GOLDILOCKS PRICING: Q4 2020 MARKET SURVEY

1. INTRODUCTION AND SCOPE

This report investigates market prices for guaranteed rate individual protection business, based on based on a total of c900 single life quotes from the aggregator and IFA channels.

The scope is:

1. **Life cover in the aggregator market.** This is the primary focus. We examine CompareTheMarket (CTM) and MoneySuperMarket (MSM). Go Compare (GC, recently sold) and Confused (CF) are out of scope, save for a brief comment on participating insurers in Section 2.
2. **Critical Illness Cover (CIC) in the aggregator market.** We restrict to CTM.
3. **Life cover in the IFA market.** Abbreviated treatment (there is a separate report).

For each of 1-3 above we ask three related questions:

1. **Who's top?** We find the companies quoting the cheapest price, splitting the results by distribution channel, product (level and decreasing term) and smoker status.
2. **Who's too cold?** Some companies are rarely top. Are they "there or thereabouts" or are they consistently off the pace? How often do they occupy a top 3 position?
3. **Who's too hot?** To what extent do top position companies undercut their lower ranked peers? We show that some companies are consistently "too hot" – they leave significant money on the table.[1]

> **Getting pricing "just right"**
>
> From a report entitled "Goldilocks pricing" you might expect some coverage of pricing being "just right". Beyond product and process, market leadership in the individual protection market has always been associated with competitive pricing. [Here's how L&G have got it right on price and much more.]
>
> I too spend significant time on various forms of price optimization – see the Appendix.

An abbreviation. The pricing of three companies – Beagle Street, Budget Life and Virgin Money – plays a central role in this report. We abbreviate these companies to BGL3, as the overall pricing is carried out by Beagle Street, part of the BGL group; Budget is a brand in the BGL group.

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[1] The investigation of the importance of product, brand and service – especially medical underwriting – is not part of this report. This can, however, be investigated and brief reference is made to this in the About Transformaction Appendix.

2. EXECUTIVE SUMMARY

The following table shows:

- **Participation by channel and product.** Black shading indicates non-participants.
- **The cheapest players.** Defined by the 1st, 2nd and 3rd biggest shares of top places.
- **"Cold" pricing.** Defined as having less than a 5% share of top positions.

Companies' shares of top position – life cover unless stated

Company	CTM	CTM (CIC)	MSM	IFA
Aegon	6%		2%	0%
AIG	7%	0%	2%	5%
Aviva	10%	4%		16%
Beagle Street (*)	3%	9%	0%	
Budget Life (*)	31%	14%	51%	
Canada Life			3%	0%
Churchill			1%	
Guardian				0%
HSBC			12%	29%
L&G	21%	8%		41%
LV=			2%	4%
Post Office			0%	
Royal London			0%	0%
Scottish Widows			3%	2%
Virgin Money (*)	16%	26%	22%	
Vitality	5%			2%
Zurich	1%	39%	0%	2%
Participating Insurers (11/2020)	**9**	**7**	**13**	**12**

A few things surprised me here:

- AIG seems relatively uncompetitive, despite being a big IFA market player.
- The position of Royal London (ditto) is even more surprising.
- Aviva's non-competitiveness (and Vitality's non-show) for CTM CIC.

Better known are that:

- The BGL3 dominate in the aggregator channels: just add Budget and Virgin's 1st positions.
- Aegon, Canada Life, Guardian, LV=, Vitality and Zurich do not have price-competitive life cover in the IFA market, and this carries over into the aggregators.
- Zurich is particularly price competitive on CIC.

The dominance of the BGL3 in the aggregator channels is summarised by the following table. In its chosen channels the total BGL3 share of top places matches (CTM) or exceeds (MSM) the top places of all its competitors combined. For comparison, the proportion of top places taken by the cheapest non-BGL3 company is shown. In the IFA life market L&G has a share of top positions of just over 40%. It does not participate on MSM. On CTM it quotes in less than 50% of cases.

Proportion of top places taken by each company

	CTM Life	CTM CIC	MSM Life
Highest Non-BGL3	L&G (21%)	Zurich (39%)	HSBC (12%)
Non-BGL3	**50%**	**51%**	**27%**
BGL3	**50%**	**49%**	**73%**
Beagle	3%	9%	0%
Budget	31%	14%	51%
Virgin	16%	26%	22%

The BGL3 do not play in the main part of the IFA market, where the insurers taking the highest proportion of top places are L&G (41%), HSBC (29%) and Aviva (16%).

While we have already suggested that some companies are struggling to compete on price, having a share of top positions of 50%+ might suggest some danger of over-heating – pricing being "too hot".

This report examines the concept further by looking at the ratio of 1st to 2nd position. Where top position is taken by one of the BGL3, the comparison is to the cheapest non-BGL3 provider.

Ratio of 1st to 2nd place

	CTM Life	CTM CIC	MSM Life
Non-BGL3	96%	96%	97%
BGL3	88%	92%	88%
Beagle	94%	92%	100%
Budget	92%	97%	91%
Virgin	80%	90%	80%

Non-BGL3 taking top place undercut second place by 3%-4% on average. This applies for the IFA market and for (the investigated parts of) both life and CIC on aggregator portals.

The average BGL3 undercutting is double this in the CIC market and 3-4 times for life cover. Where Virgin is cheapest it undercuts by 20% rather than the non-BGL3 average of 3%-4%.

3. COMPARE THE MARKET: LIFE COVER

3.1 Top position

DisplayPercent01	1	# companies						
CTM	L	9						
QuoteCount		QuoteCount -->	280	70	70	70	70	
		Top 3 share -->	68%	71%	61%	90%	84%	92%
		BGL3 share -->	50%	53%	16%	81%	49%	
			*	LTA	LTA	DTA	DTA	*
			*	N	S	N	S	*
Company	**Code**	**Appear**	**Top**	**LTAN**	**LTAS**	**DTAN**	**DTAS**	**1to2**
Budget Life	BU	259	31%	29%	4%	51%	39%	92%
Legal & General	LG	127	21%	24%	24%	9%	27%	94%
Virgin Money	VM	260	16%	19%	9%	30%	9%	80%
Aviva	AV	278	10%	6%	13%	3%	19%	97%
AIG	AI	280	7%	10%	9%	4%	6%	98%
Aegon	AE	262	6%	3%	21%	0%	0%	99%
Vitality Life	VL	277	5%	3%	16%	0%	0%	98%
Beagle Street	BS	260	3%	6%	3%	0%	1%	94%
Zurich	ZR	280	1%	1%	1%	3%	0%	99%

- **Non-smokers.** Budget Life, Legal & General or Virgin Money are cheapest for almost 70% of LTA cases and around 90% of DTA cases, with Budget and Virgin taking over 80% for DTA.
- **Smokers.** Legal & General (L&G), Aegon or Vitality are cheapest for around 60% of LTA cases while Budget Life, L&G or Aviva are cheapest for almost 85% of LTA cases.
- **Concentration.** There is a greater concentration of top places for non-smoker and DTA business. Budget and Virgin are particularly competitive, but struggle for LTA smoker.
- **Curiosities.** L&G returns quotes in less than half of cases. The third company in the BGL3 – Beagle Street itself, takes only 3% of top positions overall.

It seems clear that L&G has chosen not to compete at some points. Where L&G does compete it almost always returns a top 3 position. Its results for LTA non-smoker are typical:

Portal Position analysis: fixed company										
Companies	9				LTA	LTA	DTA	DTA		
Channel	CTM			All	N	S	N	S		
Product	L			59	17	17	6	19		
Company	Legal & General									
	Shape&Smoker		5	10	15	20	25	30	35	40
	LTAN	20				3	2	1		
	LTAN	25	4			1	4		1	
	LTAN	30	2	2	2	1		1		
	LTAN	35	2	1	1		1	1		1
	LTAN	40								1
	LTAN	45		1		3			2	1
	LTAN	50	1			2		2	1	
	LTAN	55				1	3			
	LTAN	60	3		1	2	4			
	LTAN	65				2				

Here might be a good point to note that, reading between the lines a little, my assessment is that the most sophisticated pricing is carried out by L&G, Aviva and HSBC. Could that be a pointer for the future?

3.2 Pricing too cold

We measure each company's share of top and top three positions. Note that:

1. **A company that never returns quotes will gets shares of 0%.** L&G returns quotes in less than 50% of cases, reducing its ranking.
2. **A company that is always top returns a 33% share of top 3 positions.** An alternative way of looking at things is to return the proportion of the company's quotes which result in top 3 positions.

CTM : L	Appearances	Top 1	Top 3
Aegon	262	6%	7%
AIG	280	7%	9%
Aviva	278	10%	15%
Beagle Street	260	3%	12%
Budget Life	259	31%	20%
Legal & General	127	21%	14%
Virgin Money	260	16%	14%
Vitality Life	277	5%	6%
Zurich	280	1%	3%

Measured on both the top and top 3 metrics there are four companies which seem to be struggling to compete on price – they are "too cold". The top 3 column shows these companies as Zurich, Vitality, Aegon and AIG. Among the BGL3, Beagle Street is surprisingly uncompetitive.

3.3 Pricing too hot

We now focus on the ratios of price to nearest competitor, for each company placing top. Where one of the BGL3 is top we compare to the nearest non-BGL3 company.

			* *	* *	LTA N	LTA S	DTA N	DTA S
Company	Code	Appear	Top	1to2	LTAN1to2	LTAS1to2	DTAN1to2	DTAS1to2
Budget Life	BU	259	31%	92%	97%	91%	90%	92%
Legal & General	LG	127	21%	94%	97%	93%	97%	93%
Virgin Money	VM	260	16%	80%	84%	89%	75%	81%
Aviva	AV	278	10%	97%	97%	98%	99%	97%
AIG	AI	280	7%	98%	98%	99%	95%	96%
Aegon	AE	262	6%	99%	100%	99%		
Vitality Life	VL	277	5%	98%	99%	97%		
Beagle Street	BS	260	3%	94%	95%	93%		92%
Zurich	ZR	280	1%	99%	99%	100%	99%	

We interpret the numbers in the table above as follows:

- **The most competitive companies, measured by top positions, undercut by most.** Perhaps this is unsurprising, but it is not inevitable.
- **The BGL3 are the companies which undercut by most.** Beagle Street undercuts by an average of 6%, Budget by an average of 8% and Virgin by an average of 20% (25% for DTA non-smoker).

Looking at individual quotes, the minimum 1st to 2nd ratio was 37%:

DTA non-smoker, age 20 next, term 5, sum assured of 140,000

Position	Company	Monthly Premium
1	Virgin Money	1.60
2	Beagle Street	2.97
3	Budget Life	3.27
4	AIG	4.37

The BGL3 are competing among themselves, with the 37% ratio being 1.60/4.37.

What to make of the above? A personal view.

Of the 50 lowest ratios, L&G takes 4, Budget takes 17 and Virgin takes 29, including the 16 lowest.

One could argue that the combination of sum assured, age and term at these lowest ratios make up a small proportion of the total market, but I can think of no justification for such significant undercutting; it is not rational even with a super reinsurance deal or high profits. My suspicion is that undercutting leads to substandard profitability both at the BGL3 level and for all insurers. Most other insurers have the IFA market to gain alternative exposure, greater volumes and – potentially – higher profitability.

The most significant undercutting is at low premiums, especially those which would be below many companies' minimum premium. The BLG3 seemingly have no minimum premium.

Minimum premium	Companies	Comment
None	BGL3 and AIG	Minimum sum assured on portal
3.99	L&G	Response to market? 6.00 in IFA market.
5.00	Aegon, Aviva and Zurich	Historically a standard minimum premium
8.01	Vitality	Odd.

Where Budget Life is top and the second place premium is more than £10 per month Budget undercuts by an average of 7%, nearly twice as much as its non-BGL peers. As the premium increases Budget's undercutting even increases slightly: it is 8% for monthly premiums of more than £30. For such premiums Budget has the highest seven undercuts, undercutting by between £3 and £5 per month.

4. COMPARE THE MARKET: CRITICAL ILLNESS COVER

4.1 Top position

Seven companies return quotes, but L&G returns quotes in less than half of cases.

DisplayPercent01	1	# companies						
CTM	C	7						
QuoteCount		QuoteCount -->	236	59	59	59	59	
		Top 3 share -->	79%	83%	88%	86%	68%	94%
		BGL3 share -->	50%	39%	37%	63%	59%	
			*	LTA	LTA	DTA	DTA	*
			*	N	S	N	S	*
Company	Code	Appear	Top	LTAN	LTAS	DTAN	DTAS	1to2
Zurich	ZR	233	39%	53%	47%	32%	22%	96%
Virgin Money	VM	236	26%	20%	32%	25%	27%	90%
Budget Life	BU	232	14%	8%	0%	29%	19%	97%
Beagle Street	BS	236	9%	10%	5%	8%	14%	92%
Legal & General	LG	99	8%	7%	7%	5%	12%	98%
Aviva	AV	234	4%	2%	8%	0%	7%	97%
AIG	AI	231	0%	0%	0%	0%	0%	

- **Non-smokers.** Zurich dominates LTA business, taking more than 50% of top positions, with BGL companies taking almost 40%. For DTA business Budget Life effectively takes some of Zurich share.
- **Smokers.** For LTA Zurich again dominates, taking over 45% of top places. BGL companies broadly keep their share (although the mix changes), leaving only 15% of top places for Aviva and L&G. For DTA business the BGL3 overtake Zurich, with more than a 50% share.
- **Concentration.** While of the seven insurers who return quotes, AIG, Aviva and L&G are arguably the current heavyweights, at least in the IFA market and the Swiss Re TermWatch reports. Here, however, they struggle to make an impact on top positions, taking only about 12% overall.
- **Curiosities.** L&G again declines to quote in over 50% of cases. Vitality – famous for its CIC – appears for life cover but not CIC. Zurich is much more competitive for CIC business than life business (this also applies to its IFA market position). Both could be due to (lack of) external reinsurance. Finally, Budget Life is significantly more competitive for DTA than for LTA.

4.2 Pricing too cold

Only seven companies compete in this market and the position is more mixed than for life cover. In terms of top positions three companies – Zurich, Virgin Money and Budget Life – take a c80% share.

CTM : C	Appearances	Top 1	Top 3
AIG	231	0%	0%
Aviva	234	4%	19%
Beagle Street	236	9%	14%
Budget Life	232	14%	16%
Legal & General	99	8%	7%
Virgin Money	236	26%	27%
Zurich	233	39%	18%

In terms of top 3 placings the companies pricing cold are AIG and Legal & General. These are surprises.

4.3 Pricing too hot

We again examine the ratios of price to nearest competitor, for each company placing top. Where one of the BGL3 is top we compare to the nearest non-BGL3 company. The table in the executive summary shows that the BGL3 often undercut less for CIC than for life cover. The exception is Beagle Street itself

			* *	* *	LTA N	LTA S	DTA N	DTA S
Company	Code	Appear	Top	1to2	LTAN1to2	LTAS1to2	DTAN1to2	DTAS1to2
Zurich	ZR	233	39%	96%	95%	97%	95%	97%
Virgin Money	VM	236	26%	90%	90%	92%	89%	90%
Budget Life	BU	232	14%	97%	98%		97%	96%
Beagle Street	BS	236	9%	92%	91%	97%	89%	92%
Legal & General	LG	99	8%	98%	97%	99%	99%	98%
Aviva	AV	234	4%	97%	99%	94%		100%
AIG	AI	231	0%					

Zurich, the most competitive individual company, undercuts by around 4% on average – a little more for LTA and a little less for DTA. Budget undercuts by around the same proportion. In combination, Budget and Virgin take a greater market share than Zurich and undercut by significantly more. They are too hot.

Looking at the 1st to 2nd ratio for individual quotes, the BGL3 are the top 25 undercutters. In those cases, BGL3 undercut by between 13% and 39% – the maximum undercut.

The premiums involved here, unsurprisingly, are much higher than their life equivalents, so that there are examples of much higher nominal amounts of undercutting. This is particularly the case at age 55+, where I found ten examples (nine Virgin and one Budget) of undercutting by more than £10 per month and two of more than £40 per month. About 80% of the undercutting by more than £5 is by the BGL3.

In the example below, Virgin undercuts Aviva's pricing by over £20 per month.

LTA non-smoker, age 65 next, term 10, sum assured of 20,000

Position	Company	Monthly Premium
1	Virgin Money	50.38
2	Beagle Street	50.70
3	Budget Life	65.10
4	AIG	70.94

5. MONEYSUPERMARKET: LIFE COVER

5.1 Top position

CTM position

DisplayPercent01	1	# companies						
CTM	L	9						
QuoteCount		QuoteCount -->	280	70	70	70	70	
		Top 3 share -->	68%	71%	61%	90%	84%	92%
		BGL3 share -->	50%	53%	16%	81%	49%	
			*	LTA	LTA	DTA	DTA	*
			*	N	S	N	S	*
Company	Code	Appear	Top	LTAN	LTAS	DTAN	DTAS	1to2
Budget Life	BU	259	31%	29%	4%	51%	39%	92%
Legal & General	LG	127	21%	24%	24%	9%	27%	94%
Virgin Money	VM	260	16%	19%	9%	30%	9%	80%
Aviva	AV	278	10%	6%	13%	3%	19%	97%
AIG	AI	280	7%	10%	9%	4%	6%	98%
Aegon	AE	262	6%	3%	21%	0%	0%	99%
Vitality Life	VL	277	5%	3%	16%	0%	0%	98%
Beagle Street	BS	260	3%	6%	3%	0%	1%	94%
Zurich	ZR	280	1%	1%	1%	3%	0%	99%

MSM position

In comparison to the above, MSM has more companies quoting – a net increase of 4 companies. The six appearing on MSM but not CTM are Canada Life, HSBC, LV=, Post Office, Royal London and Scottish Widows. But importantly Aviva and L&G do not appear on MSM.

The result of this is that most of the top positions are taken by just three players: Budget, Virgin and HSBC.

DisplayPercent01	1	# companies						
MSM	L	13						
QuoteCount		QuoteCount -->	208	52	52	52	52	
		Top 3 share -->	85%	94%	69%	100%	87%	90%
		BGL3 share -->	74%	85%	44%	96%	71%	
			*	LTA	LTA	DTA	DTA	*
			*	N	S	N	S	*
Company	Code	Appear	Top	LTAN	LTAS	DTAN	DTAS	1to2
Budget Life	BU	208	51%	52%	25%	62%	67%	91%
Virgin Money	VM	208	22%	33%	17%	35%	4%	80%
HSBC	HS	208	12%	10%	27%	0%	10%	97%
Canada Life	CL	208	3%	0%	8%	0%	6%	98%
Scottish Widows	SW	205	3%	2%	2%	4%	4%	98%
AIG	AI	196	2%	0%	0%	0%	10%	97%
Aegon	AE	190	2%	0%	10%	0%	0%	99%
LV=	LV	208	2%	0%	8%	0%	0%	97%
Churchill	CH	196	1%	4%	2%	0%	0%	98%
Beagle Street	BS	208	0%	0%	2%	0%	0%	100%
Zurich	ZR	208	0%	0%	0%	0%	0%	
Post Office	PO	104	0%	0%	0%	0%	0%	
Royal London	RL	202	0%	0%	0%	0%	0%	

In more detail:

- **Non-smokers.** Budget Life, Virgin Money or HSBC are cheapest for 95% of LTA cases. Budget Life or Virgin Money are cheapest for 97% of DTA cases, with Scottish Widows taking the rest.
- **Smokers.** Budget Life, Virgin Money or HSBC are cheapest for almost 70% of LTA cases, while Budget Life, AIG or HSBC are cheapest for over 85% of DTA cases.

- **Concentration.** Summarising the above, as for CTM, we have a greater concentration of top places for non-smoker and DTA business. MSM is more concentrated than CTM, perhaps because of the absence of L&G and Aviva, who do not support UnderwriteMe – used by MSM.
- **Curiosities.** Despite being one of the competitive BGL3, Beagle Street is almost never top.

5.2 Pricing too cold

In the absence of Aviva and L&G there are four companies which are clearly competitive: Budget, Virgin, HSBC and Beagle Street. All the others are "cold" in terms of their pricing, of which Canada Life and Scottish Widows take a little over 5% of top 3 places, Aegon/AIG take 3%-4% and the rest 0%-1%.

MSM : L	Appearances	Top 1	Top 3
Aegon	190	2%	4%
AIG	196	2%	3%
Beagle Street	208	0%	16%
Budget Life	208	51%	29%
Canada Life	208	3%	6%
Churchill	196	1%	1%
HSBC	208	12%	14%
LV=	208	2%	1%
Post Office	104	0%	1%
Royal London	202	0%	0%
Scottish Widows	205	3%	5%
Virgin Money	208	22%	19%
Zurich	208	0%	0%

5.3 Pricing too hot

DisplayPercent01	1	# companies						
MSM	L	13						
QuoteCount		QuoteCount -->	208	Ratio of 1st to 2nd place				
		Top 3 share -->	85%	90%	92%	95%	83%	91%
		BGL3 share -->	74%					
			*	*	LTA	LTA	DTA	DTA
			*	*	N	S	N	S

Company	Code	Appear	Top	1to2	LTAN1to2	LTAS1to2	DTAN1to2	DTAS1to2
Budget Life	BU	208	51%	91%	96%	89%	90%	89%
Virgin Money	VM	208	22%	80%	81%	96%	70%	78%
HSBC	HS	208	12%	97%	100%	95%		99%
Canada Life	CL	208	3%	98%		98%		98%
Scottish Widows	SW	205	3%	98%	99%	100%	99%	96%
AIG	AI	196	2%	97%				97%
Aegon	AE	190	2%	99%		99%		
LV=	LV	208	2%	97%		97%		
Churchill	CH	196	1%	98%	98%	98%		
Beagle Street	BS	208	0%	100%		100%		
Zurich	ZR	208	0%					
Post Office	PO	104	0%					
Royal London	RL	202	0%					

Investigating the ratio of 1st to 2nd at the individual quote level, we find that:

- The BGL3's undercutting becomes even more stark. The 64 biggest proportionate examples of undercutting belong to Budget and Virgin. They also have 94 of the top 100 undercuts.
- No other company undercuts by over 9%, with only five undercuts more than 5% (all HSBC).
- The average Virgin undercut is 20%, but most of these are for relatively small premiums. Sums assured of more than 220K were not tested.

6. IFA DISTRIBUTION: LIFE COVER

This section is significantly cut down; a separate report has all the tables shown for the aggregators.

6.1 Top position

- **Non-smokers.** Legal & General dominates LTA business, taking more than 40% of top positions. HSBC takes more than c35% with AIG making up most of the rest, although Aviva takes around 6%. Overall, almost 95% of non-smoker LTA top places are taken by these three players. On DTA HSBC dominates with around 50% of top places. L&G is next most competitive, followed by Aviva. Overall, almost 90% of non-smoker DTA top places are taken by these three players.
- **Smokers.** For LTA L&G takes more than 70% of top places, with HSBC and LV= splitting most of the other top positions almost equally. Overall, c98% of smoker LTA top places are taken by these three players. For DTA smoker business Aviva takes more than 40% of top places, Legal & General almost 30% and HSBC almost 20%. Overall, around 90% of smoker DTA top places are taken by these three players, with Zurich taking the remaining 10%.
- **Concentration.** Once again, the top places are taken by 3-5 insurers. It will be interesting to see what happens if LV= is taken over.

6.2 Pricing too cold

In terms of price the IFA market is dominated by 4 players: Legal & General, HSBC, Aviva and AIG. In total the other companies took 13% of top positions and 24% of top 3 positions.

6.3 Pricing too hot

It quickly becomes evident that the level of undercutting in the IFA market is lower than in the aggregator channel. Only one company – HSBC – undercuts by more than 4%. HSBC is arguably too hot, undercutting by 6% on average and by 8% for DTA non-smokers.

Looking at individual quotes the biggest undercutter is HSBC and this is essentially because it has no minimum premium – or at least it quotes below £4.00 per month. The same may be true for AIG, but it is rarely competitive at the lowest premiums.

I found only three cases where HSBC was top with a monthly premium of over £10.00, so HSBC only tends to undercut substantially when premiums are lowest. In these circumstances most other companies would quote their minimum premium – typically £5.00 – while increasing the quoted sum assured.

7. CONCLUSIONS FROM THIS REPORT AND BEYOND

7.1 Companies' prices

This report is based on a sample of 900+ Q4 2020 prices in the aggregator and IFA markets. These prices can be regarded and largely up to date and factual. The sample is, however, less than 300 per channel and product combination. Perhaps the market is different (e.g. with different insurers dominating) in some untested points. Nonetheless, from the sample I tentatively conclude:

- **A 4% basic gap.** Leaving out BGL companies from top position (but not otherwise) the gap between 1^{st} and 2^{nd} position is around 4% and this is independent of product and channel. Specifically, the gap in the IFA market (in which BGL does not materially participate) was found to be 3%-4%.
- **The BGL effect.** Whenever one of the BGL3 is top the average gap between that company and the cheapest non-BGL company is 12% for life (three times the non-BGL average gap) and 8% for CIC (double the non-BGL average gap). The gap for Virgin Money is much greater.
- **Life cover.** Aegon, Canada Life, Guardian, LV=, Vitality and Zurich do not have price-competitive life cover in the IFA market, and this carries over into the aggregators.
- **CIC.** Zurich is particularly price competitive on CIC in both channels. BGL3 also for aggregators.

7.2 Companies' volumes and profits

Publicly available data on volumes and (especially) profits is relatively scarce.[2]

- **Volumes.** Swiss Re's Term & Health Watch report gives high level volumes. These are shown below. These results are backward-looking, aggregating 2019 sales across all channels including IFA, aggregators and direct. Results are weighted towards the larger IFA market and each insurer shown participates in that channel. We cannot therefore deduce (e.g.) Beagle Street volumes, nor can we find much about its individual protection business from the BGL group's annual report.
- **Profits.** Sometimes a company's annual report will briefly mention volumes and profitability, either expressed as a present value divided by one annual premium or as the cross-industry profit margin i.e. percentage of each premium. Where disclosed, profit margins for individual protection business tend to be in the range 3%-7%.

Individual CIC sales in 2019[3]

Top five product providers measured by number of new CI sales, 2018–2019

2019 position	Product provider	Sales	2018 position
1	Legal & General	129,198	1
2	Aviva	106,157	2
3	Zurich	59,824	4
4	Vitality	51,930	3
5	Royal London	49,465	5

[2] A potential source for profitability and volumes is a listed company's investor presentations. Careful reading is requited and the insights can be qualitative rather than quantitative.

[3] Source: Swiss Re's Term & Health Watch 2020

Individual Life and CIC sales (added together) in 2019[4]

Top five product providers, measured by number of new term assurance sales, with and without CI, 2018–2019

2019 position	Product provider	Sales	2018 position
1	Legal & General	471,835	1
2	Aviva	242,729	2
3	AIG Life	208,909	3
4	Royal London	134,959	4
5	Zurich	107,606	5

From this TermWatch tables (and their historic predecessors) we see that in 2019:

- In 2019 L&G leads both the CIC and life term market, with a particularly large lead in the latter.
- Aviva was second in both. L&G's and Aviva's positions have been 1 and 2 almost two decades.
- In recent years AIG, Royal London, Vitality and Zurich have generally been in positions 3-6, with Vitality and Zurich having strong positions in CIC, while AIG has a strong position in term. My sense is that AIG's position has worsened over 2020, while L&G's has improved further.

Insurers whose pricing is "cold" may not be making material profits or their protection business. This depends partly on the treatment of overhead expenses. Those whose pricing is too "hot" are (at a minimum) probably not making as much profit as they could. Some might be prepared to pay this price to disrupt a market.

7.3 Speculation: will the status quo change?

Aggregators

In the aggregator market, the BGL3's price leadership – and its material undercutting, especially at lower premiums – must be (at least) an irritant to the BGL3 peers. BGL has disrupted the market!

Mitigating this, many of the aggregator participants also have a presence in the much larger IFA sector, the main exception being BGL itself. Even those without an IFA presence (e.g. Churchill and Post Office) tend to have material business (in quantum and nature) elsewhere. I therefore see little chance of insurers undercutting the BGL3 where its companies currently lead, even if they could afford to do so.

Is the BGL3 position profit maximizing? This seems most unlikely; the brands and products involved are surely not so weak that increasing price from (e.g.) Virgin undercutting by 20% would not increase profits?

Personal verdict: A change in the aggregator channel is most likely to come from BGL itself (Beagle Street had a new CEO in 2019 and the BGL Group in 2020) or its reinsurers. If others were going to respond in a market changing way this would have happened already. My estimate is that BGL could optimize its prices and make £5m per year extra profit. But this is a group whose latest pre-tax profits were almost £160m.

[4] The life term sales can be obtained by subtracting sales in the first table from those in the second.

IFA market

Some of the comments here also apply to the aggregator channel. Currently price leaders are not undercutting by more than 3%-4% on average. In this sense the market seems efficient.

Many players in the IFA individual protection market have material business elsewhere. This is most obvious for those part of banking groups (HSBC Life and Scottish Widows) but is possibly an influential factor elsewhere e.g. for Aegon with its focus on investment and platforms and for Royal London too.

But being diversified beyond protection doesn't mean that protection is necessarily the poor relation; Aviva and (especially) L&G have been protection market leaders for c20 years and that's not expected to change.

For whatever reason, companies outside the top 6 have not made much impact on the market. That leaves us with the other companies in the top 6: AIG, Royal London, Vitality and Zurich. Despite the Term & Health Watch numbers none of these seem particularly price competitive in Q4 2020, excepting Zurich for CIC.

Personal verdict: Even for the "cold" companies, protection profits may be adequate, or are immaterial when weighed against e.g. investment and retirement business. Beyond L&G and Aviva, positions 3-6 may continue to permute, but HSBC extending to whole of market could disrupt this.

APPENDIX: PRICING-RELATED SERVICES FOR INSURERS

Transformaction is a boutique consultancy working with market leaders and challengers, especially in the individual protection market: reinsurers, IFA channel insurers, Friendly Societies and aggregator brands. I can provide expertise and support at each stage of Transformaction' strapline: "Build, improve, optimize".

Pricing and reinsurance review

Companies can even deploy internal or external data scientists to "optimize" their pricing when the reality is that their pricing is far too hot or too cold. As a result we have premature optimization. As computer scientist Donald Knuth said "We should forget about small efficiencies, say about 97% of the time: premature optimization is the root of all evil. Yet we should not pass up our opportunities in that critical 3%."

A pricing and reinsurance review seeks to ensure that the overall level of your pricing and profitability is sound. Central to this are reinsurance rates and structures, the assumptions in a pricing basis (particularly expenses and lapses) and the operational process to produce rates.

I have 25+ years' experience in this field and longstanding reinsurance relationships.

Market monitoring

Since the OFT's review in 2011 some insurers have struggled on market intelligence, especially where they are placed in the individual protection market.

Do you know where your prices are in the market? I can help you draw appropriate conclusions to enable action. This can be the heuristic "we want to be top 3 in 60% of cases, especially at ages 45+" or more formal price optimizations – see below.

In essence I use three methods to effectively monitor the market:

1. **Look and see.** This is the obvious approach in which prices are obtained from the market directly. While this report uses several hundred quotes from each of the IFA and aggregator channels the method can be difficult and time consuming, especially for a large number of quotes. Historically insurers used to regularly order thousands of quotes from portals and use these to position their rates. Obtaining data which is simulataneously timely and sufficiently granular is now a challenge.
2. **Market models.** We can attempt to build models of market prices. These models will consume data from (1) and may use data science techniques to boost predictive power. While evidence suggests that data scientists at life insurers have not been able to build and deploy such models to commercial effect, this is arguably the most promising route forward.
3. **Mission invisible.** In this method the insurer uses only its own internal data, so that market prices remain invisible. In principle the technique is straightforward: prices are varied and the corresponding levels of applications are monitored.

Price optimization

Profitability, which reflects both the profit margin (as reported by profit tests) and the take up of quotes, can be optimized. An alternative is to reach a point on the efficient frontier of profit versus market share. Each route requires insight, discipline, regular repricing and operational excellence. The "one day reprice" was achieved years ago: you should kick on from there.

I have developed a range of largely proprietary techniques, which can be used in combination and with a variety of market monitoring techniques.

Submarine pricing makes your prices less visible to you competitors, but retaining visibility to customers.

Hit and run pricing focuses on making it difficult and/or costly to respond, even when your prices are spotted. As far as I am aware this is the only technique which is well covered in public domain literature.

FAB pricing tackles the practical challenges of granular analysis and statistical credibility, competitors' prices changing frequently, seasonal sales patterns and delays between quote and application.

Radar pricing maximizes the value from the application data you do have, rather than the price you don't.

Nuclear pricing is my slant on a range of predictive analytics techniques.

Analytics, including distributor quality management

For smaller datasets (hundreds of thousands of records) I can simply drop data into my spreadsheets. Errors in the data (types, content) are automatically highlighted and the following analyses can be produced, usually with just a little tweaking to reflect insurer content:

- NPW and CFI rates.
- Lapse experience.
- Mortality experience, including early claims.
- Medical evidence and disclosures. For IFA market automatic non-disclosure estimation.
- Quotation and application analyses.
- Market analyses (historic bulk data source through e.g. IRESS, other sourced through me).

For larger datasets I can produce the above, using your choice of technology: DAX and Powerpivot (for 10s of millions of records) or databases (e.g. SQL Server, for hundreds of millions of records and beyond). Result can nonetheless be controlled by and presented in Excel.

Reinsurance

Good use of reinsurance is central to success in the individual protection market. Having worked for both reinsurers and two protection market leaders I can help you work reinsurance magic. I know what reinsurers want and can help with reinsurance structures, reinsurance tenders (their assessment is not trivial) and the softer side of setting and maintaining reinsurance relationships which are robust in testing times.