot/Citroen).

49. DLG uses different channels for its different brands of PMI: Direct Line is available only over the telephone or online, not through PCWs; while Churchill and Privilege are sold through PCWs, as well as being available directly by telephone or online. DLG also uses its partnerships with retailers, banks, building societies and motor manufacturers. Across all its brands, over three-quarters of its sales are made direct (either online or by telephone).

50. DLG owns UK Assistance Accident Repair Centres Limited (UKAARC), which provides vehicle repair services, referred exclusively to it by DLG, through a network of 16 sites exclusively to DLG.

51. In 2012, DLG’s total PMI GWP was over £1.6 billion, making it one of the largest PMI insurers in the UK.

esure

52. esure only sells motor, home and travel insurance, and only to customers in England, Wales, Scotland and the Isle of Man. It was started in 2000 by the founder of Direct Line, and in 2010 was subject to a management buyout of the stake originally held by Halifax/HBOS and latterly Lloyds Banking Group. The company was floated on the London Stock Exchange in March 2013.

53. esure sells PMI under three brands: esure, Sheilas’ Wheels (launched in 2005 to female drivers only) and First Alternative. It sells through PCWs (over [✂] of its sales), and direct to customers via telephone and online. It does not distribute PMI through partnerships with retailers, banks/building societies or other distribution channels. In the past, esure provided PMI under the Sainsbury’s and Halifax brands in partnership with these companies but new business under these arrangements has now ceased.

54. esure launched an insurance broker at the end of 2011 under two brands: esure broker and Sheilas’ Wheels Broker. esure does not distribute PMI products through its insurance broking business but rather has a panel of other insurers which it believes complement esure’s position in the market, enabling the group to offer services to all possible customers.

55. esure owns 50 per cent of GoCompare.com Holdings Limited, the parent company of GoCompare.com Limited, one of the four largest PCWs. It told us that GoCompare was independent and operationally separate from esure.

56. In 2012, esure's total PMI GWP was over £400 million, making it the seventh largest PMI insurer in the UK.

LV

57. LV is the UK's largest friendly society[9] and a leading financial mutual. A mutual organization is owned by its members, with membership restricted to those who have certain types of policy, such as life insurance, or a retirement policy.

58. LV distributes car insurance through the full range of distribution channels: direct to customer (online or by telephone), affinity schemes, PCWs, corporate partners and brokers. The broker channel accounts for approximately half the policies sold by LV. It only sells PMI to customers in the UK.

59. LV sells PMI through three main brands: LV for direct sales, and both ABC Insurance and Highway Insurance for broker sales (Highway Insurance Group PLC was acquired by LV in 2008).

60. In 2012, LV's total PMI GWP was over £1.1 billion, making it the third largest PMI insurer in the UK.

RSA

61. RSA is a leading global insurance group and a FTSE100 company. In the UK it is the largest commercial insurer and one of the largest personal lines insurers.

62. RSA has three PMI brands. It sells PMI directly (through its More Th>n and eChoice brands) and also makes PMI sales through intermediaries including brokers (where

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[9] A friendly society is based on the principle of mutuality. Unlike a co-operative, members usually do not contribute to the capital of the organization by direct investment but derive their right to profits and votes through their customer relationship with the organization.

some PMI will be sold under the RSA brand) and affinity partnerships. More Th>n is an online and telephone service provider which sells the full range of RSA's personal insurance products, including PMI, while eChoice is only sold online (through a dedicated website launched in 2010) and is only a PMI brand.

63. RSA sells PMI through a wide range of distribution channels: directly, either online or by telephone; online via PCWs (representing [✂] per cent of its sales); via brokers; and indirectly through affinity partnerships (Ford and Volvo). In 2012, [✂] per cent of its PMI sales were made direct and [✂] of sales were made via PCWs, with [✂] its sales made via brokers. However, RSA told us that, in 2013, it expected to write [✂]. RSA uses 'branded' and 'non-branded' brokers:[10] branded brokers include AA, Brightside, Budget, Castlecover, Endsleigh, Kwik Fit and Swinton; non-branded brokers tend to be RSA-branded, with the cover based on RSA's own policy wording.

64. RSA group owns RSA Accident Repairs Limited (RSAAR) which trades under the name of Motor Repair Network Management. RSAAR operates through a network of approved garages and carries out some repairs at garages which it owns and which are staffed by its employees, known as Quality Repair Centres (QRCs), and which undertake repair work solely for RSA.

65. In 2012, RSA's total PMI GWP was over £[✂] million, making it the eighth largest PMI insurer in the UK.

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[10] A branded broker leverages its brand name, customer loyalty and possession of customer data to obtain cheap quotations. The AA Insurance, part of the AA roadside breakdown organization, is the UK's leading branded broker of PMI. It uses a 'Motor Insurance Deal Checker' system to compare insurance policies from a selected panel of over 15 insurers (including RSA). Other branded brokers include Kwik Fit Insurance (owned by Ageas), Endsleigh (owned by Zurich), BGL and RAC.

Zurich

66. Zurich is one of the world's largest insurance groups and is listed on the SIX Swiss Stock Exchange. In the UK, Zurich sells a range of general insurance products, including car, home, boat, and high net worth insurance, as well as life insurance products such as life cover, pensions and retirement products, and investments.

67. Zurich sells PMI through two main sales channels: nearly [✂] per cent of sales are made through brokers, with the remainder made through PCWs. It has not written new business through partnerships since 2010. A very small amount of PMI is sold directly online.

68. Zurich owns the broker Endsleigh Insurance (over which it acquired full control in 2007).

69. In 2012, Zurich's total PMI GWP was over £[✂] million, making it the tenth largest PMI insurer in the UK.

Vertical relationships (1): companies owned by the ten largest PMI insurers, which provide PMI-related services

70. Table 3 shows a summary of the companies owned by, or in the same group as, the ten largest PMI insurers, which provide PMI-related services on an exclusive or non-exclusive basis:

    (a) Three of the insurers own networks of vehicle repair centres. Each network carries out vehicle repairs exclusively for the PMI insurer which owns it.

    (b) Two of the four large PCWs are owned or part-owned by one of the ten largest PMI insurers (and a further PCW is owned by a large broker). The PCWs sell a wide range of PMI products on a non-exclusive basis.

    (c) Three of the ten largest PMI insurers also own brokers. These operate on a non-exclusive basis and appear to enable the PMI insurer to capitalize on its brand,

by attracting customers who do not necessarily fit its underwriting risk profile but who do wish to engage with the brand.

TABLE 3 **Summary of companies owned by, or in the same group as, the ten largest PMI insurers, which provide PMI-related services**

Admiral	PCW: Confused (100 per cent)
Ageas	Brokers: Ageas 50 Limited, Kwik-Fit Insurance Services Limited, Express Insurance Services Limited, The Green Insurance Company Limited, and UKAIS Limited
Aviva	Vehicle repairs: Solus Salvage auction: bluecycle.com*
AXA	None
CISGIL	Co-operative Legal Services
DLG	Vehicle repairs: UKAARC
Esure	PCW: GoCompare (50 per cent) Brokers: esure broker and Sheilas' Wheels Broker
LV	None
RSA	Vehicle repairs: RSAAR
Zurich	Broker: Endsleigh

Source: Responses from the insurers.

*Aviva has announced that bluecycle.com will be closed in August 2013.

Vertical relationships (2): companies providing contractual services to the ten largest PMI insurers

71. Almost all of the ten largest insurers have non-exclusive contracts with a range of companies which provide PMI-related services. These include PCWs, breakdown, claims investigation, delegated claims handling, temporary replacement vehicles (TRVs), vehicle repair, repair assessment, paint and parts, uninsured loss recovery, salvage, repair cost estimation, and windscreen repair.

72. We noted that [✂] agreements with vehicle parts suppliers, paint manufacturing companies or paint distribution companies.

Claims experience by channel

73. We asked the PMI insurers about the level of their claims in each of the channels they used to distribute PMI. The lower the level of claims experience (ie the lower the percentage claims/loss ratio), the more favourable the position for the PMI insurer. Of

the eight insurers which were able to provide us with data,[11] four told us that claims were generally higher for sales made via PCWs compared with sales made via other channels, as follows:

(a) Admiral told us that the claims experience in the first year of cover for policies purchased through PCWs was highest, followed by policies purchased over the telephone. Claims experience in the first year of cover was lowest for policies purchased online.

(b) AXA told us [✂]. Its total loss ratio[12] [✂].

(c) DLG told us that it experienced a slightly higher 'burn cost'[13] in 2012 on business generated through [✂], but this was likely to be a function of the slightly different demographic profile of [✂]. DLG also told us that, over the lifetime of the customer, business transacted through [✂][14][✂].

(d) esure provided data on claims showing that [✂].

74. However, we noted that the differences in claims cost appeared to be due to the mix/ demographic profile of customers buying through a particular channel, rather than the riskiness of the channel itself, as follows:

(a) Admiral told us that the mix of business was very different between the three channels, and that it was not entirely correct to use the figures as the basis for a fair comparison between the three groups. For example, the mix of customers coming through PCWs included a much higher proportion of young drivers, which in turn led to a much higher level of claims cost.

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[11] Two were unable to provide data at this stage: CISGIL and LV.
[12] Ultimate loss ratio is total forecast claims divided by total forecast premium expected to arise from a policy or class of business. Losses include those paid and notified and an estimate of those yet to be notified.
[13] Burn cost is effectively average claims cost per policy.
[14] Scored loss ratio is a prediction of loss ratio for business written, based on a statistically modelled view of claims cost divided by written premium.

(b) DLG told us that most of the differences in burn cost corresponded to differences in customer mix in ways that could be addressed through other rating factors (eg age) so were not necessarily a function of the channel.

75. The other four insurers had inconclusive data regarding the difference in their claims experience between their direct and PCW channels, as follows:

(a) Aviva only started selling policies via PCWs in 2011 and told us that the data was not representative.

(b) RSA provided data on burn cost as follows: direct website £[✂]–£[✂]; direct telephone £[✂]; broker £[✂]; PCWs £[✂]–£[✂]; and partnerships £[✂]–£[✂].

(c) Zurich provided data on burn cost as follows: direct website £[✂]; direct telephone £[✂]; broker £[✂]; and PCW £[✂]. It did not provide us with an average for direct sales.

(d) Ageas Insurance provided data for brokers and partnership channels but as it does not sell direct to customers it did not provide any information on this channel.

Common industry measures of profitability

76. We asked the PMI insurers to identify the common measures of profitability in the industry, and to state which ones they used.

77. We found that there are two key measures of profitability which are disclosed externally: the underwriting result and the combined operating ratio (COR).

(a) The underwriting result is calculated as earned premiums (net of reinsurance),[15] plus other income (including referral fees), less incurred claims (usually net of any rebates), earned commission and expenses, and excludes investment

[15] 'Reinsurance' is insurance purchased by an insurance company from one or more other insurance companies as a means of risk management. The function of reinsurance is to reduce an insurer's exposure to loss by passing part of the risk of loss on to a reinsurer.

income. As such it is focused only on underwriting activities and not investment activities.

(b) The COR expresses insurance outgoings as a percentage of premiums. Insurance outgoings are claims liabilities, commission payments and expenses. The lower the figure, the more profitable the business to the insurer, with any figure below 100 per cent meaning that the insurer is profitable on its underwriting activities (before investment income).

78. Other measures of profitability used by PMI insurers are as follows:

(a) Based on premiums received: GWP, net written premium (NWP) and net earned premium (NEP). Each of these measures is expressed as an absolute figure. GWP is the amount of premium written in the year, gross of reinsurance, and regardless of when it was accrued; NWP is GWP net of reinsurance; NEP is the amount of premium accrued during the year, regardless of when it was written, net of reinsurance.

(b) Based on profitability: (1) Return on capital/return on equity. This is typically profit after tax divided by total capital or equity capital, expressed as a ratio. (2) Profit before tax (also called portfolio insurance result, or technical or operating result). This is the underwriting result plus investment income, thus measuring all activities in the insurance business.

(c) Based on claims costs: (1) Claims ratio (or loss ratio). This is the claims cost as a percentage of premiums. (2) Underlying or normalized measure of claims costs. This is claims costs excluding very large individual claims, over a certain amount, eg very large personal injury claims. This is generally then used in the calculation of a normalized claims ratio.

(d) Based on expenses: Expense ratio. This is expenses as a percentage of premiums.

79. We also asked the insurers how they accounted for referral fees and rebates from other firms, and amendment and cancellation fees from customers. We found that rebates are generally credited against the cost of claims, while referral fees and amendment and cancellation fees are generally included in ‘other income’.

High-level analysis of profitability

80. The ten largest PMI insurers provided us with their financial data for the five years ended 31 December 2012, which we used to calculate their profitability. Across the five-year period, the unweighted average claims ratio was 84 per cent and the unweighted average expense ratio was 28 per cent, resulting in an unweighted average COR of 112 per cent. Therefore, on average over the period, PMI insurance activities alone were loss-making.

81. However, when investment activities are taken into account, PMI insurance activities were profitable, with income (including investment income) less total claims less total expenses (the underwriting result plus investment income) across all ten insurers over the five years totalling £1.8 billion.

82. Appendix 1 shows the claims and expense ratios and the COR, as well as the under-writing result plus investment income, for each of the ten largest PMI insurers over the last five years.

Part 3—Price comparison websites

Introduction

83. There are four large PCWs which allow consumers to compare and purchase PMI policies. These are:

(a) Comparethemarket (CTM);

(b) Confused;

(c) GoCompare; and

(d) MoneySupermarket (MSM).

Customer use of PCWs

84. PMI was the original focus of all four PCWs, though they all now offer many products, including other general insurance products (eg home, travel), financial products (eg personal loans, savings, credit cards) and other products (eg energy). [✂].

85. Customers who purchase PMI through a PCW access on average between one and two PCWs.

(a) Our survey of PMI policyholders found that respondents looked at, on average, 1.4 PCWs when they last compared insurance providers or policies, with 42 per cent looking at CTM, 45 per cent looking at GoCompare, 23 per cent looking at MSM, and 13 per cent looking at Confused (see the working paper ‘Survey report’). Our survey found that 13 per cent of respondents looked at other websites.[16,17]

(b) A 2012 Datamonitor survey found that, in 2012, CTM was the most popular PCW for customers purchasing PMI, with 67 per cent of those customers who accessed a PCW and who then went on to purchase through a PCW using CTM (see Figure 4).[18] The other three large PCWs had lower but roughly similar levels of usage (Confused: 49 per cent; GoCompare: 43 per cent; and MSM: 48 per cent). Datamonitor found that usage of PCWs outside the four large PCWs was limited, with only 5 per cent of consumers who went on to purchase through a PCW using another PCW.

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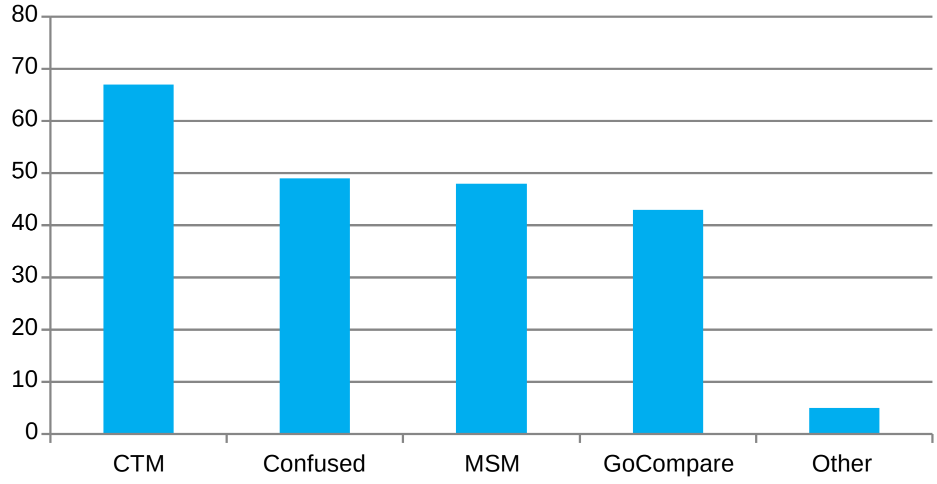
[16] The percentage of customers using various PCWs before purchasing PMI adds up to 140 per cent, implying that on average customers use 1.4 PCWs to search before purchase.
[17] PCWs included in ‘Other’ included Compare NI, Google, MoneySavingExpert, Quote Zone, Tesco Compare, uSwitch and several others.
[18] The percentage of customers using various PCWs before purchasing PMI adds up to 212 per cent, implying that on average customers use just over two PCWs to search before purchase.

FIGURE 4

Relative popularity of PMI-promoting PCWs, 2012

Q: Which PCW did you use?



Source: Datamonitor's General Insurance Consumer Survey 2012.

86. In Datamonitor's analysis, it records that, as of September 2012,[19] 55 to 56 per cent of new PMI business was being written by insurers through PCWs.[20] However, responses to Datamonitor's General Insurance Consumer Survey 2012 found that 23 per cent of consumers made their final purchase on a PCW, from a sample that included those renewing with the same insurer. We found that this latter figure was more in line with the figures provided to us by the ten largest PMI insurers regarding their GWP by sales channel, which suggested that, in 2012, 26 per cent by GWP and 28 per cent by number of policies were sold through PCWs (see paragraph 24). We noted that there was a large gap between the proportion of consumers using PCWs for research (around 77 per cent) and the proportion making a final purchase on them (around 20 to 30 per cent).

87. Datamonitor's 2012 report stated that annual revenue growth for the four main PCWs was in double digits in the period up to 2011, but has dipped recently to single digits.

[19] Datamonitor references this finding to 'aggregator experts' but does not specify who these aggregator experts are.
[20] Source: Datamonitor report: UK Private Motor Insurance 2012, p62.

88. Datamonitor's report stated that the growth of PCWs has had a significant effect on PMI providers' sales strategies by creating a more price-sensitive market, with consequent effects on the structure and pricing of policies, eg with less cover being included in the basic PMI product in order to produce a cheaper price. This drives the resulting headline quote, with more only being available as an add-on (known as 'hollowing out').

89. Across all the PMI insurers interviewed by Datamonitor, it appears that to grow market share, insurers need to achieve a position within the top three to five headline quotes on a PCW. Of consumers surveyed who purchased PMI from a PCW, 37 per cent selected the cheapest quote and 56 per cent selected a policy from within the top five but not the cheapest. Although showing the importance of a high ranking, this data also suggests that price is not the sole consideration for consumers when selecting a policy on a PCW, with product differentiation and brand also being important.

Business model and financial results

90. The business model for each PCW is a simple one: PMI providers pay the PCW a fee per sale (ie a cost per acquisition (CPA) fee) for each PMI policy sold which was introduced by the PCW.

91. Since the content offered by PCWs is provided by PMI providers which sell through multiple channels, it is unlikely to be unique, and thus each PCW is compelled to build a distinct brand identity to differentiate itself from other PCWs and to attract consumers to its website. As a result, PCWs spend heavily on advertising.

92. Datamonitor's report stated that all four of the large PCWs were among the top ten PMI advertisers in 2011, with all of them pursuing advertising campaigns focused on

television advertising. This medium represented between 90 and 99.99 per cent of their advertising spend. All of the four large PCWs told us that they did not promote PMI to any particular consumer demographic.

93. PCW's costs are mainly advertising/marketing, and creating/maintaining their websites. Confused told us that the large majority of its costs were direct in nature and related to the build, maintenance, development and promotion of the PCW. GoCompare told us that media costs (online and offline) constituted around 90 per cent of its costs. Both of these PCWs told us that, given the level of income from PMI, most media costs were attributed to PMI. CTM told us that [✄]. CTM said that [✄].

94. Table 4 presents a summary of the financial results for the four large PCWs. Since non-PMI-promoting activity is also carried out by all four companies, these results overstate the size of the PMI business. None of the four companies has to report publicly their PMI-only activities but the turnover for each PCW relevant to PMI is shown in the bottom half of the table. None of the four PCWs show PMI-only operating profit in their management accounts. We discuss the PCW's PMI-only profitability in our working paper 'ToH 3: Horizontal concentration in PCWs'.

TABLE 4 **Summary financial results of the four largest PCWs**

Company	*Confused*		*CTM*		*GoCompare*		*MSM*	
	2011	*2010*	*2011*	*2010*	*2011*	*2010*	*2011*	*2010*
Turnover (£m)	[✄]	[✄]	[✄]	[✄]	[✄]	[✄]	[✄]	[✄]
Op profit (£m)	[✄]	[✄]	[✄]	[✄]	[✄]	[✄]	[✄]	[✄]
Op profit (%)	[✄]	[✄]	[✄]	[✄]	[✄]	[✄]	[✄]	[✄]
PMI only								
Turnover (£m)	[✄]		[✄]		[✄]		[✄]	
Turnover as a % of company turnover	[✄]		[✄]		[✄]		[✄]	

Source: PCWs' published reports and accounts; and management accounts.

95. Three of the four large PCWs were able to provide us with some of their key performance indicators (KPIs) for their PMI-only PCW business on a similar basis, as

shown in Table 5. Conversion is calculated as the ratio of PMI policies sold to the number of unique customer quotes.

TABLE 5 **KPIs for the three of the four largest PCWs**

	Confused	*CTM*	*GoCompare*
Fee per policy sold (£)	[✂]	[✂]	[✂]
Unique customer quotes (m)	[✂]	[✂]	[✂]
Number of PMI policies sold	[✂]	[✂]	[✂]
Conversion (%)	[✂]	[✂]	[✂]

Source: PCWs' published reports and accounts; and management accounts.

Note: MSM [✂]

The four large PCWs

Comparethemarket

96. CTM is an independent division of BISL Limited (BISL), which is part of the privately owned BGL Group.

97. PMI makes up [✂] of CTM's PCW business [✂].

98. CTM is [✂] CTM generated turnover of £[✂] from PMI in 2011. Its average income per sale was £[✂].

99. CTM told us that it considered its closest competitors to be the other three large PCWs, plus Google and Tesco Compare which were of lesser but increasing significance.

Confused

100. Confused is a wholly-owned subsidiary of Admiral. It promotes and compares a wide range of general insurance and finance products. It was launched in 2002, starting with PMI, and added its home insurance comparison service in 2005.

101. On PMI turnover alone, Confused is the [✂] of the four large PCWs, having generated £[✂] turnover from PMI in 2011. This represented [✂] per cent of its total turnover. Its average income per sale was £[✂].

102. Confused told us that it considered its closest competitors to be the other three large PCWs, plus Google.

GoCompare

103. GoCompare is 50 per cent owned by esure.[21] GoCompare told us that it was operated independently of esure and no executive management was shared.

104. GoCompare provides comparison services for other insurance products including home, motorbike, van and pet. It also has a number of 'white label' agreements for the provision of other products, such as travel insurance, utilities, and business/ landlord insurance.

105. On PMI turnover alone, GoCompare is the [✂] of the four large PCWs, having generated £[✂] turnover from PMI in 2011. This represented [✂] per cent of its total turnover. Its average income per sale was £[✂].

106. GoCompare told us that it considered its closest PCW competitors to be the other three large PCWs, Tesco Compare and Google.

MoneySupermarket

107. MSM was founded in 1999 and provides comparison services for a range of products including insurance, financial services and non-financial services. MSM is wholly

[21] Via GoCompare.com Holdings Limited.

owned by Moneysupermarket.com Group Plc, which is a FTSE-250 listed company. The group also owns Moneysavingexpert.com which is a financial journalism website.

108. MSM is structured into four ‘verticals’: money, insurance, home services and travel. Other than PMI, MSM provides comparison services for a wide range of insurance products: home, travel, life, mortgage protection, income protection, breakdown, motorbike, business, and van. MSM also provides comparison services for a wide range of products, both financial and non-financial: travel, energy, mobile phones, shopping, and broadband, as well as offering promotional deals and vouchers. MSM appears to offer the widest range of product comparisons of the four large PCWs.

109. On PMI turnover alone, MSM is the [✂] of the four large PCWs, having generated £[✂] turnover from PMI in 2011. This represented [✂] per cent of its total PCW business.

110. MSM told us that it considered its closest competitors to be the other three large PCWs, as well as Tesco Compare, Google, Tiger, Quotezone, Moneyexpert, Uswitch, Lovemoney, Quidco, and Soswitch. This longer list of competitors appears to be because of MSM’s wider product range than the other three large PCWs.

Other PCWs

Google and Tesco Compare

111. We asked the four large PCWs which PCWs they considered to be their closest competitors. All four cited the other three large PCWs but three out of the four PCWs also mentioned Google and Tesco Compare. Google launched its current PMI price comparison service in the UK in September 2012 following its acquisition of Beatthatquote in March 2011, a company which was founded in 2005. Tesco

Compare launched its PMI price comparison service in September 2007, initially as a 50:50 joint venture with the Royal Bank of Scotland, though in 2008 Tesco bought the business in its entirety.

CompareNI

112. CompareNI is a PCW operating only in Northern Ireland. It is part of Seopa Ltd, founded in 2003, and is still owned 100 per cent by its founder. Although originally focusing mainly on search engine optimization for the insurance industry, Seopa Ltd began to expand into the creation of price comparison technologies soon after incorporation. The company started price comparison activities in the UK with Quotezone and developed CompareNI in 2008/09.

113. CompareNI's primary revenue stream is from PMI, where it earns CPA fees and click-through fees generated from customers clicking on adverts placed on its website. The company includes links to others websites in order to give consumers a route to some of those PMI providers which do not participate on PCWs. Since 2008, CompareNI has also provided consumers with the telephone numbers of the brokers which quote on its site so that they can purchase their insurance over the phone or find out more details about the policy if they wish.

114. Table 6 summarizes CompareNI's financial performance [✄].

TABLE 6 **Summary financial results for CompareNI,** [✄]

	[✄]	[✄]	[✄]
Company			
[✄]	[✄]	[✄]	[✄]
[✄]	[✄]	[✄]	[✄]
[✄]	[✄]	[✄]	[✄]
PMI only			
[✄]	[✄]	[✄]	[✄]
[✄]	[✄]	[✄]	[✄]
[✄]	[✄]	[✄]	[✄]
[✄]	[✄]	[✄]	[✄]
[✄]	[✄]	[✄]	[✄]
[✄]	[✄]	[✄]	[✄]

Source: CompareNI management accounts.

Note: [✄].

Part 4—PMI brokers

General

115. Insurance brokers are on the retail side of the industry, acting as an intermediary between their customers and insurance companies, and using their knowledge of risks and the insurance market to find and arrange suitable policies. They usually offer products from more than one insurer. Some insurers only distribute PMI policies through brokers and partners (eg Ageas Insurance).

116. 'Insurance broker' became a regulated term under the Insurance Brokers (Registration) Act 1977 which was designed to thwart the bogus practices of firms presenting themselves as brokers but in fact acting as representative of one or more favoured insurance companies. The term now has no legal definition following the repeal of the 1977 Act. However, the sale of general insurance (which includes PMI) has been regulated by the FSA (now the FCA) since 14 January 2005. Any person or firm authorized by the FCA can call themselves an insurance broker.

117. On the whole, insurance brokerage is largely associated with general insurance (motor, house, etc) rather than life insurance. Following more onerous FSA regulation in 2001, a more transparent regime was created based predominantly on up-front negotiation of a fee for the provision of advice and/or services. This saw the splitting of intermediaries into two groups: general insurance intermediaries/brokers and independent financial advisers (IFAs) for life insurance, investments and pensions.

118. In most cases, brokers receive their income from commissions and charges relating to the arrangement, sale and administration of insurance. Sometimes brokers may also be involved in the handling of their customers' claims.

Types of PMI broker and distribution channels

119. Brokers carry out varying amounts of activity on behalf of the insurer: the ‘traditional’ broker simply sells insurance on behalf of the insurer but all post-sale servicing, including claims handling, is transferred to the insurer; the ‘intermediary’ broker carries out more work by receiving delegated authority from a panel of insurers to sell PMI policies, and may also carry out post-sale servicing, including claims handling.

120. Brokers use a range of distribution channels, including traditional high street branches, telephone and online, including PCWs.

121. Brokers appear to be categorized into three main types: specialist, traditional and online direct, although we note that some brokers can fall into more than one category:

(a) Specialist brokers use PCWs and sell direct (by telephone and online). Examples of these types of brokers are Ageas Retail and BISL.

(b) Traditional brokers use branches, telephone and online channels, and affinity partnerships (‘white label’ agreements). Examples of this type of broker are Swinton and Endsleigh. An affinity partnership combines an insurer (or panel of insurers) and a well-known brand which is used to market and sell the insurance policy, eg M&S, Post Office, and Auto Trader. Affinity deals can be effective for targeting specific customer segments, cross-selling, and for achieving brand power.

(c) Online direct brokers use Internet and social media distribution channels only and tend to be smaller. We do not examine any of the online direct brokers in this paper.

122. Disintermediation has been a general trend in the insurance market in the last 20 years, with the traditional broker model replaced by more direct sales by insurers,

using both telephone and online channels. However, competition between direct and broker businesses has been significantly blurred by the expansion of PCWs as consumers arranging insurance through such sites are presented with a range of insurance brands, largely unaware of whether or not the policy is being arranged through a broker or directly with the insurer.

Market shares—general insurance brokers

123. Insurance Age estimated in 2010 that brokers were responsible for 35 per cent of the personal lines market,[22] defining 'personal lines' as all general insurance in the UK, excluding private healthcare, property investor and extended warranty.

124. Insurance Age estimated that there were over 2,000 personal lines brokers in the UK, with the top 10 responsible for £5.6 billion of GWP, the top 50 responsible for £7.4 billion of GWP, and the remaining 2,000-plus brokers responsible for a further £1.4 billion. With a few large brokers and many small brokers, there is significant polarization between the large and small players in the market.

125. Insurance Age found that average revenues in 2011 for personal lines brokers were 28 per cent of premium income, down from 30 per cent in the previous year. These revenues consist of commission income from the sale of insurance policies and non-commission income (for example, referral fees). It found that there appeared to be some pressure on profits, for example with referral fees reducing and fees to PCWs increasing. We noted that the success of brokers appears often to depend on their ability to generate non-commission income, which can be more than commission income.

[22] 'Top 50 Brokers in Personal Lines' published by Insurance Age, 2012.

126. Around 25 per cent of the personal lines broker market is accounted for by insurer-owned brokers, eg Ageas, Endsleigh and Swinton.[23]

Market shares—PMI brokers

127. Datamonitor reports that around one-third of PMI business in 2011 was sold through brokers,[24] with brokers ranging from small, high street operations to large national companies. Although the direct channel still accounts for the largest share of PMI policies (42 per cent in 2011), this share has fallen. Datamonitor attributes this decline to brokers adapting to a PCW-defined market, taking advantage of a cost-effective route to market and gaining exposure to a wide potential customer base, as well as the success of affinity partnerships. Datamonitor suggests that smaller brokers have benefited from the level playing field created by a price-driven, commoditized product. Datamonitor also finds that, while price is the dominant purchasing consideration for consumers, branding still remains critical for a majority of policies sold (see paragraph 89).[25]

128. We noted that there is significant demand for non-standard insurance, which brokers may be well-placed to provide. We noted, for example, that Groupama Insurance Company Limited (owned by Ageas (UK) Limited, since November 2012) had opted to shift its focus away from standard PMI towards specialist lines, with [✄] per cent of its PMI book classified as non-standard.

Information on selected PMI brokers

129. We chose a range of large brokers to examine in more detail, including those linked to insurers, an independent and one linked to a PCW, as follows:

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[23] Source: Insurance Age.
[24] Datamonitor report: 'Personal General Insurance: UK Private Motor Insurance', published September 2012, stated that 36 per cent of PMI business in 2011 was through brokers. The figures we collated from the top ten insurers showed that 30 per cent of PMI by GWP and 28 per cent by number of policies was sold through brokers in 2012.
[25] Datamonitor's General Insurance Consumer Survey 2012.

(a) Acromas (AA and Saga) (insurer-owned);

(b) Ageas Retail (insurer-owned);

(c) BISL (independent of any insurer; owns a PCW (CTM));

(d) Endsleigh (insurer-owned); and

(e) Swinton (insurer-owned).

130. Table 7 summarizes the PMI income of these five brokers.

TABLE 7 **PMI income for five brokers**

	Year ended	*£m*
Acromas		
AA	January 2012	[✂]
Saga	January 2012	[✂]
		[✂]
Swinton	December 2012	[✂]
Ageas Retail	December 2012	[✂]
Endsleigh	December 2012	[✂]
BISL (Frontline only)	[✂]	[✂]

Source: Parties' management accounts.

Acromas: AA and Saga

131. Acromas Insurance Company Limited (AICL), part of the Acromas Group, is one of the panel insurers for the AA and the sole provider of PMI to Saga. The AA and Saga are brokers. AA and Saga are managed separately so we discuss them in turn.

AA

132. Automobile Association Insurance Services Limited (AAISL) brokers PMI through two brands: AA Car Insurance and AA Drivesafe Insurance (the latter being the AA's telematics offering).

133. The AA also sells and administers a range of general insurance products, including home and breakdown assistance.

134. The AA [✂].

135. The AA told us that [✂].

- *Financials*

136. Table 8 summarizes the financial performance of the AA's PMI broking business for the last three years to January 2012.

137. Sales and GWP [✂]. Commission and contribution per policy [✂].

TABLE 8 **Summary financials, AA, for the three years ended January 2012—PMI only**

PMI only	*Years ended January*		
	2012	*2011*	*2010*
Sales (£m)	[✂]	[✂]	[✂]
Contribution (£m)*	[✂]	[✂]	[✂]
Contribution (%)	[✂]	[✂]	[✂]
Marketing costs (£m)	[✂]	[✂]	[✂]
Total policies	[✂]	[✂]	[✂]
GWP (£m)	[✂]	[✂]	[✂]
Average per policy (£):			
GWP	[✂]	[✂]	[✂]
Commission	[✂]	[✂]	[✂]
Contribution*	[✂]	[✂]	[✂]
Marketing costs	[✂]	[✂]	[✂]

Source: AA management accounts.

*After marketing costs.

Saga

138. Saga Services Limited, trading as Saga, is a general insurance intermediary business which sells and administers a range of general insurance products including PMI, home, travel and private medical insurance. It only offers PMI policies underwritten by AICL.

139. All of the broking, which includes the sale, renewal and administration of policies, is carried out by Saga; but all claims handling remains with AICL.

140. Saga offers PMI exclusively to policyholders in the over 50s market in the UK.

141. Saga features in Datamonitor's list of the top 10 PMI advertisers (by expenditure) in 2011: it has the ninth biggest spend on advertising, with direct mail accounting for over 80 per cent of its advertising spend.[26]

- *Financials*

142. Table 9 summarizes the financial performance of the Saga PMI broking business for the last three years to January 2012.

143. [✂], sales and contribution [✂].

TABLE 9 **Summary financials, Saga, for the three years ended January 2012—PMI only**

PMI only	*Years ended January* 2012	*2011*	*2010*
Sales (£m)	[✂]	[✂]	[✂]
Contribution (£m)	[✂]	[✂]	[✂]
Contribution (%)	[✂]	[✂]	[✂]
Marketing costs (£m)	[✂]	[✂]	[✂]
Total policies	[✂]	[✂]	[✂]
GWP (£m)	[✂]	[✂]	[✂]
Average per policy (£):			
GWP	[✂]	[✂]	[✂]
Commission	[✂]	[✂]	[✂]
Contribution	[✂]	[✂]	[✂]
Marketing costs	[✂]	[✂]	[✂]

Source: Saga management accounts.

Ageas Retail

144. Ageas Retail is the broking division of the Ageas group. Ageas Retail consists of the following companies which all sell PMI: Ageas 50 Limited; KwikFit Insurance Services Limited (KFIS), Express Insurance Services Limited (EIS), The Green Insurance Company (TGIC); and UK Ageas Insurance Solutions (UKAIS). KFIS was acquired in 2010. KFIS is the parent company for EIS and TGIC and these three

[26] [✂] DLG, [✂] in 2011, spent [✂] per cent of its advertising expenditure on direct mail and [✂] per cent on TV advertising.

businesses are managed together. Ageas 50 is the largest brand in the group, offering primarily motor and home insurance.

145. Ageas Retail's major specialisms are providing insurance to the over 50s, affinity partnerships and aggregator distribution.

Summary financials

146. Table 10 presents the limited financial information available for all Ageas Retail businesses for the three years ended December 2012.

TABLE 10 **Summary financials, Ageas Retail, three years ended December 2012**

£

	Years ended December		
	2012	*2011*	*2010*
Whole business			
Income	[✂]	[✂]	[✂]
Operating profit	[✂]	[✂]	[✂]
Operating profit (%)	[✂]	[✂]	[✂]
Total PMI income	[✂]	[✂]	[✂]
Average premium	[✂]	[✂]	[✂]

Source: Ageas Insurance.

BISL

147. BISL is an insurance broker [✂].

148. BISL uses multiple distribution channels: its own website and call centre, and PCWs.[27]

149. BISL is owned by BGL Group, which was established in 1992 as an insurer but changed strategy in 1997 to become an insurance intermediary.

[27] Another division of BISL is CTM, [✂].

150. BISL manages its direct brands within its Frontline business and manages its affinity and partner brand relationships within its Junction business.

Financials

151. Table 11 summarizes Frontline's financial performance from PMI [✂].

TABLE 11 **Summary financial performance,** [✂]

		[✂]	
	[✂]	[✂]	[✂]
[✂]			
[✂]	[✂]	[✂]	[✂]
[✂]	[✂]	[✂]	[✂]
[✂]	[✂]	[✂]	[✂]
[✂]	[✂]	[✂]	[✂]
[✂]			
[✂]	[✂]	[✂]	[✂]
[✂]	[✂]	[✂]	[✂]
[✂]	[✂]	[✂]	[✂]
[✂]	[✂]	[✂]	[✂]
[✂]	[✂]	[✂]	[✂]

Source: BGL management accounts.

152. In 2012, [✂].

Endsleigh

153. Endsleigh is a group of companies wholly owned by Zurich.

154. Endsleigh Insurance Services Limited (EIS) was originally founded by the National Union of Students (NUS) in 1965 and is a UK insurance intermediary specializing in the provision of personal insurance products for students, graduates and the education sector. EIS is the primary brand under which Endsleigh markets and sells PMI.

155. EIS sells general insurance products to retail customers online via a direct website and through PCWs, offline via a call centre, and via introducer networks and partnerships. These include affinity relationships, such as with the NUS and the National Association of Schoolmasters Union of Women Teachers (NASUWT). EIS sells motor, home, travel and student possessions insurance.

156. EIS has delegated authority from its panel of insurers to sell and service insurance and, for most of the insurers on its panel, it also handles claims on their behalf.

157. Separate to this business, EIS also offers third party administration (TPA) claims handling services to a number of insurers and insurance risk capacity providers. This is distinct from the main EIS panel business as these policyholders did not buy their policies from EIS. For these services, EIS is paid a fee by the insurer for handling the claim. This operation is referred to as The Claims Service (TCS) but sits within EIS from a legal entity perspective.

158. EIS operates a panel of 13 PMI insurers. Its [✂].

Financials

159. Table 12 summarizes Endsleigh's financial performance for the past three years. The management accounts are based on an analysis of income by product type (eg motor, home, travel etc). However, expenditure is considered by category and is not linked back to the product to which it relates. As a result, although PMI [✂], Endsleigh was not able to estimate the profitability of this business. Turnover and profits have [✂] over the three-year period to [✂].

TABLE 12 **Summary financial performance, Endsleigh, December 2010 to 2012**

		[✂]	
[✂]	[✂]	[✂]	[✂]
[✂]	[✂]	[✂]	[✂]
[✂]	[✂]	[✂]	[✂]
[✂]	[✂]	[✂]	[✂]
[✂]	[✂]	[✂]	[✂]
[✂]	[✂]	[✂]	[✂]
[✂]	[✂]	[✂]	[✂]

Source: Endsleigh management accounts.

Swinton

160. Swinton is a part of the Covéa group.[28] Swinton's primary consumer brands for the broking of PMI are Swinton in mainland UK, and Open & Direct Insurance in Northern Ireland. Swinton also brokers many insurance products, including household insurance and commercial vehicle cover.

161. Swinton brokers the majority of PMI through its network of branches,[29] as well as through its call centres and online (new policies only). It has 512 branches in Great Britain and 16 in Northern Ireland. The inbound call centre functions as an overflow unit in support of the branches and in order to provide service outside of branch opening hours. Swinton also has an outbound call centre, used as a sales campaign unit, which sells core products, add-ons and monthly products.

162. Swinton has [✂] main insurers on its PMI panel. The top ten insurers on its panel represent [✂] per cent of Swinton's GWP, with the most important ([✂]) representing [✂] per cent of its GWP, and the second most important ([✂]) representing [✂] per cent of its GWP.

Financials

163. Swinton does not allocate either divisional costs or central overheads to individual products, and therefore financial data was only available at a high level. Table 13 shows the financial performance of the whole business for the three years ended December 2012. Income, contribution and operating profits [✂] in 2011 [✂] in 2012. PMI has been an increasing part of Swinton's business, now constituting [✂] of its total business.

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[28] Swinton Holdings Limited is a sister company of Covéa Insurance plc. Covéa Insurance was created in the UK in October 2012 through the integration of three companies: Provident Insurance, MMA Insurance and Gateway, and is part of the French Covéa mutual insurance group.

[29] Approximately [✂] per cent of Swinton's overall business is generated through these branches (no figure provided for PMI specifically).

TABLE 13 **Summary financials, Swinton, for the three years ended December 2012**

			£ million
	Years ended December		
	2012	*2011*	*2010*
Income	[✂]	[✂]	[✂]
[✂]	[✂]	[✂]	[✂]
[✂]	[✂]	[✂]	[✂]
[✂]	[✂]	[✂]	[✂]
Operating profit	[✂]	[✂]	[✂]

Source: Swinton Holdings Limited statutory accounts and Swinton management accounts.

164. Swinton provided us with a split of its income by product for the three years ended 31 December 2012, which is shown in Table 14. Total income [✂] per cent over the three years, which appeared to be [✂].

TABLE 14 **Breakdown of PMI income, 2010–2012**

			£ million
	2012	*2011*	*2010*
[✂]	[✂]	[✂]	[✂]
[✂]	[✂]	[✂]	[✂]
[✂]	[✂]	[✂]	[✂]
[✂]	[✂]	[✂]	[✂]
[✂]	[✂]	[✂]	[✂]
[✂]	[✂]	[✂]	[✂]
[✂]	[✂]	[✂]	[✂]

Source: Swinton management accounts.

High-level analysis of profitability for the ten largest PMI insurers, 2008 to 2012

	Claims ratio (%)						*Expense ratio (%)*					
	2008	*2009*	*2010*	*2011*	*2012*	*Average*	*2008*	*2009*	*2010*	*2011*	*2012*	*Average*
Admiral	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Ageas	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Aviva	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
AXA	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
CISGIL	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
DLG	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
esure	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
LV	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
RSA	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Zurich	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Across all 10 providers	**78**	**89**	**98**	**78**	**75**	**84**	**32**	**30**	**24**	**27**	**29**	**28**

	COR (%)						*Underwriting result plus investment income (£m)*					
	2008	*2009*	*2010*	*2011*	*2012*	*Average*	*2008*	*2009*	*2010*	*2011*	*2012*	*Average*
Admiral	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Ageas	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Aviva	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
AXA	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
CISGIL	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
DLG	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
esure	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
LV	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
RSA	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Zurich	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Across all 10 providers	**110**	**119**	**123**	**105**	**104**	**112**	**596**	**–238**	**–334**	**888**	**984**	**377**

Source: CC calculations based on data from the ten largest insurers.

Note: [✂]