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## **Pricing Study on European and Singapore markets**

### **Introduction**

Due to increasing complexity and higher competition, market transparency and new technical possibilities are influencing pricing in the insurance industry. Against this backdrop, the present study was conducted with a focus on the motor vehicle insurance industry in Europe (Germany, Austria and Switzerland). In these countries the challenges and growth of the market were observed and trends perceived at their earliest stage. In addition, a comparison to the Singaporean motor insurance industry was drawn.

Whilst the work was newly conducted, the initial setup was based on a study from 2006. Therefore a comparison to the market situation in 2006 was possible. In total the analysis considered the responses of 31 insurance companies.

### **Markets**

The market structures in all three countries remained more or less the same. Despite the saturation of competition, there was no consolidation as expected by the public. On the contrary: Some new market entries were observed. The highest market concentration was found in Switzerland, followed closely by Austria. In Germany, the five largest companies only account for one third of the entire market.

The number of motor vehicles has increased slightly in all three markets. Premium revenues have developed equally in line since 2006: The nominal growth was negative or remained at 0% from 2007 to 2010 and has increased since then. Austria showed the highest growth and Switzerland the lowest. Loss ratios have increased marginally. In Austria and Switzerland, the ratio is between 60% and 70%, while in Germany it is almost at 100%. This shows the intensity of competition in prices in Germany and why many participants consider a future increase in premiums as likely.

### **Strategic targets and instruments**

The strategic focus clearly lies on profitability. Customer retention and growth are a distant second and third priority. Concerning the development of pricing modules the largest driver was technical demand based ratings. Other modules like deduction and surcharge on markets and customers as well as underwriting discounts on distribution were less significant. The instruments of pricing management have confirmed



this outcome: While strategic instruments were at least partially introduced by majority of the interviewed companies, the mechanisms for market based pricing, especially for customer value and as well as for the integration of distribution were only fully implemented by 20% of the participants. As a result, we see the biggest area for improvement in customer value pricing tools and competitive pricing.

### **Tariff design**

Tariff reviews and adjustments are clearly more common now than in 2006. The most frequent trigger for tariff adjustments are new profitability calculations. The external view (tariffs of competitors, customers' willingness to pay) is a far less important trigger.

The number of tariff criteria has increased during this time. Driver and vehicle related data is considered to be extremely relevant. Customer related criteria such as further policies of the insured person, cross-selling potential or customer value are usually not taken into account when calculating the tariff despite the potential to differentiate products. Prohibition of sex as a rating in Europe is a controversial subject where half of the respondents in Switzerland expect there to be unisex regulations.

### **Future expectations**

There are significant differences when it comes to future expectations of the direction of insurance industry between the three countries: The German participants expect a rise in premium volume and profitability as well as higher concentration in the market. The participants from Switzerland and Austria believe that although the premium volume is going to rise, profitability will continue to decline. Furthermore, interviewees in Switzerland forecast a slowdown in market consolidation.

In the study, the trend shows that the duration of customer relations will become shorter in the future. The main reason is the increased willingness to change motor vehicle insurers. Other reasons include higher price sensitivity for motor vehicle insurance products and a growing intensity of price competition in the industry. As well, the majority of participants forecast a higher market share for direct distribution and alternative distribution channels.

When it comes to market development most of the participants agree that pricing will be more specific and tariffs will focus more on the individual risk of an insured person in the future highlighting the need for greater synergy between sales, marketing and actuarial for greater customer segmentation.

It is expected that the progress of telematics will have an influence on pricing. The majority of participants estimate that in the future automobile manufacturers will include telematics devices in the cars automatically and therefore be in the first position to enter the insurance market themselves.

### **Contact us**

Solution Providers is happy to discuss with you aspects of the study on a company-specific level. Please contact our country topic experts, Singapore [james.loh@mailsp.com](mailto:james.loh@mailsp.com) and Switzerland [christoph.nuetzenadel@mailsp.com](mailto:christoph.nuetzenadel@mailsp.com)