



The future of remote distribution in the financial services

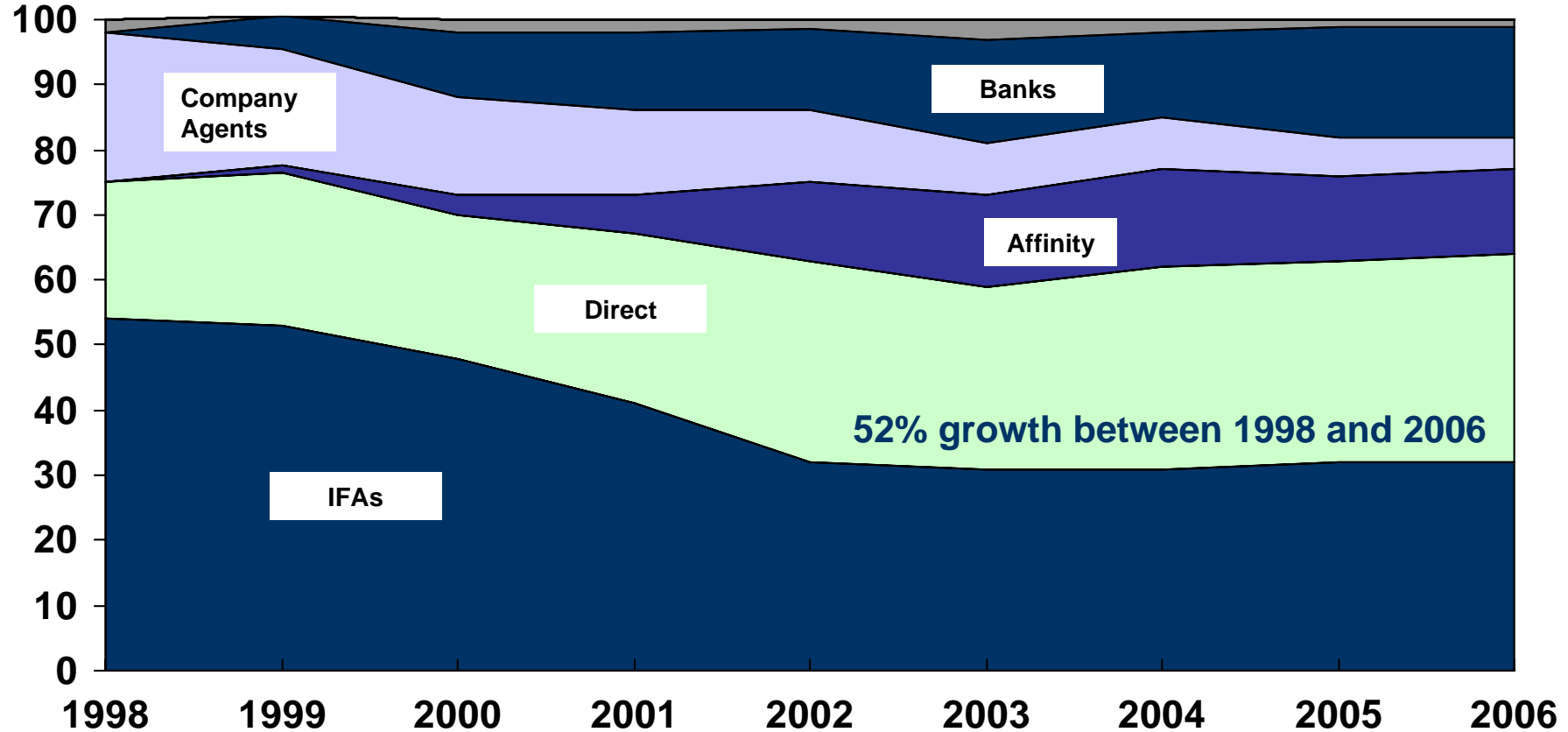
Innovation Forum Dinner October 2007 – briefing pack

Lawrence Somerset
Growth through Innovation

Some observations on the direct market

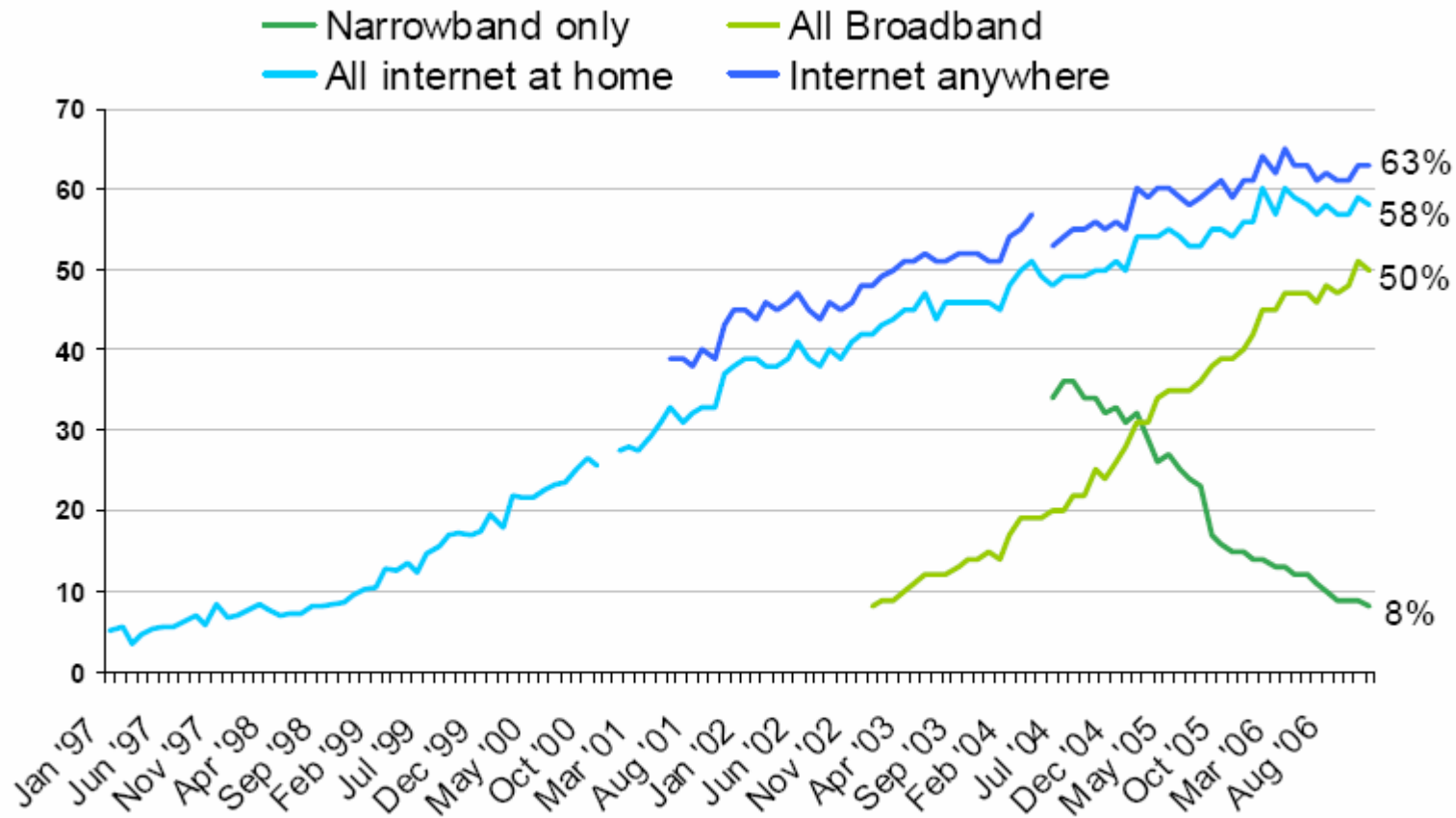
The direct channel continues to grow steadily eg in General Insurance

(% GWP)



Source: ABI

But there are significant underlying changes - Broadband has rocketed

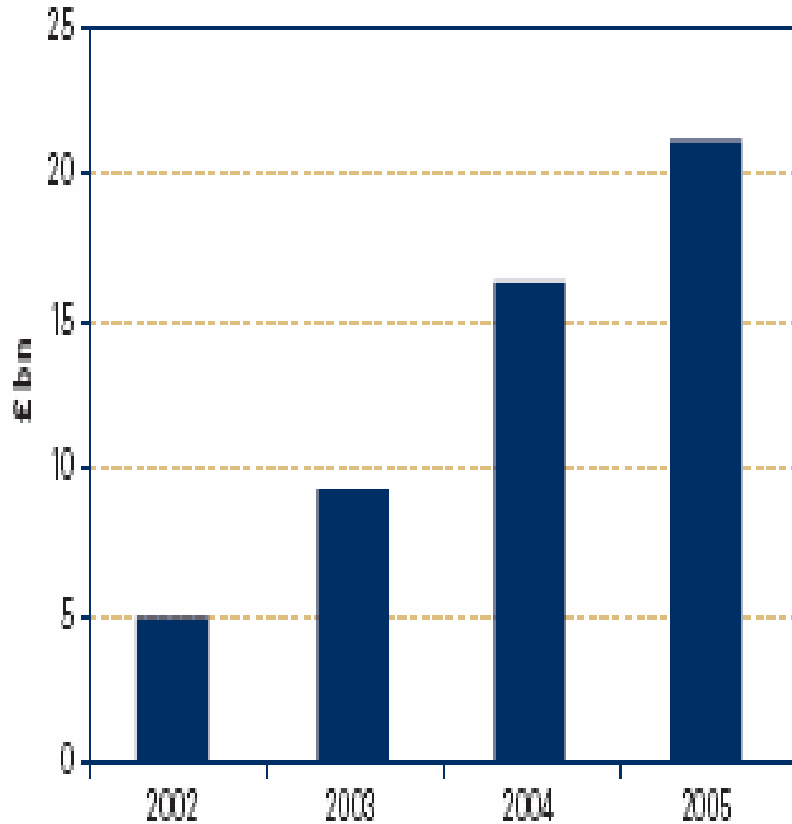


Ipsos MORI Technology Tracker January 1997 – December 2006
Base: circa 4,000 interviews per month

Growth in means of internet access

A developing confidence in internet shopping and online banking are revolutionising the online purchase process

Growth in internet shopping spend (non financials)



Source: Office for National Statistics (2003a)

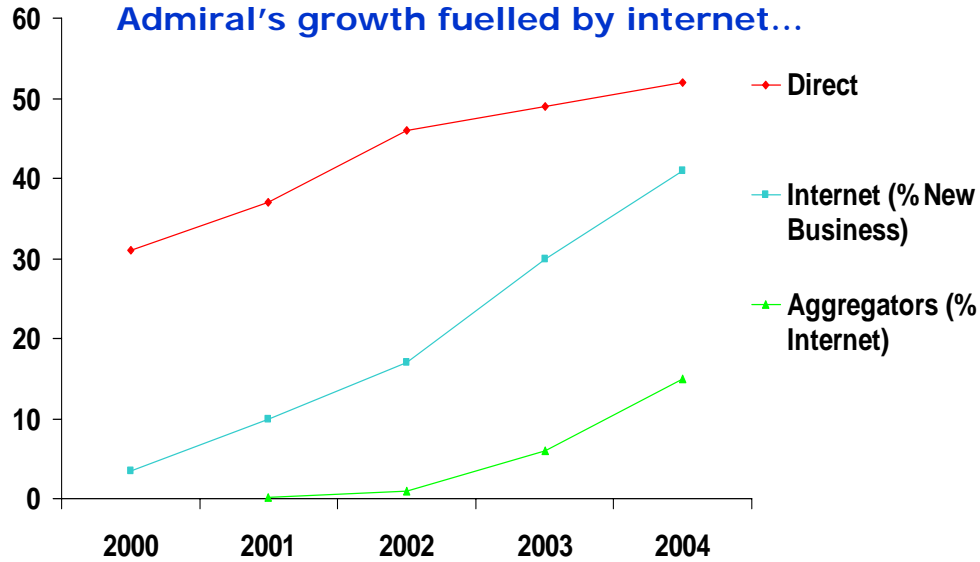
Base: All UK non-financial businesses (for businesses with ten or more employees)

- In 2006 18M people checked balances or made payments via the internet
- 45% of UK adults have used online banking in the last 3 months

(Source: e-consultancy.com / National Office of Statistics)

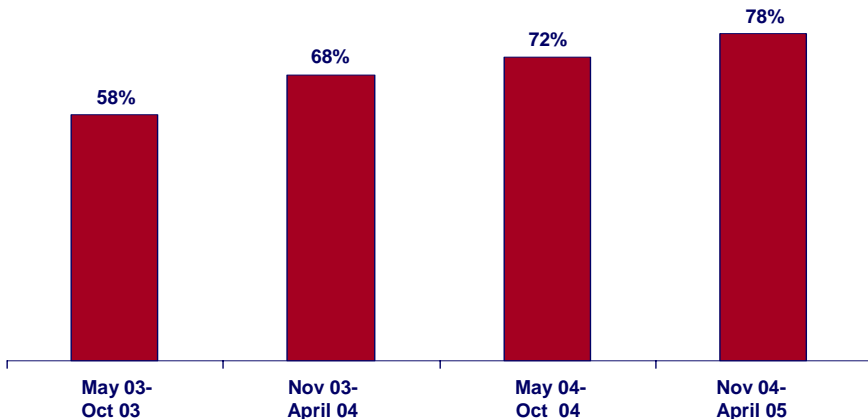
New players and brands are emerging, and leaders attribute growth to the internet.

Admiral's growth fuelled by internet...

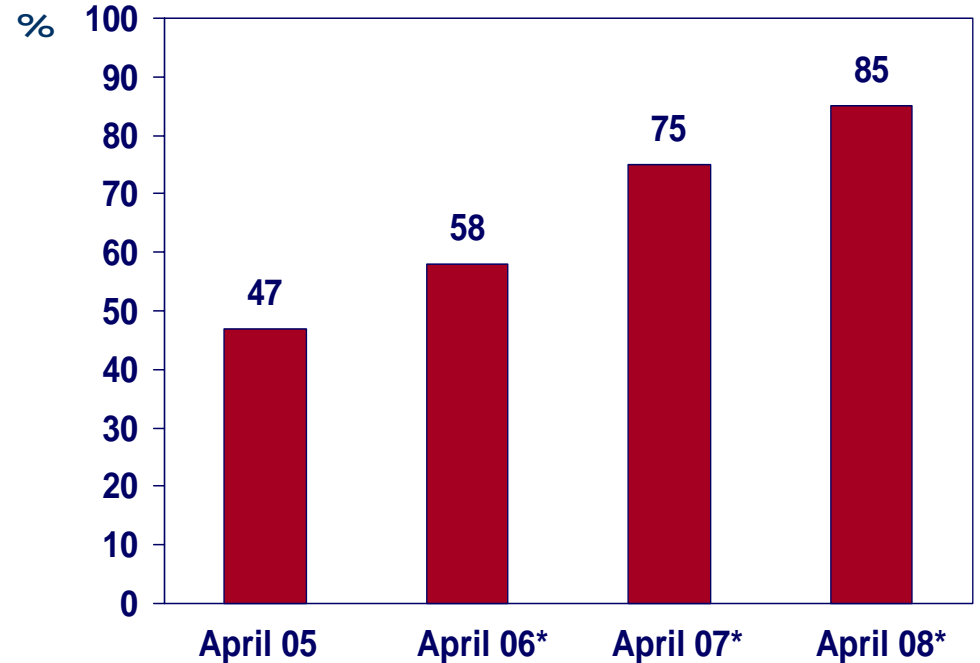


Source: Admiral

...with most sales now started online



And estimates most motor insurance sales are now online

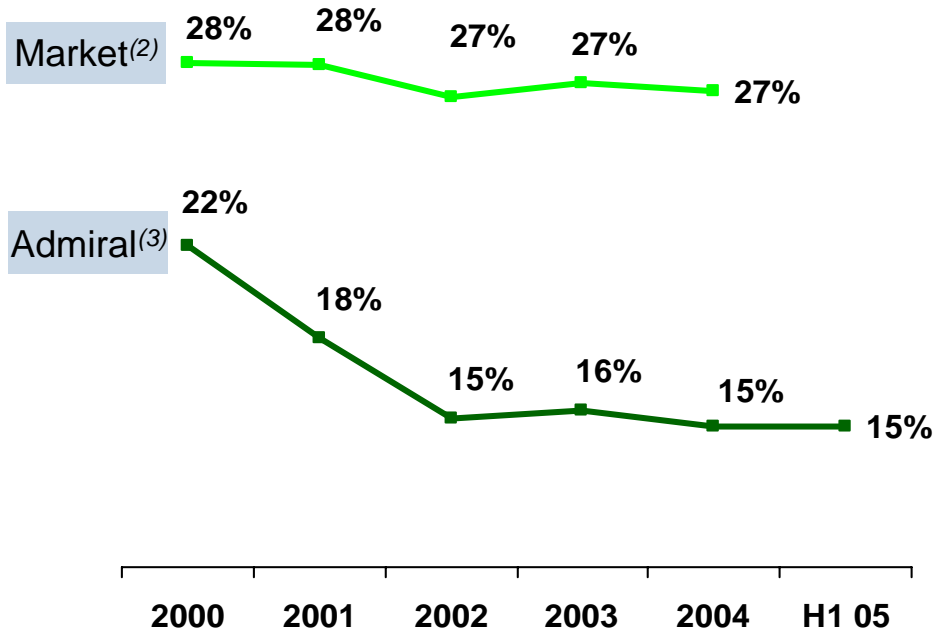


Source: Admiral Estimates

Admiral now derives more than 80% of group sales online

New business models have reengineered the economic fundamentals – e.g. Admiral

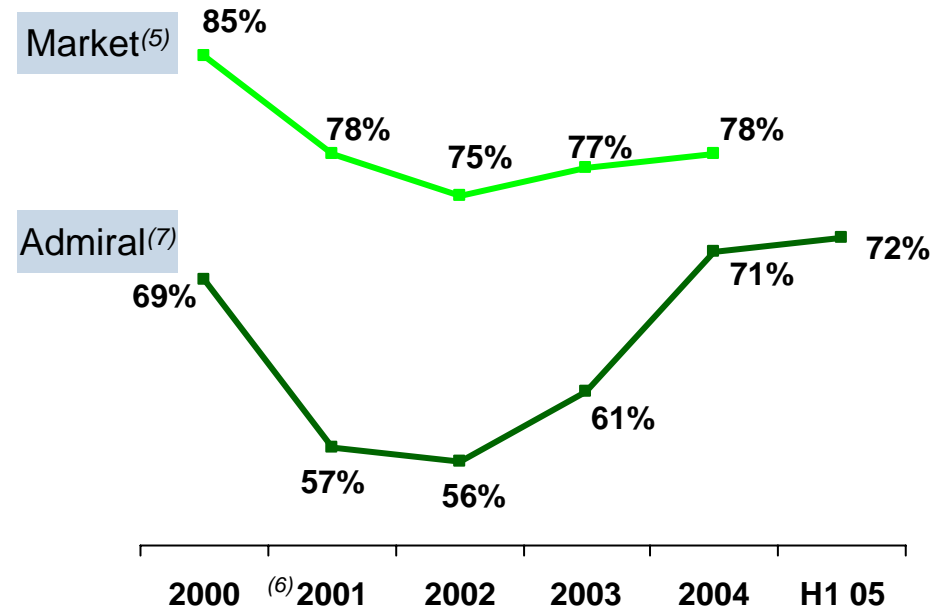
Expense Ratios⁽¹⁾



■ Total Market (Earned Basis)
■ Admiral (Earned Basis)

- (1) Including claims handling expenses
 (2) EMB analysis of FSA returns for total UK motor market
 (3) Adjusted to exclude non-recurring expenses such as Lloyd's costs and 2.5% non-recurring expense commission; based on net earned premiums before stop loss costs of £911,000 in 2001 and £607,000 in 2002

Loss Ratios⁽⁴⁾



■ Total Market (Earned Basis)
■ Admiral (Ultimate Earned Basis) June 05

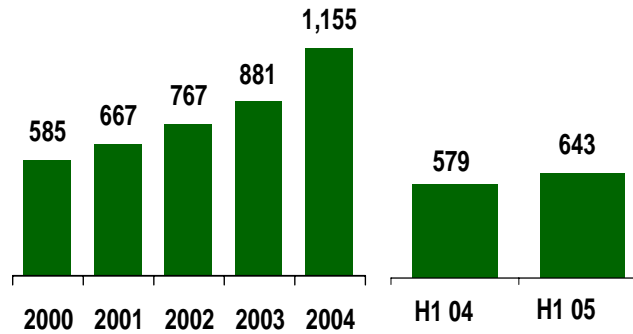
- (4) Excluding claims handling expenses
 (5) Current year claims ratio EMB analysis of FSA returns for UK private motor market
 (6) 2000 earned loss ratio includes claims incurred and premiums earned in 2000 on business written in 1999 underwriting year
 (7) Actuarial best estimate of ultimate outcome based on actuarial analysis

Cross selling of products adapted to the nature of the initial sale is critical

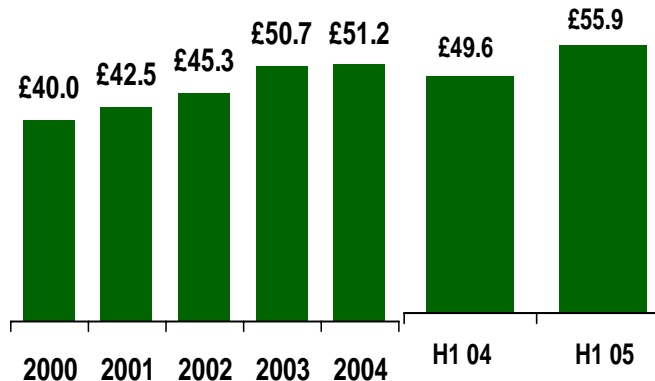
With ancillary products suited to the base product...

- Legal
- Personal accident
- Car hire
- Payment protection
- Breakdown
- External leads

Motor Policies Sold and Renewed (000s)

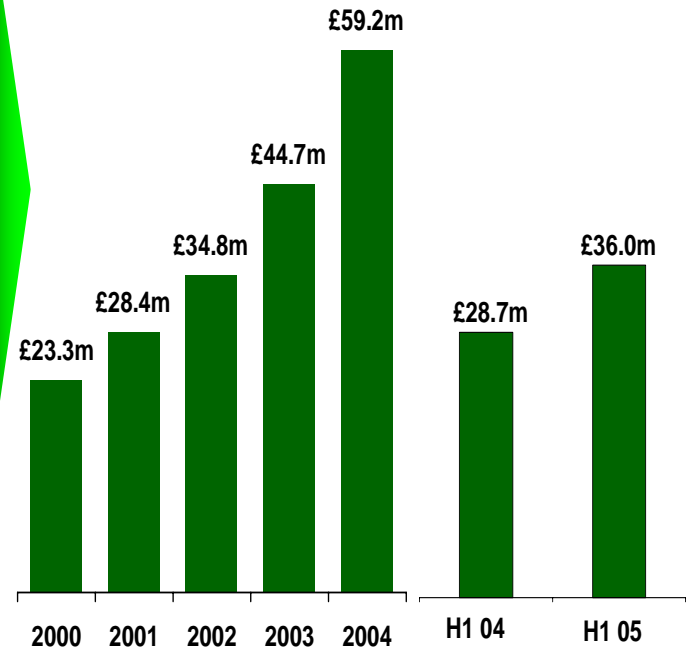


Ancillary Contribution per Policy Sold⁽¹⁾⁽²⁾



(1) Before allocation of overhead expenses
 (2) Includes new business and renewals, before cancellations

Ancillary Contribution (£m)⁽¹⁾

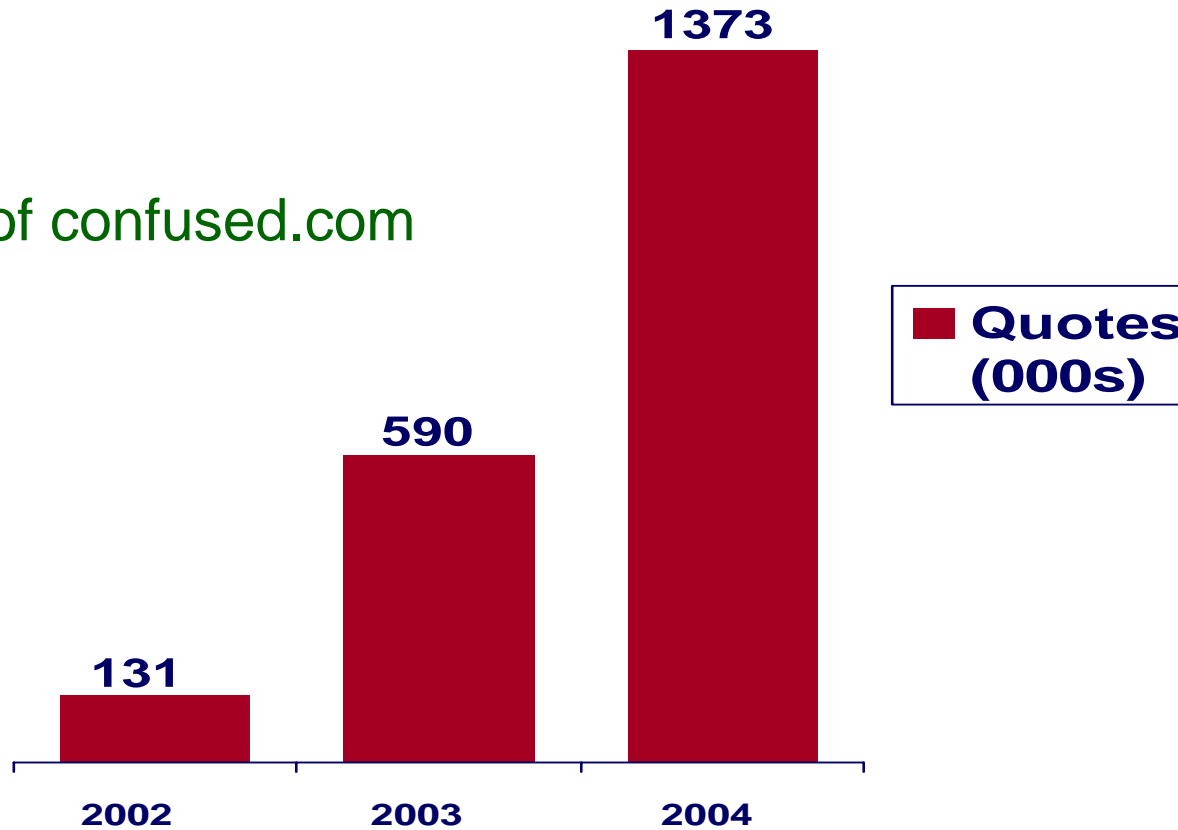


Aggregators are a new and growing force for value creation – largely at the expense of the supply-side

Confused.com	Insurance, savings, credit cards, loans, mortgages	Valued at £700m
Moneysupermarket.com	Insurance, savings, credit cards, loans, mortgages	UK's largest. Rev of £100m in 06, EBT of £30m . Floating
Simplyswitch.com	Utility providers, Insurance, mortgages, credit cards	Sold to Daily Mail in 06 for £22m
uswitch	Insurance, savings, credit cards, loans, mortgages	Bought by media firm Scripps in 2006. Increasing FS
Interactive Investor	Most financial services	Bought in 2004 from AMP
Tescocompare.com	As yet unknown	Launching this summer.
Confident Cover	Insurance	Launching this summer. May extend into other FS

Aggregators have huge growth prospects

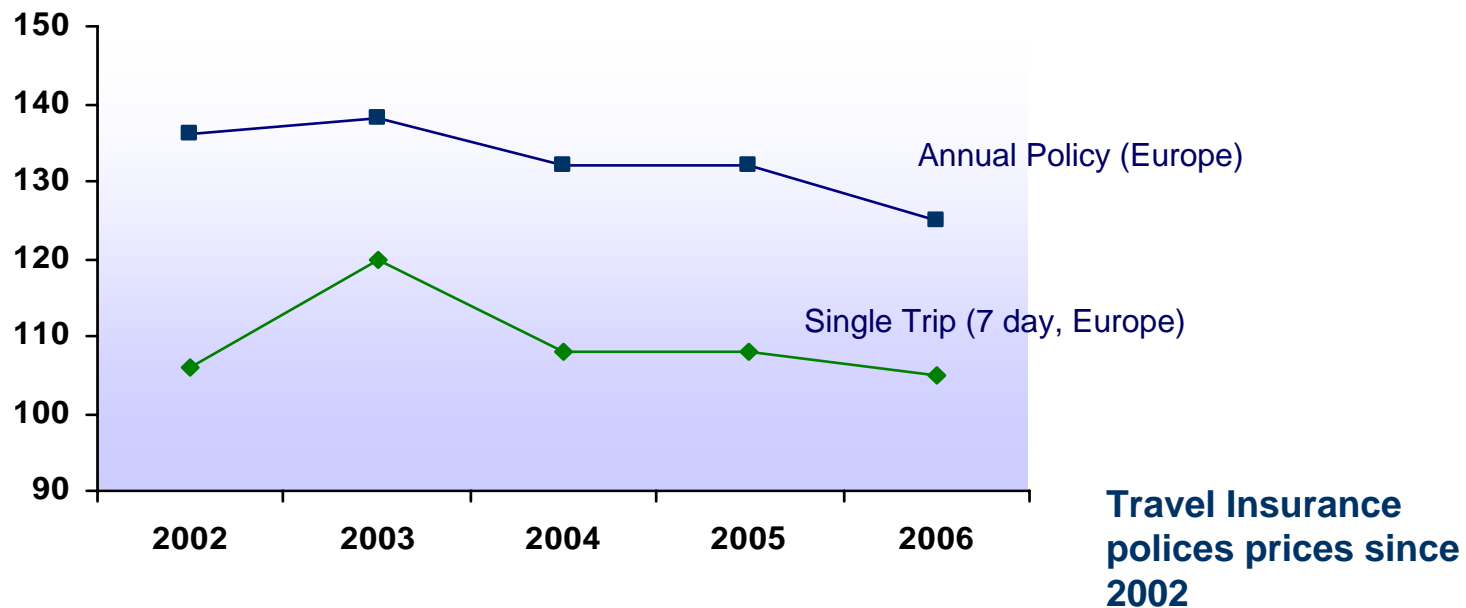
Growth of confused.com



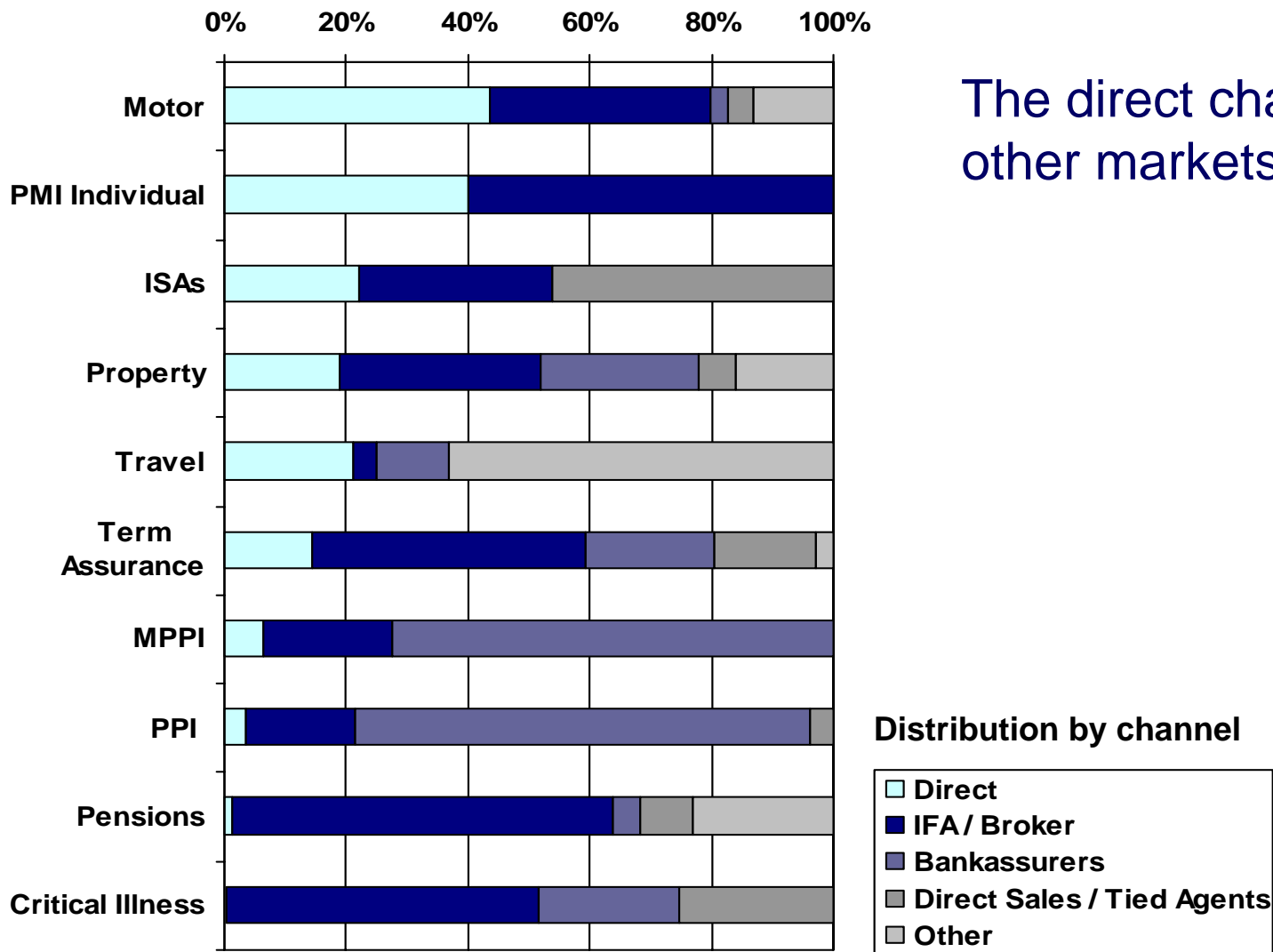
Direct distribution and the aggregators have driven down prices

In markets where business has shifted significantly to direct, remote channels both the ease of shopping around and, more recently, the increasing role of aggregators are starting to push prices down.

In travel insurance for example:



The impact of remote distribution has not been not a uniform picture across all markets



The direct channel in other markets

Source: LSL analysis of data from various sources

The variation may be due to fundamentals differences in the product and buying process

Factors affecting suitability for direct distribution:

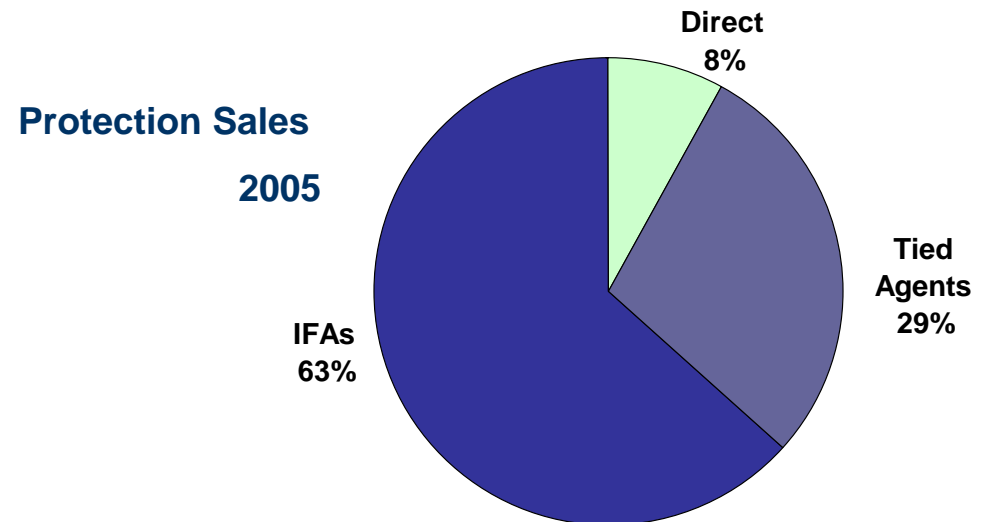
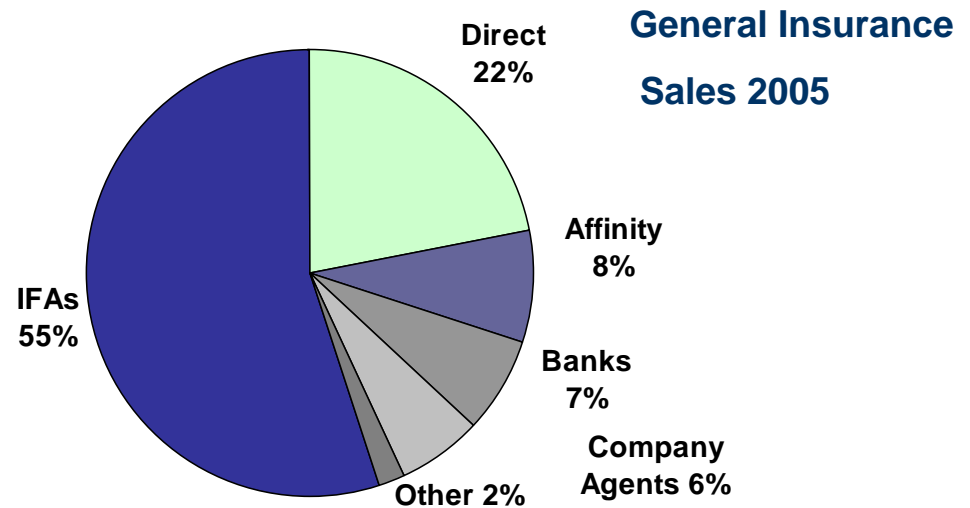
- Simplicity of product
- Need for advice
- Push / Pull nature of product

More suitable:

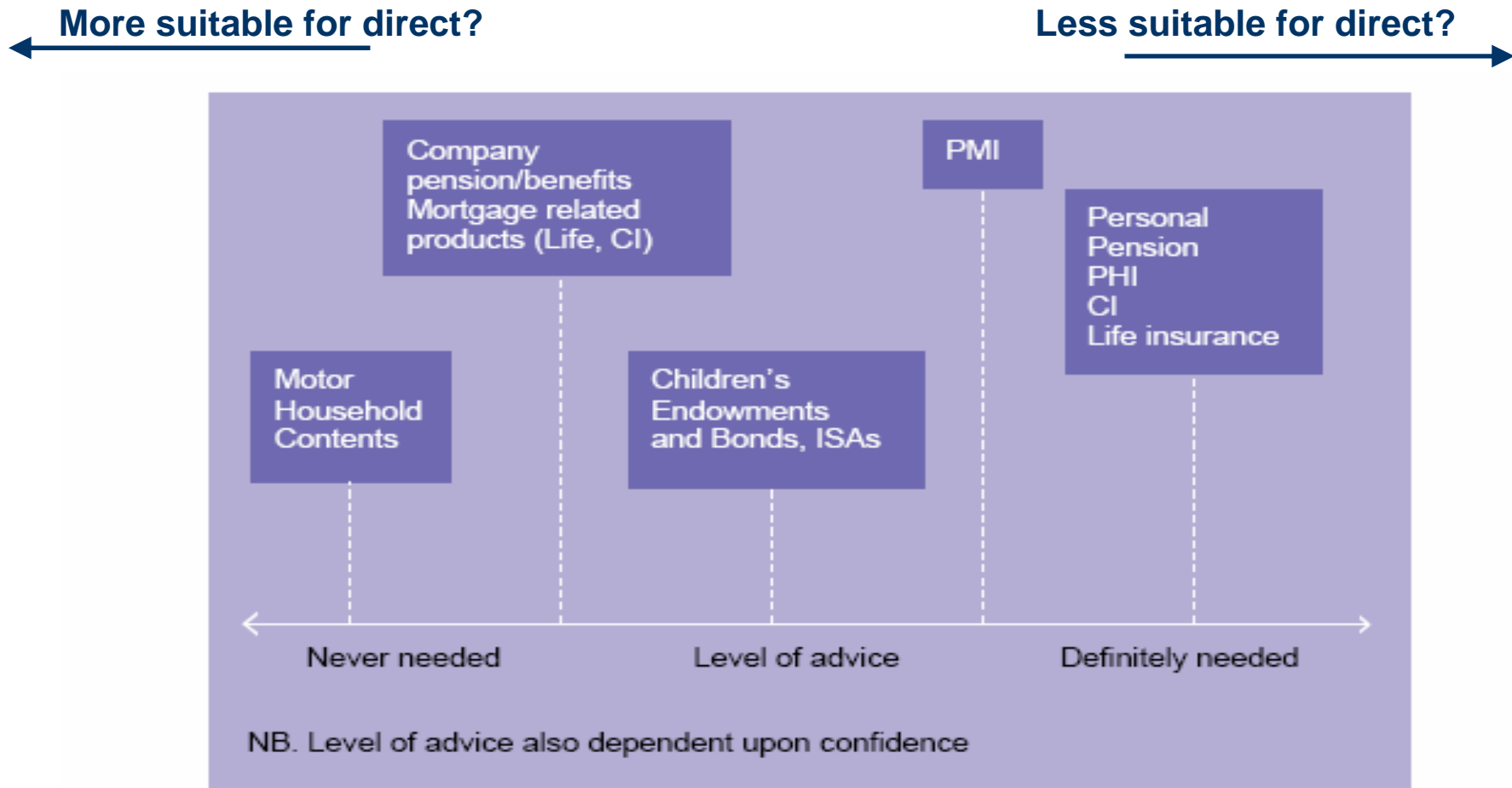
Travel Insurance, Motor Insurance, Savings Accounts, Credit Cards...

Less suitable:

Pensions, Whole-of-Life, Mortgages, Protection products...

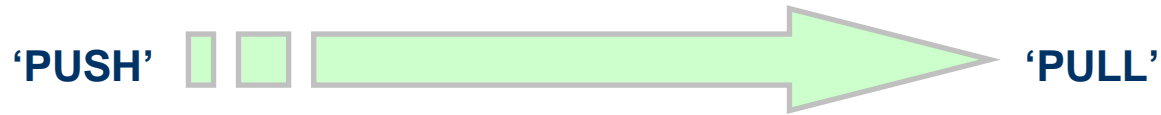


The need to deliver advice may be an impediment



Source: Insurance Report 2001

But motor insurance shows change is possible – To what extent can ‘Pull’ characteristics be designed into new customer propositions?



- Discretionary - pension
- **Complex - pension**
- **High ticket – mortgage**
- **Not Understood - AVC**
- **Intangible - insurance**
- **Deferred gratification - investment**
- **New set-up -**
- **Stand-alone**

- Obligatory – motor insurance
- **Simpler – ISA**
- **Low ticket – credit card**
- **Understood – savings account**
- **Tangible - payment**
- **Immediate gratification - loan**
- **Top-up - ISA**
- **Tied to another product**

Some questions to be considered:

- How far will remote distribution grow across the financial services markets, beyond personal insurances, funds and savings accounts?
- Will remote distribution be sufficiently attractive to mobilise demand?
- To what extent does the need to provide advice face-to-face represent a real barrier for remote sale of some products?
- To what extent can product simplification drive remote distribution, and what opportunities are there for new proposition development?
- Will aggregators continue to gain influence and will price continue to be the main arbiter, or will differentiation be possible?
- Will there be growth in niche marketing and how will niches best be defined?
- Will a profitable future for suppliers depend on re-engineering the business to support aggressive pricing?
- What strategic opportunities are there for incumbents and new entrants?

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