

Life Insurance – The Price War Rages On – Money Marketing (November 2006)

And so, as reported in Money Marketing on 9/11/06, the price war 'raging' amongst insurers for term insurance business continues, with five insurers recently re-pricing - all within a matter of days of each other.

This flurry of pricing activity was greeted by some interesting comments from one or two of the providers not involved in the latest round of reductions. These included "I am not sure how long this can go on" and "You would think there would be a breaking point at some stage".

Well the answer to the first is "Until there are fewer competitors, the big players daily appetite is fulfilled and their sales volume stabilises without having to frequently re-price" and my observation on the second is "Yes there is a breaking point and the breaking point will be yours if you don't get involved". This is because the economics of the products in play and the distribution landscape mean that there is really only room for 3 - 5 players at the top and there are not enough, or big enough, niches for more than another 4 or so players to live profitably outside the premier league. It is a fact that the further your price is away from the most competitive, the less opportunity advisers will have to recommend you.

The truth is that insurers don't just cut their rates because they can, they cut them to acquire business and for as long as the majority of customers and their advisers select on the basis of price (and why wouldn't you in the absence of any service or product feature that is important to the customer) then you can expect this activity to continue. Underwriting and term administration departments are big businesses in their own right nowadays and like all factory set ups their owners want them to be consistently working at or around capacity simply because anything else screws the financials, making it difficult to compete and hence near impossible to make money. In these circumstances, and in an environment where not all providers can survive, such frequent re-pricing activity is key to winning the current game, which if you haven't noticed is one of 'last man (or men) standing' - the time for yet more M&A activity is upon us.

On the surface, all of this looks pretty attractive for today's customer, although of course tomorrow's customer may be somewhat disadvantaged by comparison. However as we know, now that the fat generated by modern re-insurance structures has been burned, to maintain a modicum of current profitability, however illusory, headline price reductions have to be balanced, in part, by more stringent underwriting practices. This means we have to learn to live with an ever reducing number of customers who can secure the published rates. I expect the insurers to continue in this vein with more and more customers becoming disappointed by the terms they are ultimately offered and with all customers and their advisers becoming increasingly disillusioned by the ridiculously long process of segmenting risk - or sorting the wheat from chaff.

We live in very interesting, if occasionally difficult, times from which will emerge a handful of winners with the losers being left behind. The key difference between the two will be a combination of financial muscle and an understanding of what the end game really is.

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