

## Are you getting the best deal on insurance?



**“some insurers are trying to analyse human behaviour”**

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How can you be sure that you are getting the best deal when renewing your house or car insurance? Many people will look for better deals by using an insurance broker, contacting insurers directly or perhaps through an internet comparison site. In this article we explain why shopping around is likely to get you a better deal. Understanding how insurers analyse risks and their customers' behaviour provides an insight into the questions asked and why some apparently similar risks are offered different premium rates.

Traditionally insurers have analysed risks using claims data and devised underwriting methods based on underwriting factors. For example, in motor insurance, typical rating factors will include type of car, age and gender of drivers etc. However, other less obvious factors are now also used by some insurers. For example, some insurers may use credit ratings or claims on household policies as an indication of likelihood to claim.

Insurers also consider their competitive position. Some have a greater appetite for higher risk drivers but try to ensure that an appropriate premium is charged. Other insurers will charge a prohibitive rate to discourage business from (say) younger drivers. Such approaches have been used for years but increasing computer power means that some insurers may now target relatively small sectors such as a location or particular age band.

As the market gets more competitive, insurers are looking for further factors to try and identify those least likely to claim. In addition to traditional underwriting factors and analysing the market, some insurers are trying to analyse human behaviour. It may be possible to increase market share by offering more competitive rates. However, most individuals may not change insurer for a small reduction in premium. Therefore, the insurer has to assess what level of premium reduction is needed to persuade an individual to change insurer. Similarly, insurers with a large book of business may keep rates higher if they believe few will switch (on the basis that those who do not switch will be more profitable for the insurer).

Actuaries have helped insurers devise programs to analyse their own data. They have also helped to determine how insurers can assess the likelihood of individuals to switch if offered lower premiums through sample marketing campaigns. The results can then be extrapolated to the whole portfolio.

So what does this approach mean for individuals?

First, it explains why it is often necessary to look for better deals each year. Each insurer may judge that, as not all individuals (and sometimes even brokers!) look at the whole market each year, it may offer less attractive rates to existing customers than when targeting new customers. Each individual will have to trade off the time and trouble of reviewing the market with the risk that the renewal premium is uncompetitive.

Second, individuals need to understand that some factors may affect their quotations in ways they may not expect.

For example, including the fact that a claim is made on a household policy may mean that a less attractive rate is offered on a motor policy with the same insurer. Not all insurers may use the same approach so this is another reason why shopping around for the best rate may be needed to get a more competitive rate.

In some cases insurers may look at customer behaviour in response rates to advertising. For example, if you tick a box asking to receive other information, the insurer may offer better rates to attract a customer open to other offers. The downside is that it is not certain that you will get a better rate and you may be bombarded with other marketing initiatives!

Insurers are using a mixture of actuarial analysis and insights into customer behaviour to target better risks. Individuals will need to keep reviewing their provider to ensure that they are offered a competitive rate.



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