# Competitive Analysis Practices in Personal Lines Insurance - North America

## 2015 Survey Results

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# Executive Summary

As insurance markets become more saturated, competitive intelligence has grown into a key function for every insurer. At the same time, how insurers track and analyze their competitors is still an evolving practice – with best practices being formed and adapted to meet the challenges of ever-changing market dynamics and the opportunities presented by emerging data sources and innovative technologies.

This survey was conducted by Earnix with the goal of helping insurance executives and pricing professionals understand how companies across the industry analyze competitive information and how this information is being used. Survey responses were collected online from 60 executives and pricing professionals representing insurance carriers from the United States and Canada**.**

This report includes a review of the survey findings, accompanied by an Earnix expert analysis of the results, based on our work with leading insurers in North America.

Key findings from the survey include:

- Close to half of the companies surveyed (42%) have a **dedicated competitive analysis team**; the larger the company is, the more likely it is to have a dedicated team.

- Regardless of company size, **the effectiveness of competitive analysis efforts is perceived to be higher** when companies have a dedicated competitive analysis team.

- **Comparative rating vendors** are now the primary source for obtaining competitors' premium data, used by 87% of the companies surveyed.

- **Companies find their competitor rate analysis highly useful**. The primary uses of competitor rate analysis are gauging the company's competitive market position and guiding factor selection.

- A significant number of companies (43%) say **competitive analysis has become more important** as a result of the increase in insurance shopping sites.

- Almost half of the respondents (47%) plan to **increase the investment in competitive analysis** over the next twelve months.

I hope you find these results informative and would welcome any questions or comments on the findings.

Sincerely,

*Meryl Golden*

Meryl Golden
General Manager
North America, Earnix

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# Competitive Analysis Practices

There is no doubt that the competitive landscape in the North American personal lines insurance market is changing. The market is the most competitive it has ever been, and growing market share seems to be a top priority for many carriers. This trend has resulted in the willingness of many companies to price policies aggressively to attract and retain more business. Analyzing the competition is critical in understanding the ever changing market. With the proliferation of digital channels, mobile internet and aggressive advertising we are seeing an acceleration of more aggressive and complex rate changes.

A decade ago, most companies followed a predictable pattern for their rate changes. Traditionally, companies would update some of their factors annually (driver class, deductibles, etc.); every few years, they might introduce a new rating element such as a new discount. Nowadays, companies are continuously rolling out new programs, with vastly increased complexity. Over the past few years, we have seen the role of the competitive analyst change from clerical work to complex strategic analysis. Today, almost half of insurance carriers have dedicated competitive intelligence teams.

The primary responsibility for these dedicated competitive intel units is to collect, analyze, and communicate competitor activity. Just like in the past, the main source of competitive information (79% of companies) is competitor rate filings. However, the complexity of many companies' rating structures has increased in recent years, making deciphering the rates extremely challenging; it is not uncommon for filings to be thousands of pages long.

This level of complexity is significantly slowing down the analytics process. For example, years ago when an analyst was asked "what are the multi-policy discounts for our top five competitors?" finding the answer was a matter of scrolling through a few rate manuals and finding the published discount in the multi-policy discount table. Now, what used to be a single number is in many cases a multivariate table that requires a significant effort to analyze. Work that previously took minutes is now taking hours.

To keep up with the increase in rating sophistication, over half of companies foresee investing more in competitive intelligence over the next years. This is a profound statement considering the high pressure that many companies are feeling with regard to their expense ratio. While most companies are trying to reduce expenses, many still see the need to stay current with the constantly changing market. Survey respondents have identified a need for better analysis tools and better data collection as the top two improvements for more effective competitive analysis. Presumably this is where companies will be investing.

Over the next few years, we can expect the complexity of rating plans to continue the upward trend, thus further increasing the need to stay current on market prices. Competitive intelligence will continue to be a necessary investment for the foreseeable future.

*Drew Lawyer*

Drew Lawyer
Sr. Professional Services Consultant, Earnix

# Competitive Analysis Team

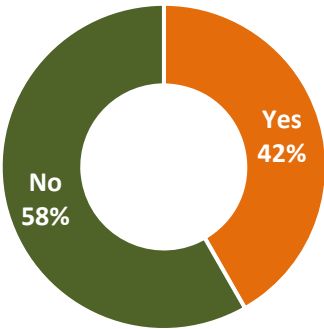Close to half of the companies surveyed (42%) have a dedicated competitive analysis team.



*Figure 1: Have a dedicated competitive analysis team*

Whether a company has a dedicated team for competitive analysis correlates to the company size. 67% of the companies with over $5B in Gross Written Premium (GWP) have a dedicated team, compared to just 13% of the companies with less than $250M in GWP.
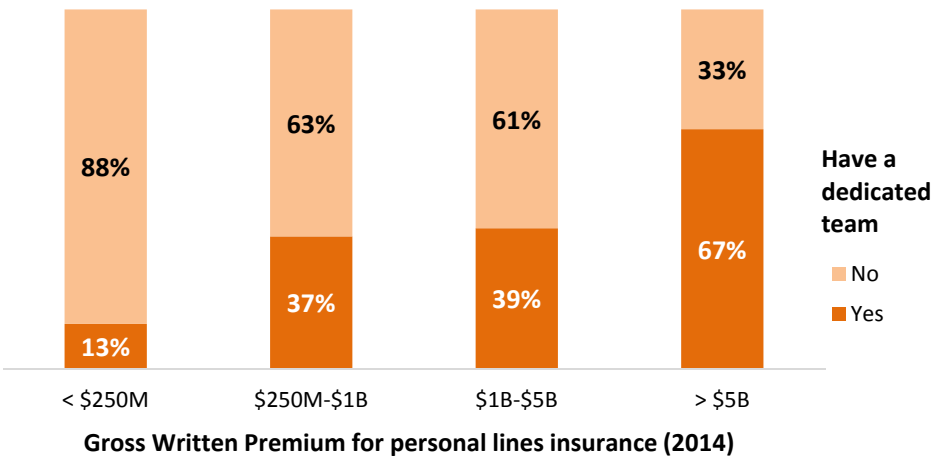


*Figure 2: Percent of companies that have a dedicated competitive analysis team*

# Competitive Analysis Team

While the average size of competitive analysis teams is right around four people, 43% of the companies that have a dedicated team have five or more members working in these teams.
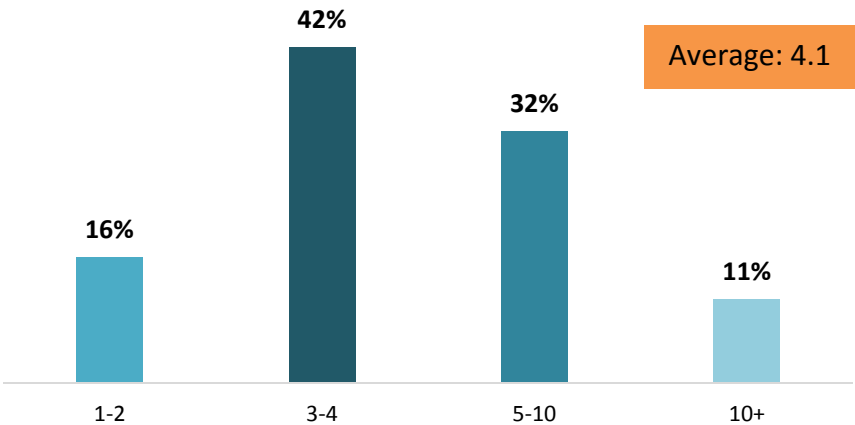
**42%**

Average: 4.1

**32%**

**16%**

**11%**

| 1-2 | 3-4 | 5-10 | 10+ |

*Figure 3: Number of people in competitive analysis team*

Product management has the primary responsibility for competitive analysis in 42% of the companies that don't have a dedicated team.

In a quarter (25%) of the companies, several departments do the analysis related to their area of expertise. The actuarial group is responsible for competitive analysis in 13% of the companies.

Product Management **42%**

Several departments do the analysis related to their area of expertise **25%**

Actuarial Group **13%**

Sales Management **8%**

Finance **4%**

No person or group is responsible for competitive analysis **4%**
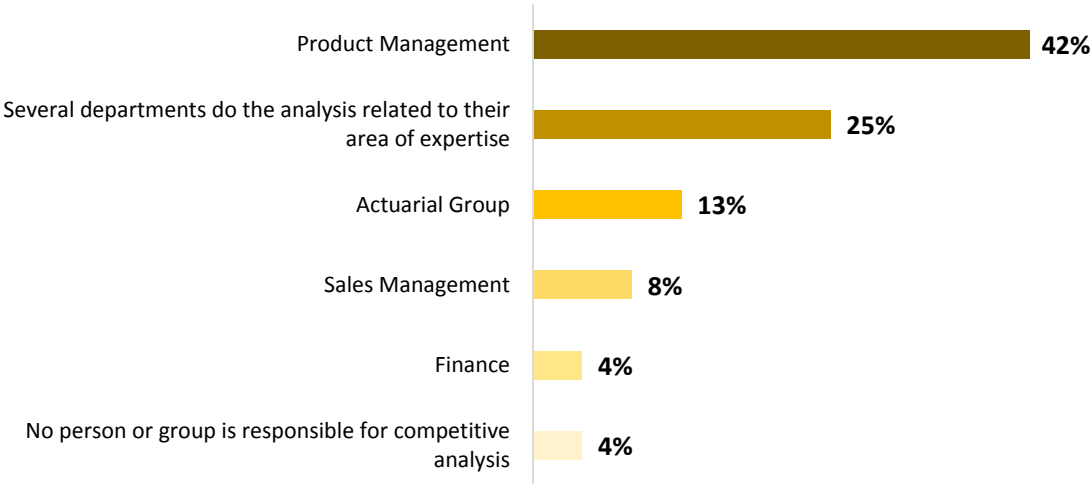
*Figure 4: Primary responsibility for competitive analysis*

# Which Competitors Are Analyzed?

When selecting which competitors to analyze, most companies choose their largest competitors. As many as 42% of the respondents target the largest writers of each line of business in the primary distribution channel of the company, and another 21% target the largest writers in each state/province regardless of distribution channel.
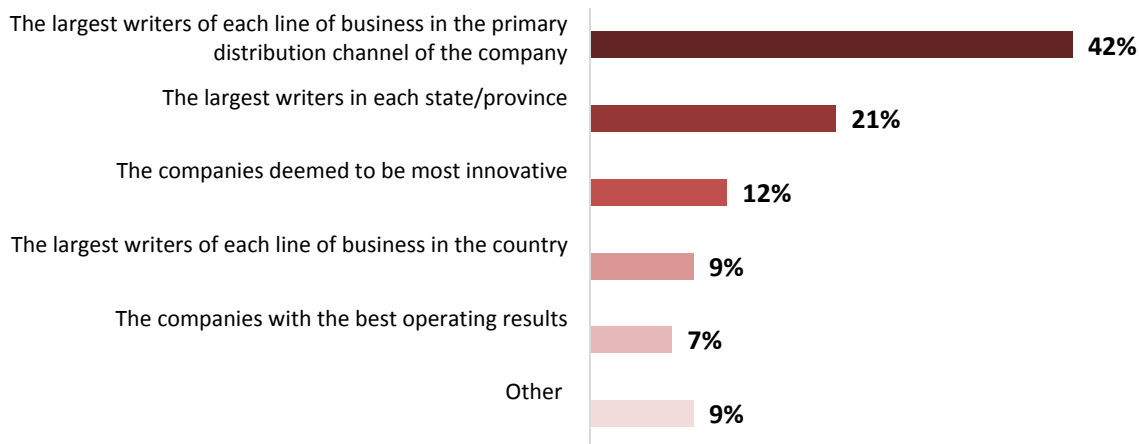


*Figure 5: Top criteria used to determine which competitors to analyze*

While the average number of competitors tracked in each state/province is right around five, 28% of the companies are tracking seven or more competitors.
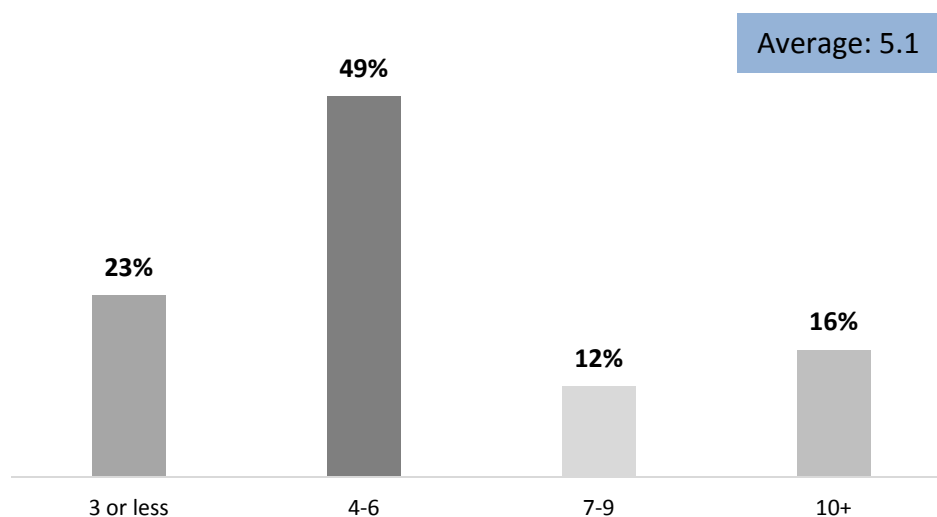


*Figure 6: Actively tracking competitors per state/province*

# Types and Uses of Competitive Analysis

Almost every company surveyed (93%) performs rate structure and rate competitive analysis. Other common types of competitive analysis include product features (79%), coverages and contracts (70%), financial metrics (58%), and underwriting guidelines (56%).
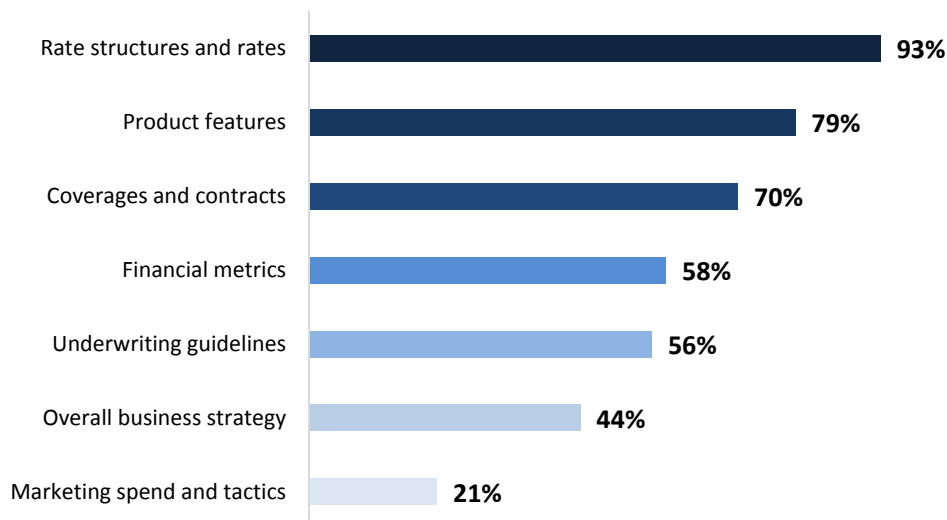


*Figure 7: Types of competitive analysis performed*
*(Respondents could select more than one option)*

The majority of the companies surveyed (72%) use competitive analysis information to gauge overall competitiveness, guide factor selection and/or determine overall rate level. Other common uses of competitive information include avoiding adverse selection (47%), adding credibility to business segments in areas with low data volume and support for company filings (37% each).
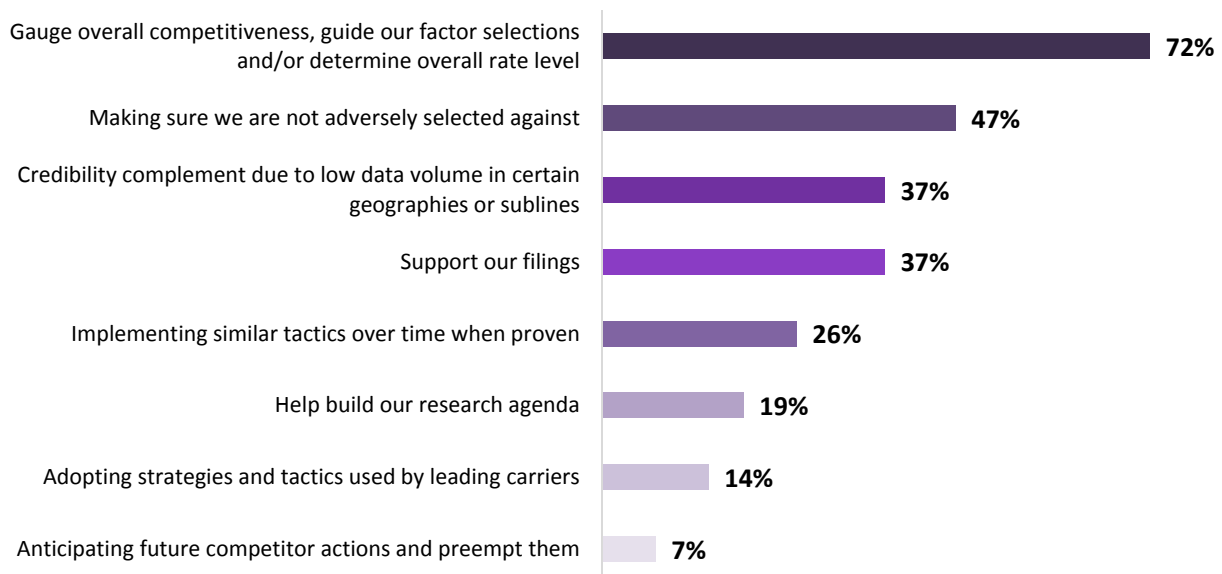


*Figure 8: Top 3 uses of competitive analysis information*
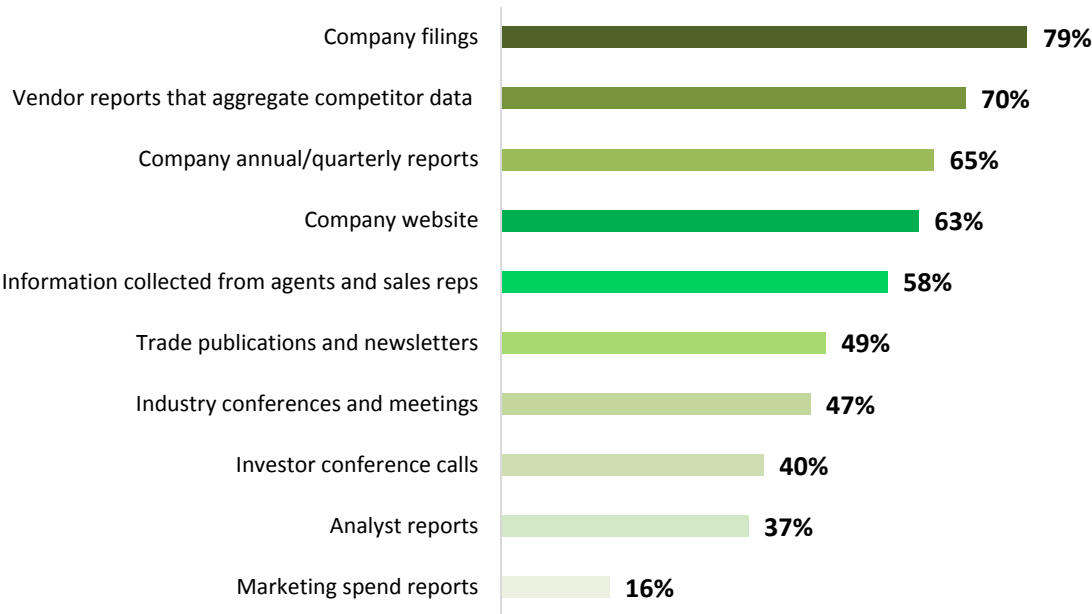*(Respondents could select more than one option)*

# Sources of Information Used for Competitive Analysis

The majority of survey respondents (79%) use company filings as their leading source of information for conducting competitive analysis.

Vendor reports that aggregate competitor data (70%), company annual / quarterly reports (65%), company website (63%), and information collected from agents and sales reps (58%) are additional sources commonly used by companies.



*Figure 9: Sources of information used for competitive analysis*
*(Respondents could select more than one option)*

# Effectiveness of Competitive Analysis Efforts

Most companies view their competitive analysis efforts as effective, with an average score of 3.4 on a scale of 1-5. Almost half of the respondents (44%) rated it as a 4 or above.
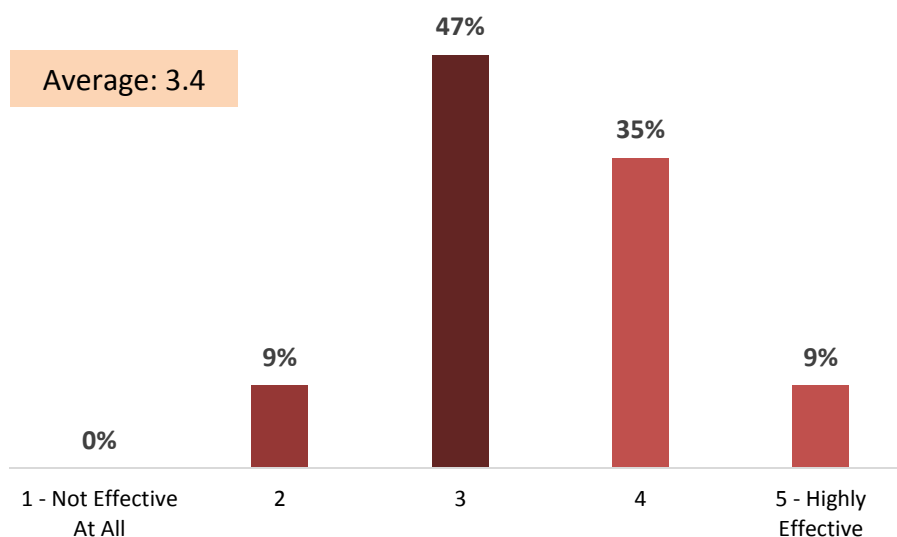


*Figure 10: Effectiveness of competitive analysis efforts*

Regardless of company size, the effectiveness of competitive analysis efforts is perceived to be higher when companies have a dedicated competitive analysis team.
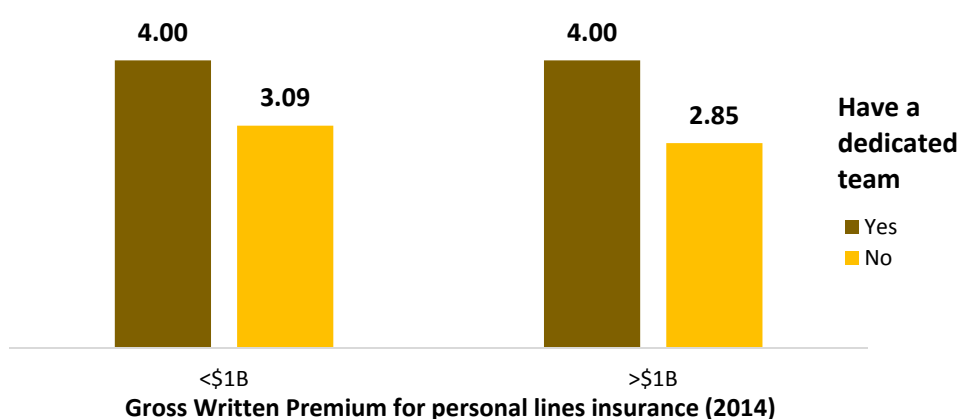


*Figure 11: Effectiveness of competitive analysis efforts by company size*

# Investment and Improvements in Competitive Analysis

Close to half of the respondents (47%) plan to invest more in competitive analysis in the next 12 months. 51% plan on keeping the current level of investment, while only 2% intend to invest less.
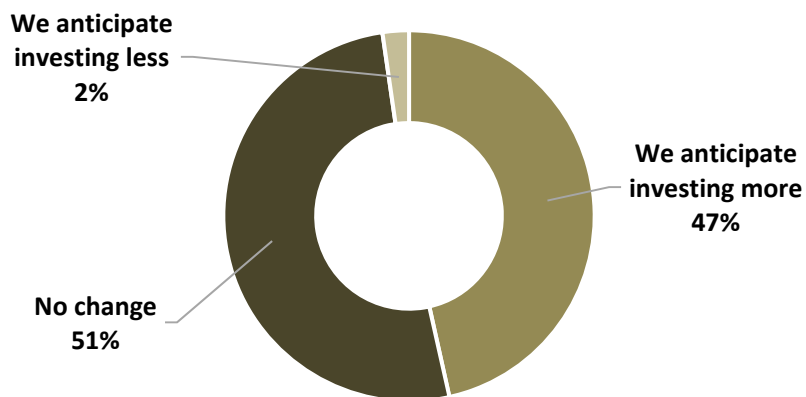


*Figure 12: Investment in competitive analysis in the next 12 months*

According to survey respondents, better analysis tools (58%) and better data collection (51%) would be the top choices for improving the effectiveness of competitive analysis.

Other improvements mentioned include:

- More actionable recommendations
- More structured processes
- More timely analysis
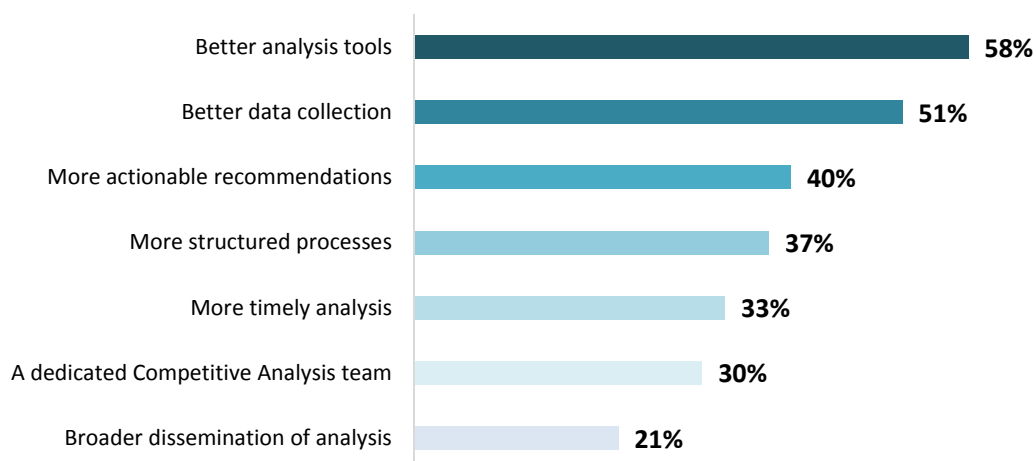


*Figure 13: Top improvements for a more effective competitive analysis (Respondents could select more than one option)*

# Competitor Rate Analysis Practices

With the increased complexity of competitors' rating plans, companies are adapting their toolset for comparing premiums. A decade ago, a company could maintain its competitors' rates in a basic Excel workbook. Each time a company changed rates, the workbook would be updated with the new factors. These days are gone (or at least quickly disappearing). Insurers are now relying more heavily on competitive rating tools. 87% of the companies surveyed cite using vendors to acquire/calculate premiums for their competition.

Unfortunately, these tools are not without their own complexity. In many cases, companies do not have the relevant policy information to populate these tools and broad assumptions must be made (e.g. credit, underwriting, telematics). Some companies invest significantly to perfect these assumptions and produce the most accurate competitive analysis possible, while others save time and energy by just making more generalized assumptions.

One thing about these assumptions is that they can evolve over time. Credit estimation is one example: 21% of companies are using a variety of methods to impute their competitors' credit scores. Over time, companies have been able to refine their credit score estimation, resulting in multiple methods used throughout the industry. However, for newer programs like telematics, most companies (71%) are just assuming no discount applies. As adoption becomes more widespread and the focus shifts to finding a competitive niche within telematics, these assumptions will surely become more refined.

Even with all these assumptions built into the process, companies are still mostly confident in the resulting premiums. Half of the companies surveyed are highly confident in the accuracy of their calculated competitors' rates.

> *"If you know the others and know yourself, you will not be imperiled in a hundred battles."*
> *-- Sūn Zǐ, 6th century BCE Chinese general who wrote The Art of War*

The primary use of competitive rate analysis cited in this survey is gauging competitive market position (92%). While there are multiple ways to gauge your company's competitive position, some methods are less prone than others to biases introduced by the inherent imperfections of the assumptions. For example, maintaining the same rate assumptions over time and measuring the changes in competitive position can provide a good indication of how companies are changing rates by segment, even if the aggregate level effect might be off. Companies that are regularly changing their underlying assumptions find it more difficult to understand how their competitive position is changing over time.

Although competitive rate analysis is an imperfect science, companies are still finding value in the results and use the information to guild many aspects of the pricing process such as credibility complements and defining territory boundaries. With price competition consistently increasing, companies will continue to find innovative ways to leverage competitive pricing data for years to come.

*Drew Lawyer*

Drew Lawyer
Sr. Professional Services Consultant, Earnix

# Obtaining Competitor Premiums

Close to two-thirds of the respondent (62%) use their own quotes to assemble the market basket of risks they compare to their competitors. Simulating data for a hypothetical market basket and using their own in-force policies were mentioned by 46% of the respondents, while 41% of the respondent purchase quotes from an outside vendor in order to assemble the market basket of risks.
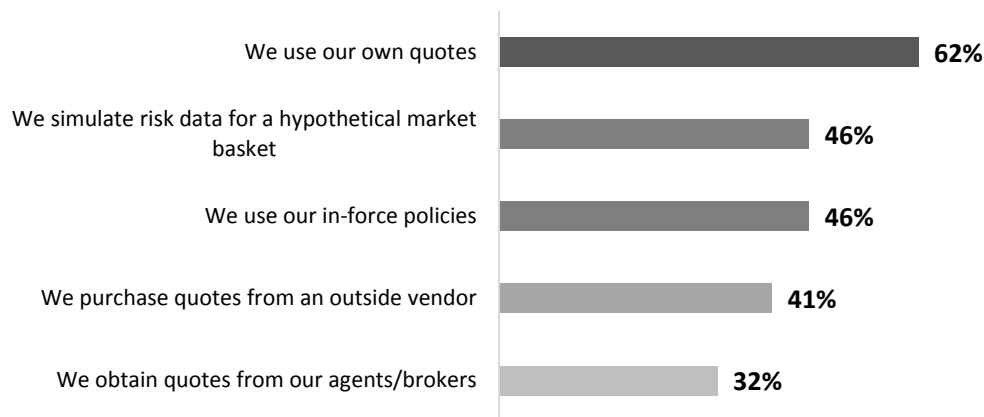


*Figure 14: Ways to assemble market basket of risks for which rates are compared*
*(Respondents could select more than one option)*

The vast majority of the companies (87%) obtain competitor premiums from comparative rating vendors. 35% mentioned that their agents provide competitor premiums, 34% calculate competitors premiums by collection filings, and 30% purchase premiums from an outside vendor.
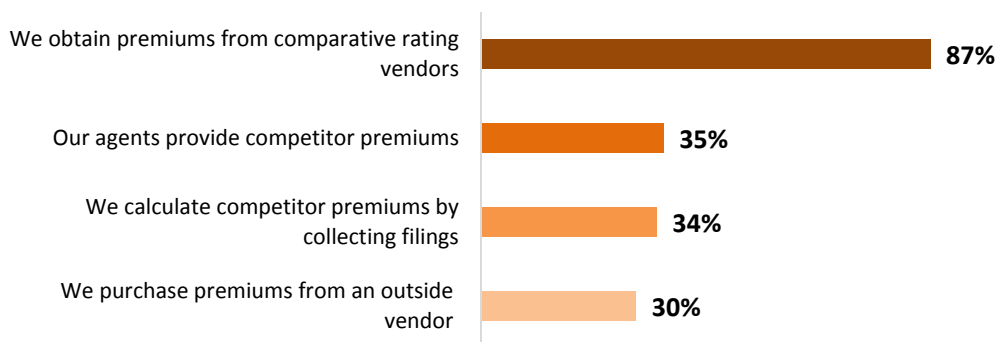


*Figure 15: Ways to obtain competitors premiums*
*(Respondents could select more than one option)*

# Assigning Credit Scores

Companies use a variety of ways to handle credit scoring when programming competitors' rates. Moreover, 21% of the companies use different methods for different competitors.

Popular methods used by these companies include:
- Reverse engineering of competitors' credit scoring systems
- Using an external vendor to assign credit scores
- Assuming similar credit score group to what their company assigned

Only 12% of the companies ignore credit score variance and use just a single credit tier.
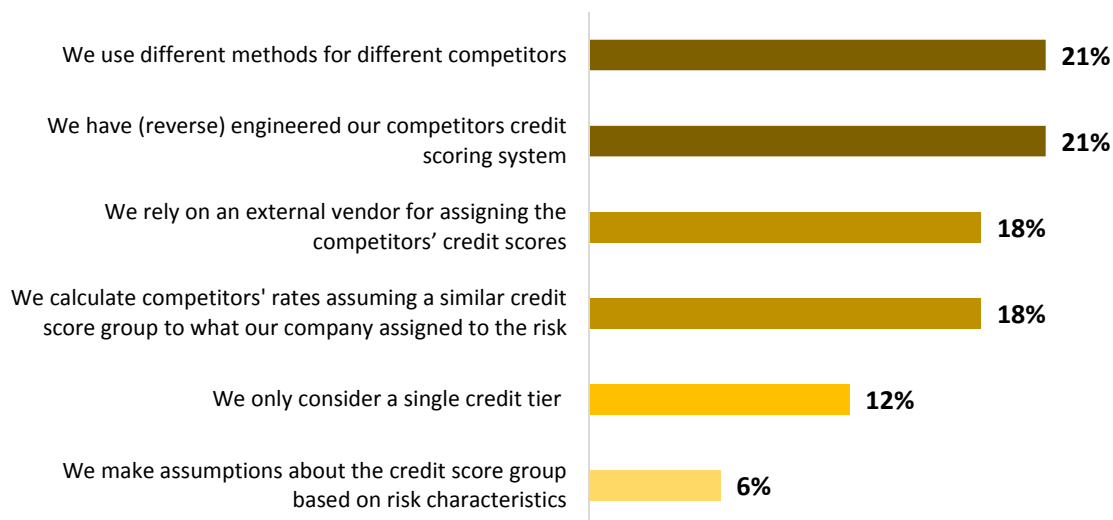


*Figure 16: Ways to handle credit scoring when programing competitors' rates internally*

# Confidence in Estimating Competitors' Credit Scores

Confidence in estimating competitors' credit scores is not very high, with an average score of 2.8 on a scale of 1-5. Over a third of the companies (36%) rates their confidence 2 or less.

Average: 2.8

| | | | | |
|---|---|---|---|---|
| 15% | 21% | 36% | 21% | 6% |
| 1 - Not Too Confident | 2 | 3 | 4 | 5 - Highly Confident |
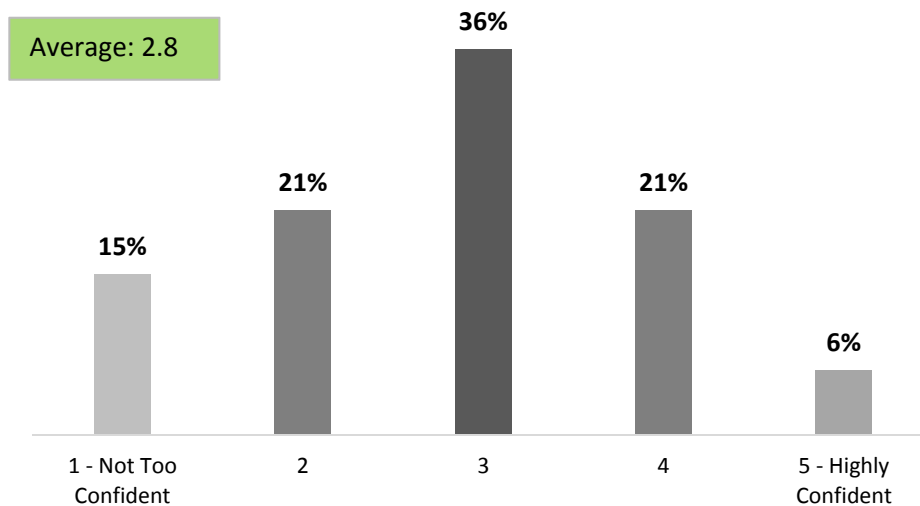
*Figure 17: Confidence in estimating competitors' credit scores*

The confidence in estimating competitors' credit scores is higher when companies have a dedicated competitive analysis team, regardless of company size.

**Have a dedicated team**
- ■ Yes
- ■ No

| | <$1B | >$1B |
|---|---|---|
| Yes | 3.80 | 3.38 |
| No | 2.60 | 2.00 |

**Gross Written Premium for personal lines insurance (2014)**
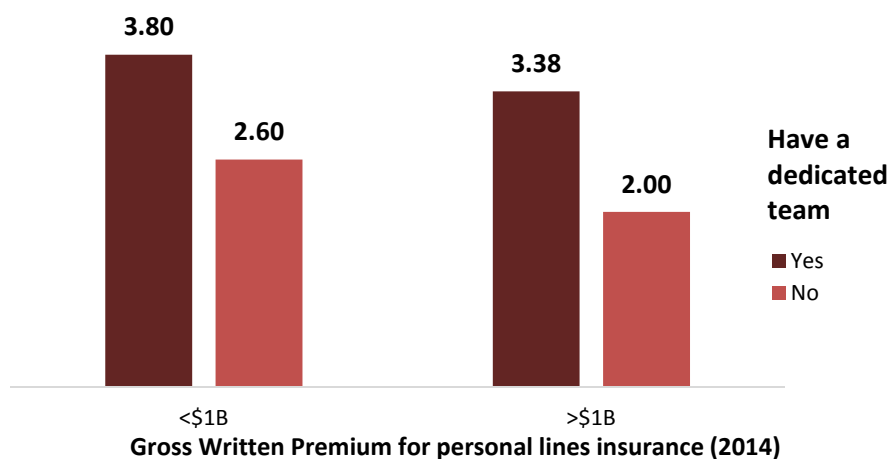
*Figure 18: Confidence in estimating competitors' credit scores by company size*

# Assigning Telematics Discounts

Most respondents (71%) assume no telematics discount when programing competitors' rates internally.

9% of the respondents make distributional assumptions about who receives a discount and how large it is, and another 9% only apply the initial offer discount.
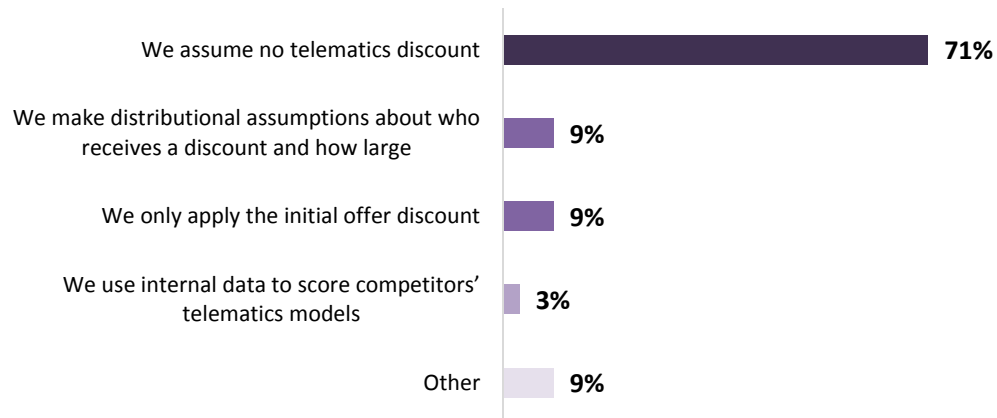


*Figure 19: Ways to handle telematics scores when programing competitors' rates internally*

# Use of Competitor Rate Analysis, Frequency of Updates

Almost all survey respondents (92%) use the results of their competitor rate analysis to gauge their competitive market position.

Additional common uses include:

- Guide factor selections
- Get ideas for how to refine their own rate structure
- Define territorial boundaries



Gauge our competitive market and market positions — **92%**
Guide our factor selections — **69%**
Get ideas for how to refine our own rate structure — **58%**
Define our own territorial boundaries — **56%**
Estimate the impact on new business growth and other metrics for any rate change — **50%**
Consider competitor premiums when setting our overall rate level — **44%**
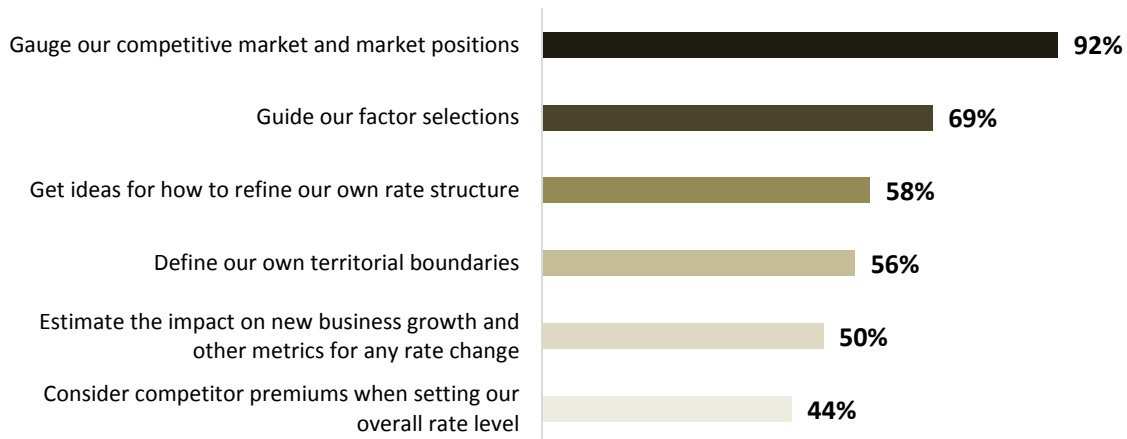
*Figure 20: Use of competitors' rate analysis*
*(Respondents could select more than one option)*

Close to half (49%) of the companies surveyed update competitor rates every time they work on a rate change. Another 37% of the respondents update competitors' rates on a regular basis, while 11% update them at a random frequency.



On a random basis 11%
On a regular basis 37%
Every time we are working on a rate change 49%
Whenever an important competitor changes rates 3%
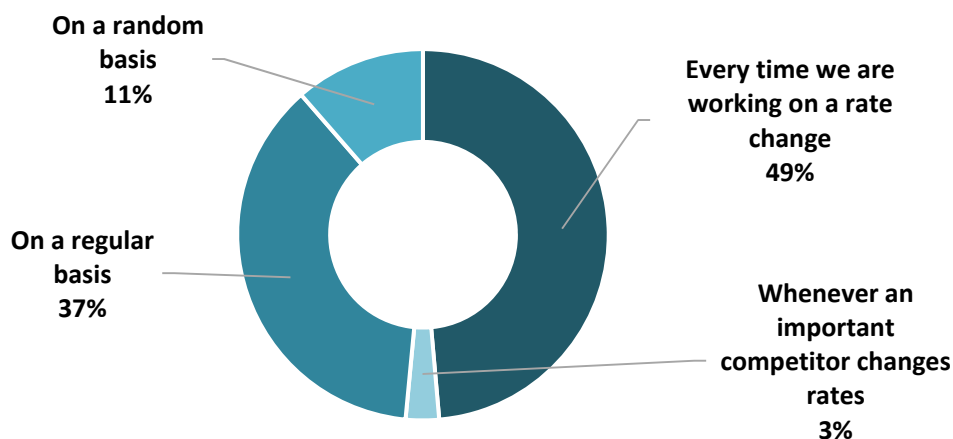
*Figure 21: Frequency of updating competitors' rates*

# Impact of Insurance Shopping Sites

The emergence of insurance shopping sites is making competitor rate analysis more important in the eyes of many of the respondents (43%), while 54% of the respondents expressed no change. Only 3% said it became less important.
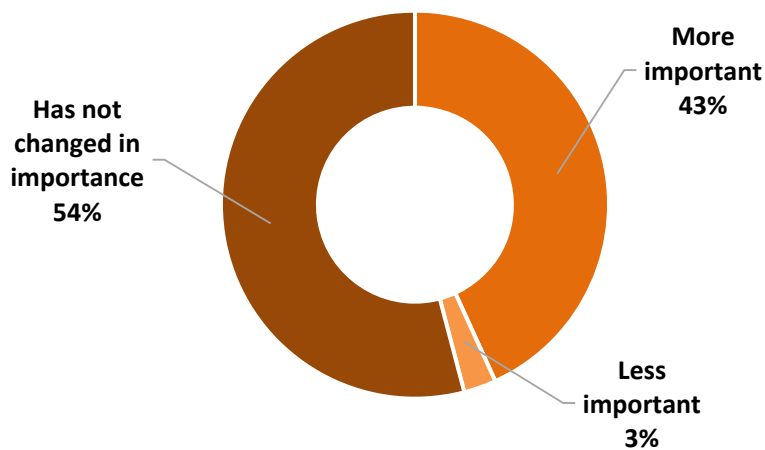


*Figure 22: Competitor rate analysis in light of auto insurance shopping sites*

Smaller companies are more affected by the rise of shopping sites. As many as 50% of the smaller companies say their competitor rate analysis has become more important compared to just 39% of the larger companies.
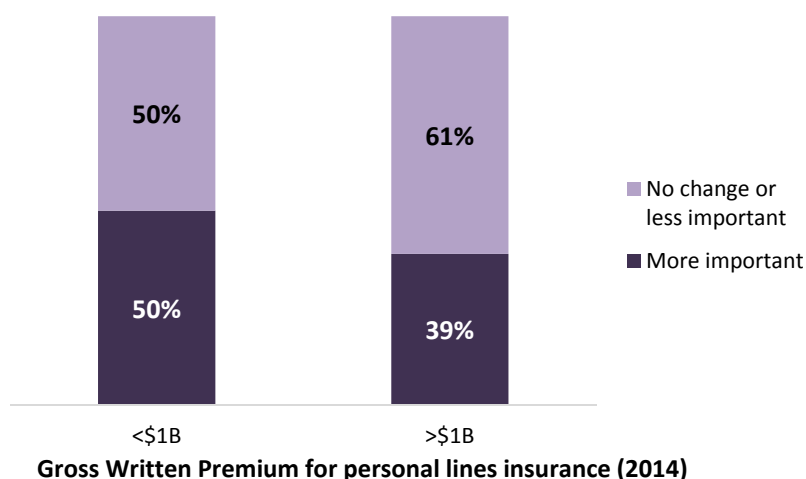


*Figure 23: Competitor rate analysis in light of shopping sites by company size*

# Confidence in the Accuracy of Competitors' Rates

Most companies are quite confident in the accuracy of their calculated competitors' rates. The average score is 3.3 on a scale of 1-5, and 50% of the respondents rate their confidence as a 4 or higher.
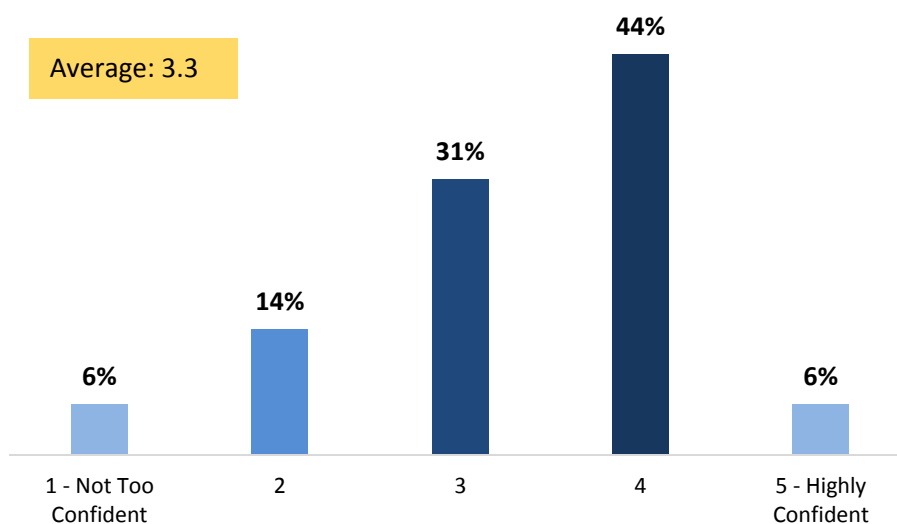


*Figure 24: Confidence in the accuracy of the calculated/derived competitors' rates*

According to survey results, it seems that having a dedicated competitive analysis team has only a minor impact on the confidence in the accuracy of calculated competitors' rates.
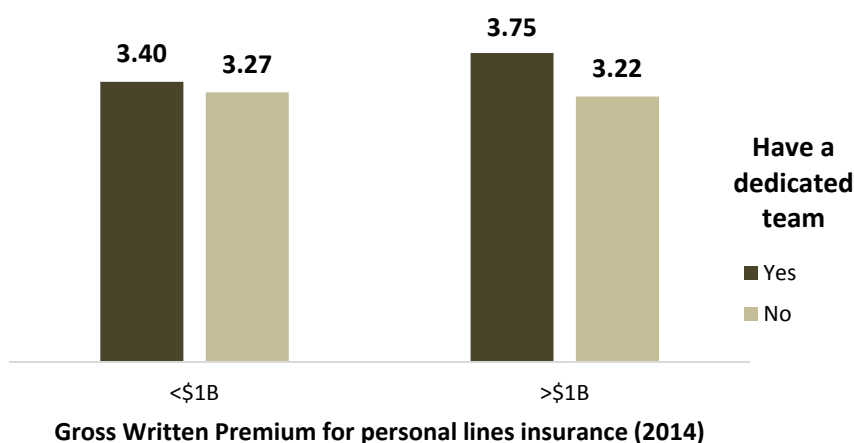


*Figure 25: Confidence in the accuracy of the calculated/derived competitors' rates by company size*

# How to Make Competitor Rate Analysis More Effective?

Close to two-thirds (65%) of the respondents acknowledge the usefulness of competitor rate analysis by rating them a 4 or higher on a scale of 1-5. The average score across all respondents is 3.8.
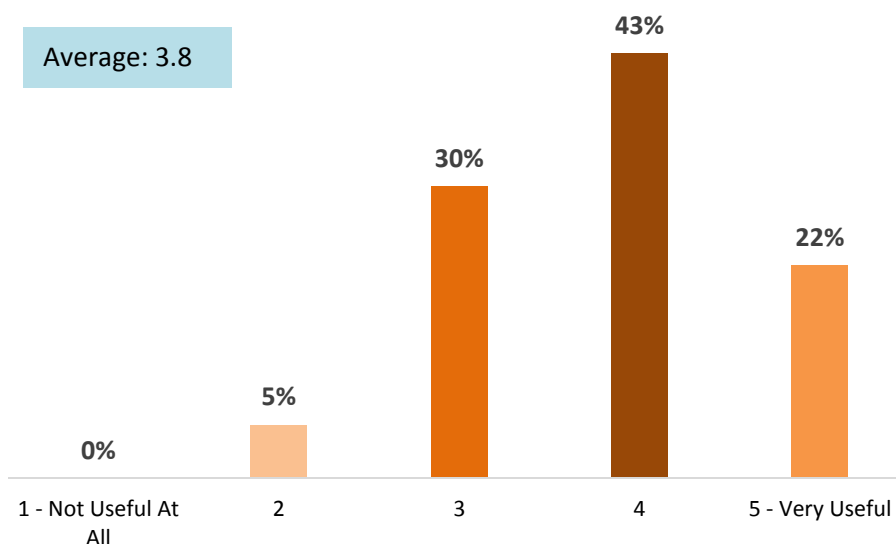


*Figure 26: Usefulness of competitor rate analysis*

The top improvements that would make for a more effective competitive rate analysis according to the respondents are improved accuracy of competitors' rates (70%) and better understanding of competitors' credit scoring algorithms (68%).
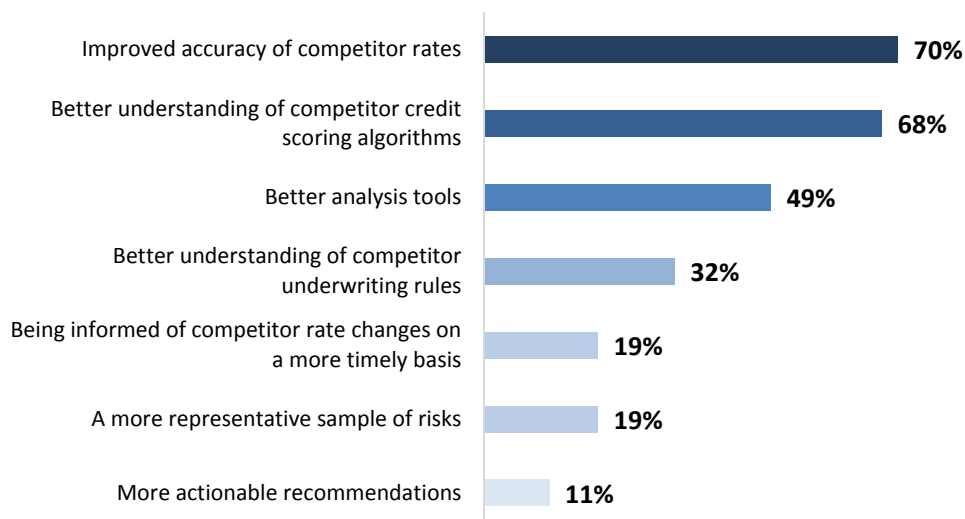


*Figure 27: Top three improvements for a more effective competitor rate analysis*
*(Respondents could select more than one option)*

# Respondent Demographics: Company Lines and Size

The vast majority of the respondents (79%) offer both auto and home insurance, while 13% offer only auto insurance and 8% only home insurance.
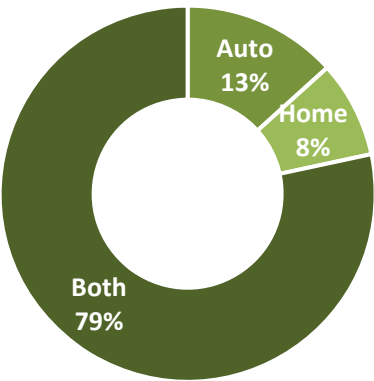


*Figure 28: Product offered*

Survey respondents represent a mix of small and large companies, with over half of the respondents (55%) representing companies with more than $1B in Gross Written Premium (GWP).
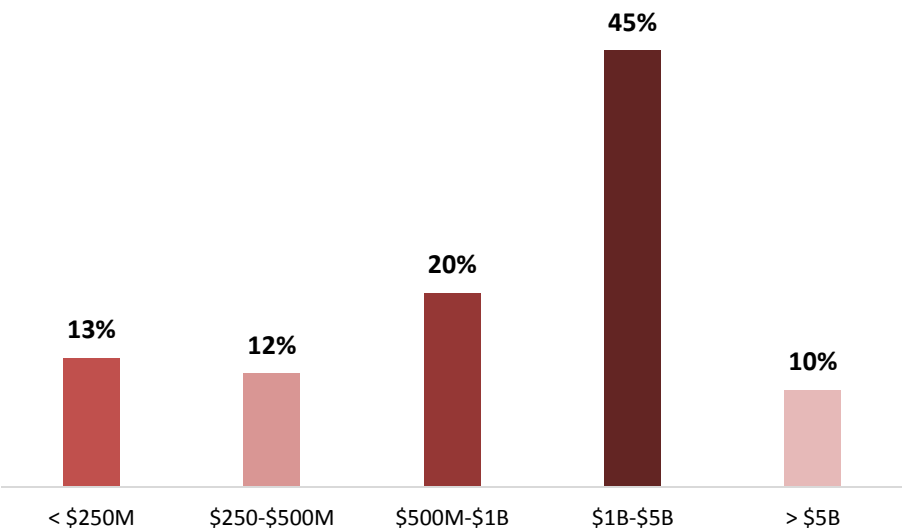


*Figure 29: Personal line insurance Gross Written Premium (2014)*

# Respondent Demographics: Role in the Company

The three roles comprising the majority of survey respondents include R&D analysts or managers (34%), company executives (26%), and pricing analysts or managers (23%).



- R&D Analyst or Manager
- Executive Management
- Pricing Analyst or Manager
- Product/State Manager
- Finance
- Other
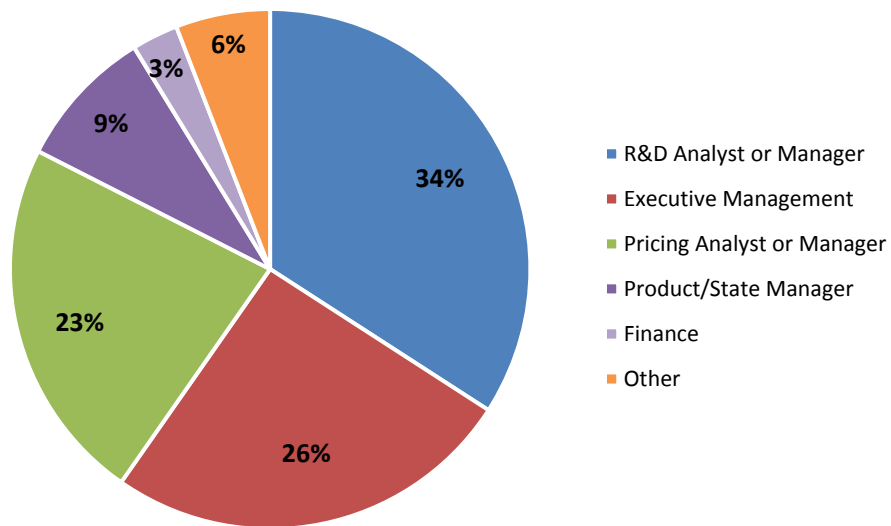
*Figure 30: Respondent role*

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# About Earnix

Earnix Integrated Pricing and Customer Analytics software empowers financial services companies to predict customer demand and its impact on business performance, enabling the alignment of pricing and products with changing market dynamics. Earnix combines risk and demand modeling with real-time connectivity to core operational systems, bringing the power of analytic-driven decisions to every customer interaction in any regulatory environment. Leading banks and insurance companies rely on Earnix solutions to optimize the prices of deposits, loans, and policies, delivering greater value to customers and higher returns to shareholders.

For more information visit: [www.earnix.com](www.earnix.com)

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