

PRESS RELEASE

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## DIRECT TALKING

*Michael Blain, CEO of Centriq Insurance, looks at the changing face of consumers' insurance needs after the advent of direct insurance*

South Africans are increasingly moving towards direct purchasing methods when it comes to buying personal lines short-term insurance. This has largely been attributed to the fact that innovation and technological advancements, such as call centres and online insurance, have been introduced by direct insurers to enhance the customer experience.

Around 30% of short-term insurance products in South Africa are sold online or over the phone. It is expected that the split between policies sold direct vs. policies written through intermediaries will eventually match the UK's 60/40 split.

Michael Blain, CEO of Centriq, asks what is driving the growth in direct insurance products and services. He also takes a closer look at what this means for the traditional broker and the intermediated distribution models that dominated the global insurance industry until relatively recently.

He says in part, the definition below describes a number of the factors inherent in the direct insurance model:

**Direct:** adjective: 1. going from one place to another without changing direction or stopping. 2. without intervening factors or intermediaries. 3. straightforward, frank. 4. clear, unambiguous

**Reference: Compact Oxford English dictionary**

Blain looks at each point in closer detail:

1. **Going from one place to another without changing direction or stopping.** "In today's world of instant gratification, the appeal of direct insurance is immediate feedback to the policyholder," says Blain. "There is no break in the process such as waiting for an intermediary to source competing quotations and cover can be incepted there and then."
2. **Without intervening factors or intermediaries.** By shortening the chain of communication, Blain says no extraneous factors can affect the understanding of the risk for the insurer, nor the terms and conditions quoted by the insurance company.
3. **Straightforward, frank.** Through scientific underwriting and direct communication with the policyholder, the direct underwriter is able to apply risk selection at an individual policy level. "The underwriter asks specific, probing questions of the policyholder which (ought to) leave little room for interpretation at claim stage," notes Blain.
4. **Clear, unambiguous.** Blain says it is claimed that direct insurance makes insurance simpler and more straightforward as a result of the insurer and policyholder communicating directly with one another.

"But," he says, "a common misconception among the general public is that direct insurance is cheaper than traditional insurance sold via a broker." This has been reinforced by

insurance campaigns claiming to 'cut out the middleman' and suggesting that this should result in a saving to the policyholder. Blain says that where the policyholder fits the direct insurer's risk criteria exactly, this may well be the case. "In other cases," he says, "it may be that direct insurance is more expensive as a result of individual underwriting and risk rating i.e. no cross subsidisation between good and bad risks as is often the case in broker client portfolios." He says this is seen particularly in the underwriting margins of direct insurers compared to traditional insurers, where certain direct insurers have reported substantially higher underwriting margins for comparable periods.

Changing consumer preferences and buying patterns are influencing the insurance purchase decision. The desire for instant feedback and self service, made commonplace through call centres and internet websites, has seen widespread acceptance of direct insurance. This is further supported by the commoditisation of personal lines (household and motor) insurance and the growth purchase evident among many insurance purchasers.

"The role of the traditional broker is not well understood," says Blain, "especially by many first time buyers of insurance." He goes on to mention that it is often only at claims stage that the insured is confronted with their lack of understanding of the insurance they have purchased and the restrictive clauses that apply to the policy.

"An experienced broker can add substantial benefits to an inexperienced consumer in securing the best cover at the outset as well as providing valuable assistance at claims stage," notes Blain. "Insurance is more complex than is commonly understood and the playing fields are not level between a sophisticated insurance company and the average man in the street. As insurance cover becomes more commoditised and due to the extremely competitive nature of the insurance market, the offerings become more similar and the differentiation provided by a broker becomes more difficult to apply."

Increased compliance costs have forced many brokers to abandon the lower end of the market due to the economic reality that it is unprofitable to service this market with personal time and attention. Some brokers have responded by opening their own 'direct' insurance businesses, dealing with consumers via call centres and internet portals. A further emerging phenomenon is the 'insurance aggregator' where a consumer is able to obtain multiple 'direct' insurance quotes from a single source like an internet website or call centre.

"These trends do not suggest that one model is superior to another – merely that market and societal forces will drive change in certain directions and brokers and insurance companies will have to respond accordingly," Blain concludes.

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821 words

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