McKinsey&Company

Friends or foes: The rise of European aggregators and their impact on traditional insurers

After grappling with aggregators for 20 years, many European insurers have embraced them as an effective way to reach customers. We estimate that today almost 50 percent of online insurance in Europe is sold via aggregators. The implications for insurers are significant.

Simon Kaesler, Johannes-Tobias Lorenz, and Felix Schollmeier

Insurance Practice December 2018

European aggregators—digital brokers and expert advisers that connect customers with product providers—have evolved significantly over the past two decades. What started as simple lead-generation websites are now—in some cases—advisory platforms with advanced broker functionalities and robo-adviser features that help consumers choose between a wide range of products, from insurance contracts to rental cars. Customers increasingly use aggregators both at the start of their buying journey, to get an overview of the market, and at the end, by purchasing directly from the aggregator rather than the product provider. In fact, we estimate that today almost half of online insurance in Europe is sold via aggregators.

For many insurers, aggregators have become, in effect, the customer-facing side of their business. This change has led to a strong networking effect: rising use leads more product providers to employ aggregators as a sales channel while increasing market coverage attracts more users. Increased coverage also leads to better conversion rates, effectively driving down acquisition costs for the aggregator. The result is an outstanding business model for aggregators—which, according to McKinsey analysis, typically enjoy high profit margins of up to 30 to 40 percent of earnings before interest, taxes, depreciation, and amortization (EBITDA) as well as a surge of M&A interest from potential acquirers.

The implications for insurers are significant. To respond, they must first develop a deep understanding of the hallmarks of leading aggregators as well as the pros and cons of aggregators' business models. Then they must choose how to react: steer clear completely, cooperate by designing products for aggregator channels, or actively pursue acquisition. The choice of how to approach aggregators will have far-reaching effects on insurers' overarching business models and market positions.

Mapping the European aggregator landscape

Most aggregators either offer a wide range of relatively simple products or focus on more complex single-product segments. The most successful are becoming one-stop shops for a wide range of customer needs. Since they first emerged in the late 1990s, European aggregators have followed four stages of maturity:

1. Price-comparison only. At the most basic level, aggregators offer a simple price-comparison service financed through ads or listing fees.

2. Lead-generation only. In this model, aggregators generate leads and sell them to brokers or product providers. If aggregators can generate traffic more cheaply than product providers, there is an opportunity for arbitrage. The initial technology investment for this model is low, and the focus is on marketing.

3. Broker. Some aggregators act as brokers, providing digital advice and recommendations in addition to lead generation. This arrangement increases the risk for aggregators, as they are liable for bad advice, but also increases potential rewards through higher commissions. The process is more complex, increasing technology costs.

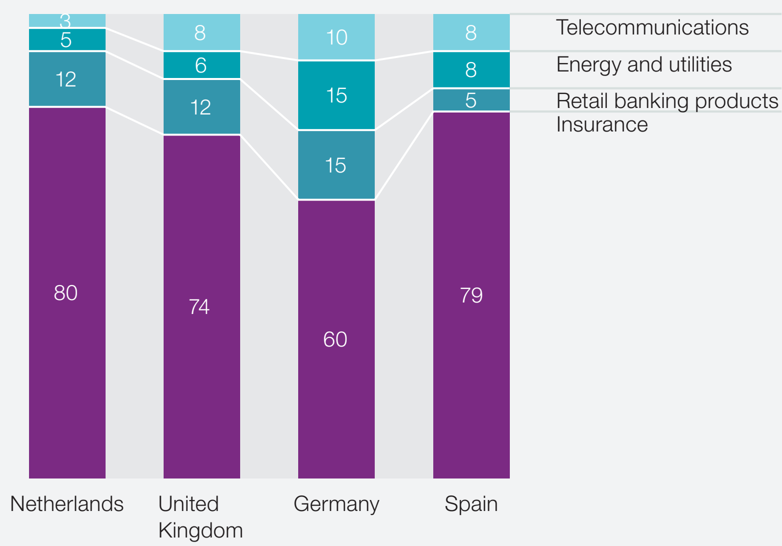
4. Product provider. In the most advanced scenario, the aggregator starts to fill in gaps where provider coverage is minimal or nonexistent, or where it can compete in attractive customer segments with proprietary products. These products are often white-label solutions offered at a lower price than the providers' own brand.

Aggregators often start out as specialists in one area but ultimately broaden their reach by incorporating more verticals. For example, Check24 started out in insurance, MoneySuperMarket in mortgages, Verivox in energy—but all three of these larger players are now active in finance, insurance, travel, and energy. A larger portfolio of verticals enables aggregators to apply lessons from their initial vertical to other areas, expand marketing reach, and increase user conversion.

Insurance policies were among the first products to be successfully sold or brokered by aggregators. In many major European markets, insurance products still account for 75 percent or more of aggregators' total revenue (Exhibit 1).[1]

Exhibit 1 **Insurance products are the main source of revenue for European aggregators.**

Share of total aggregator revenue, %, 2015



Source: Admiral; expert interviews; MoneySuperMarket

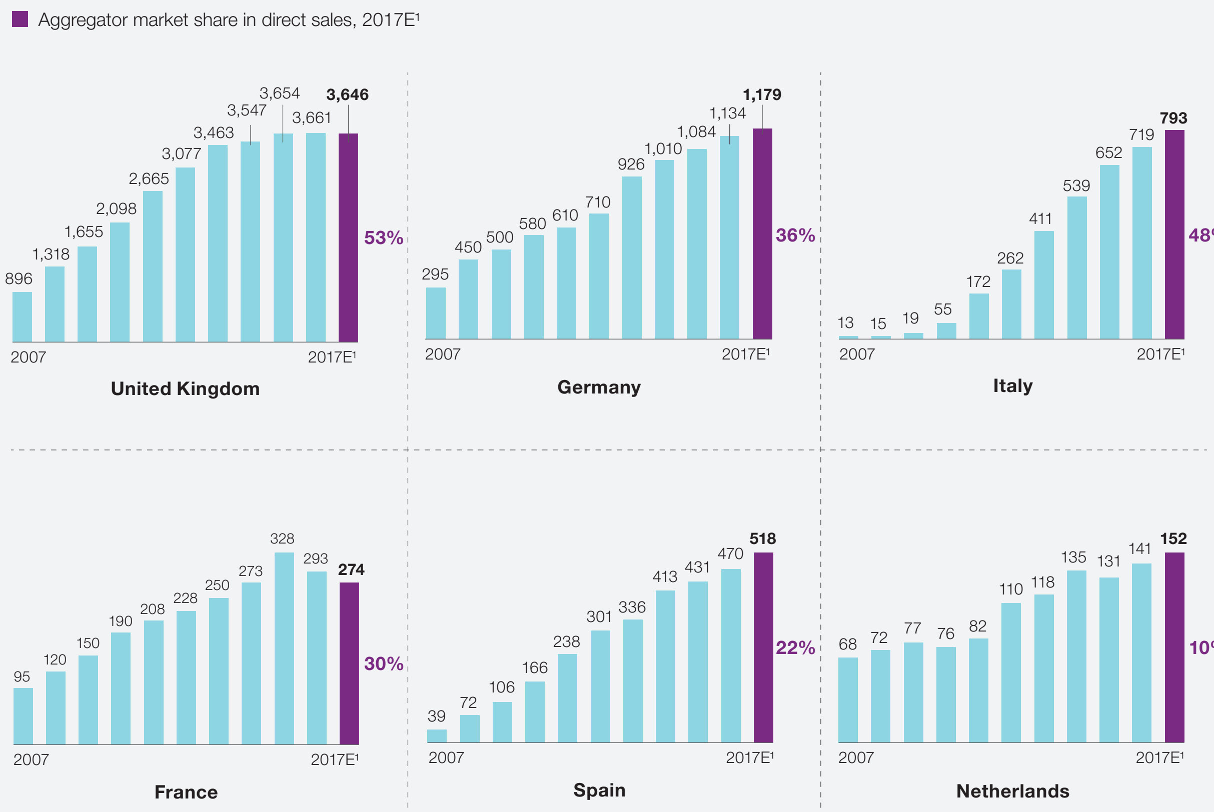
As European aggregators have evolved, they have helped insurers dramatically expand their customer reach—at a predictable cost. Consumers have also been keen adopters: aggregators open up the market, make it more transparent, and force insurers to compete on price and, depending on the vertical, on product performance. Aggregator transparency automatically puts significant pressure on insurers' pricing; as the aggregator channel grows in importance for an insurer, that price pressure has increasing impact on its overall margins. Furthermore, as its market strength and brand grow, an aggregator typically shifts toward adding more value for consumers rather than service providers.

Monopolies or oligopolies of aggregators have been forming in every European market (see sidebar "The US market exception"). In some countries, however, aggregators compete against fintechs, insurtechs, and insurers that sell policies directly. These players are fighting hard to keep their B2C model and have yet to challenge the overall dominance of aggregators. In fact, aggregators are maintaining—and in many cases tightening—their grip on both leads and customer access. In almost every European market, aggregators' motor gross written premiums (GWP) grew at double-digit compound annual growth rates from 2007 to 2016 (Exhibit 2). In some markets, such

Exhibit 2

Growth of European aggregators is strong across all markets.

Size of aggregator markets, motor gross written premiums (GWP) €, millions



Note: UK numbers are in British pounds due to FX volatility across years.

[1] Estimated.

Source: McKinsey analysis

The US market exception

Unlike the European landscape, the US market has, relative to its size, fewer aggregators. While there are some large aggregators in the financial and loans segment, such as LendingTree or Bankrate, the insurance segment is dominated by direct players. This is partially explained by the hurdle of needing to work with different regulations, agents, and brands per state, but more importantly by the massive spending direct players invest in their own brands. However, we have observed increasing activity in recent years with funding rounds to start-ups such as Compare.com or Coverhound and the recent acquisition by QuoteWizard.

as the United Kingdom, Italy, and Germany, aggregators claimed more than one-third of market share in 2017; in others, such as the Netherlands, aggregators have captured a smaller share, with ample room for growth.

One reason for the growth of European aggregators is their ability to cross-sell beyond insurance, which allows them to justify a higher cost-per-order (CPO) for insurance products. This is an advantage over direct insurance providers, which solely offer insurance products and cannot profit from cross-selling. In addition to this structural aspect, aggregators are also able to acquire customers more cheaply than their competitors. However, they still face relatively high marketing costs, given the importance of branding and the rising costs of paid search in the face of increasing competition from other aggregators or product providers' own direct channels. Some aggregators have begun to consciously shift marketing budgets to better invest in their own brand, which has resulted in increased search traffic and website visits (Exhibit 3).

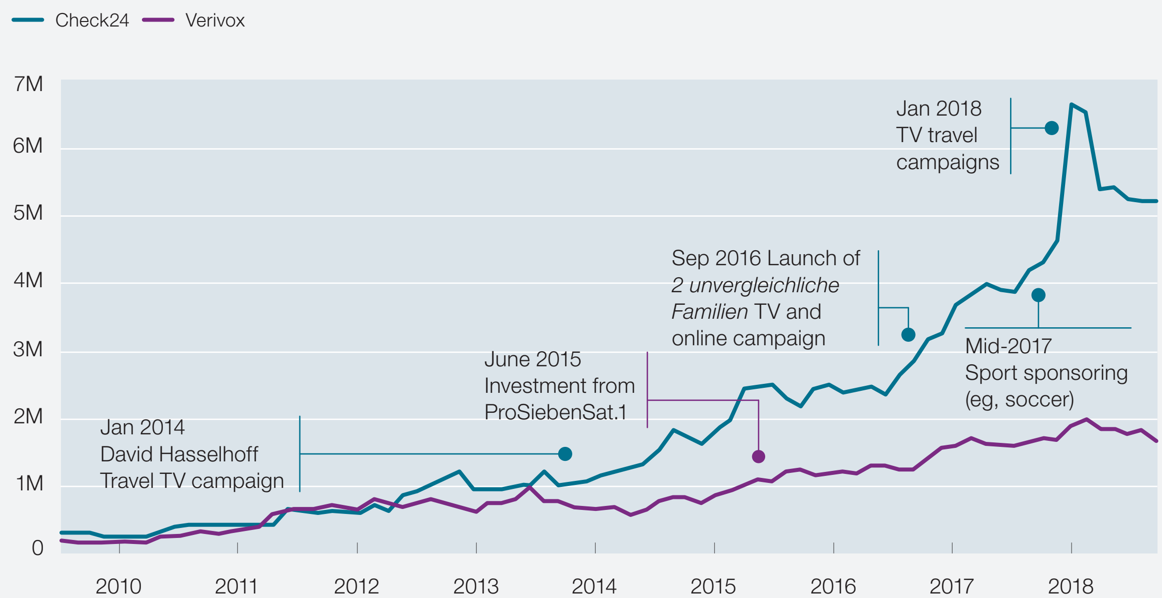
Aggregators' operating costs, which include technology as well as sales and call center staff, increase as products become more complex and commissions increase in value. Back-office functions and maintenance (for example, providing an insurance policy) are cost drivers, though technology can reduce these costs; larger aggregators have begun to automate post-sale services using direct interfaces to assist product providers.

Despite the high costs, revenues are substantial. According to our analysis, leading European aggregators enjoy profit margins of 30 to 40 percent. For example, the UK-based aggregator MoneySuperMarket had an adjusted EBITDA of 38.6 percent in 2017. Players typically adopt one of two revenue models: lead-based compensation or performance-based commission (see sidebar "Aggregator revenue models come in two flavors").

Exhibit 3

Investing in branding pays off.

Example of structured branding approach
Check24 and Verivox desktop organic traffic, 2010–18



Key takeaways
Effective investments in brand marketing streamline realization of OCP key success factors:

- continuous reinforcement of brand awareness
- shared budget under umbrella brand; halo effect for promotion of brands
- increased share of organic traffic and brand searches (reduction of acquisition costs)
- market endorsement for new products
- more customer touchpoints strengthen the brand awareness and increase the chance of repurchase

	Check24	Verivox
Revenue 2016 €, millions	~500	~110
Marketing spend 2016 €, millions, estimates	~150	50–90

Source: McKinsey analysis

Aggregator revenue models come in two flavors

When implementing a revenue model, aggregators often choose between lead-based compensation or performance-based commission. The choice depends on the aggregator's maturity and traffic mix. In lead-based compensation, aggregators receive a one-time payment for generating traffic or leads and prospects, while performance-based commission generates revenue only if the lead converts into a customer.

The **lead-based compensation** model is attractive for aggregators in the early phases of maturity because it allows for immediate recovery of customer acquisition costs. However, it is also less stable because it lacks recurring revenue streams and ongoing customer acquisition depends on constant new traffic.

In maturity, aggregators usually switch to the **performance-based commission** model, an attractive option for aggregators that convert leads more efficiently than the product provider. When a provider has a poorly designed sign-up process, aggregators often design and build their own rather than hand over leads and risk losing customers to a bad experience. This strategy helps to ensure that they convert users into customers and thus earn their commission. The commission model also means that the aggregator—not the insurer—"owns" the customer relationship. This improves the aggregator's chances of cross-selling and generating recurring revenue.

The commission model can be used with single-purchase products (such as loans) as well as with subscription products (for example, insurance policies) that require recurring payments. The former allows aggregators to immediately recoup the customer acquisition costs they incurred in the first year, while the latter takes longer to scale but has more revenue potential, assuming the customer stays long enough.

Revenue per unit is lower in the lead-based model than in the commission model. In Germany, for example, we estimate that a lead for a loan (the most important aggregator product after insurance) generates €50 to €150 in compensation, but commission revenue is 2.5 to 3.5 percent per loan. For a typical €10,000 loan, the aggregator therefore receives €250 to €350. Similarly, a private health insurance lead is worth €60 to €120 depending on the quality, while the commission revenue equates to nine monthly premiums (on average €300 per month).

Four success factors distinguish the top performers

Although the fundamentals of the aggregator business are strong, top performers share four common factors: strong brands, a tight grip on key technology, customer loyalty, and favorable agreements with providers. As more aggregators continue to emerge, these factors will determine their success.

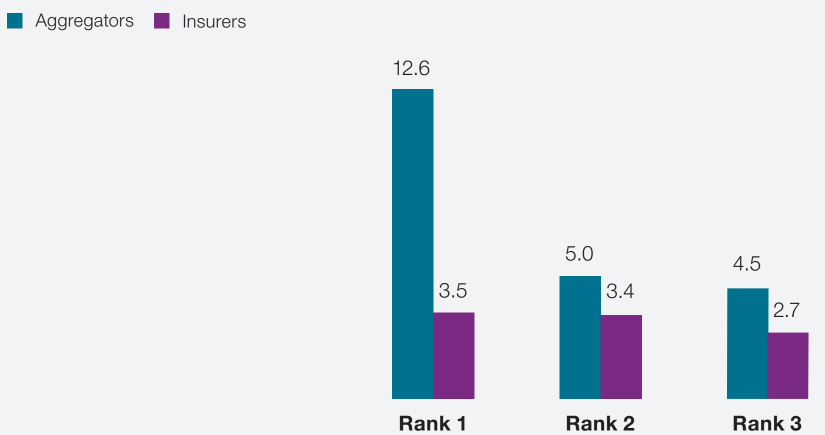
Strong brands. Top performers have strong brands that typically have lower search costs because customers are more likely to find them by entering the company's URL directly into their browser (incurring zero cost for the aggregator) or by searching for the brand itself (incurring a very low cost as specific brand keywords cost less in paid search than generic keywords such as "insurance"). Similarly, the stronger the brand, the more likely customers are to return for other products or for next year's shopping comparison. Exhibit 4 shows just how far behind insurers are in terms of brand strength.[2]

A tight grip on key technology. Top performers control their technology and, as such, their conversion funnel. Aggregators are usually better than insurers at converting customers. The most successful aggregators also build and run their own technology rather than buying third-party white-label comparison tools, allowing them to react much more quickly to changes in markets, customer behavior, and provider data. They can also perform rapid A/B testing and delve much more deeply into data analytics, which is becoming an important differentiator. As a result, the most advanced aggregators are moving up the insurer value chain, going beyond sales and distribution toward product development by helping insurers create tailored products for various customer segments.

Customer loyalty. Top aggregators work to own the customer relationship. Successful aggregators tend to offer a wide range of products, which helps them bind customers to the platform, rather than simply act as a passive connector between customers and insurers. As a result, each customer generates more value for the aggregator. Players such as Check24 are expanding broker advisory offerings and starting to offer digital contract folders. Verivox recently acquired an online service that reminds users to cancel their contracts on time to avoid fees, giving it a complete view of its customers—even contracts not generated by the aggregator. By offering cancellation or simple contract-management services, the aggregator can insert itself between the product provider and the customer and become a dashboard. In addition, the aggregator can procure additional insights into existing contracts, supporting its cross-selling efforts.

Favorable agreements with providers. The most successful aggregators have a significant number of providers as partners in order to give consumers a relevant overview of products and prices. They have also been able to optimize their revenue models and negotiate one-off fees from providers to cover their high variable costs in the first year of customer acquisition. Aggregators typically prefer that the provider, not the customer, pays any commission (where regulation allows), allowing customers to see aggregators as a free service. Successful aggregators also avoid one-off commission models with clawback clauses that are triggered if a customer cancels their product too early. In our experience, products with annual contracts and, ideally, nonautomated renewals, can double or even triple revenue from a customer who switches every year. Yet insurers prefer locking in customers to prevent them from switching too often. While the majority of contracts between insurers and aggregators today still contain one-off fees, this is changing as insurers push for recurring fees.

Exhibit 4 **Top UK aggregators outpace UK insurers in 2017 Buzz Rankings for online services.**



Source: 2017—Buzz Rankings: UK online services and 2017—Buzz Rankings: UK Finance: Insurance and Investments, YouGov BrandIndex, accessed June 6, 2018, brandindex.com

Aggregators are moving onto insurers' acquisition radars

The aggregator model in Europe has been performing so well that the sector is attracting interest from a range of potential acquirers. Despite the model's strengths, however, European aggregators face some destabilizing risks. Would-be purchasers, particularly insurers, should understand these obstacles. For some insurers, especially those with no standalone direct offering, aggregators are fast becoming the dominant source of leads and customers. If an aggregator fails, the consequences for the insurer could be severe.

Five looming threats to the aggregator business model

Would-be purchasers should consider five elements of aggregators' business models when considering an acquisition.

- Aggregators depend heavily on internet search traffic, making them vulnerable to changes in the algorithms for both organic and paid search (Exhibit 5). To protect themselves from this potential threat, they must build their brands and strengthen brand recognition. Some are already doing this by investing heavily in traditional advertising channels, such as TV commercials, to drive direct traffic or in brand-name search.

- Regulatory changes could disrupt the revenue model—for example, by banning certain commission models or making the commission fee transparent. Such a disruption would almost certainly affect aggregators' competitors (for example, offline brokers), so although the playing field might change shape, it would still be level. In some markets, regulatory changes have already taken place, compelling both brokers and aggregators to charge consumers a fee for advice. Aggregators need to ensure that their fees are on a par with or cheaper than brokers' fees, meaning they must excel in terms of process cost, marketing conversion, or both.

- Aggregators depend on access to a trove of customer data—but as privacy concerns and regulations rise, so do the costs and risks associated. For example, players across industries, including insurance, are scrambling to comply with the European Union's General Data Protection Regulation, which was implemented in May 2018.

- Aggregators are always vulnerable to new competitors, whether direct insurers or fintechs. The more crowded the market, the higher the cost of customer acquisition. Aggregators need to actively monitor the market and buy or build where appropriate. For example, while Verivox has acquired several fintech models in recent years, Check24 has built its own insurance management software—a product launched two years earlier by several insurtech companies.

  Competition can also come from platform companies, which often have leading-edge technology capabilities and very large customer bases. For example, Amazon has already entered the insurance space with Amazon Protect, which insures products bought on its platform, and industry sources suggest that UK insurers are working with the company ahead of a potential entry into the general insurance sector.[3] Some aggregators may choose to enter white-label partnerships with larger platforms as a way of accessing new customers.

- Finally, the continued evolution of customer needs will result in longer-term structural threats to the aggregator model. For example, demand for third-party vehicle insurance could fall due to a drop in car ownership, and insurance models could change completely with more pay-as-you-go offerings or competitive flat-rate policies sold directly from manufacturers. Aggregators can mitigate some of these risks by continuing to add new product lines on top of existing lines as well as finding new ways to engage with their customers.

Exhibit 5

Aggregators depend heavily on internet search traffic.

Aggregator	Country	Monthly traffic, millions	Traffic sources: Direct, %	Traffic sources: Search, %	Traffic sources: Other, %
Check24	Germany	18.6	38	52	10
Verivox	Germany	3.5	34	58	8
MoneySuperMarket	United Kingdom	10.3	16	76	8
Confused	United Kingdom	4.9	26	56	18
gocompare	United Kingdom	4.2	20	67	13
facile.it	Italy	3.0	19	74	7
independer	Netherlands	1.4	22	62	16

Source: SimilarWeb, March 2018

Insurers' three strategic options as aggregators expand their reach

Despite these challenges, aggregators are expected to continue expanding their role in the customer journey. They have the potential to become a permanent front end for customers searching for financial products, and insurers should be aware of these dynamics when mapping out their next move in the aggregator sector. Three options are emerging for traditional insurers:

1. Steer clear completely

Some insurers refuse to work with aggregators (for example, HUK-COBURG in Germany). Insurers that successfully take this path need a powerful brand that resonates with customers and usually have either a strong broker network or a high volume of direct sales. They may be able to profit by avoiding direct comparisons with competitors, but they need to invest heavily in their sales channels and brand to lock in and expand their customer base. Because customers increasingly compare prices for services, insurers must refine their marketing to explain why their products are better and highlight additional customer benefits.

2. Cooperate

Aggregators have deep insights into both customer and product data, so they are well positioned to discover underserved customer segments, react to new trends, and test new products faster than single-product providers. Several insurers are taking advantage of these insights by specifically designing products for aggregator channels—for example, insurer HDI and aggregator Check24 jointly developed a vehicle-insurance product called AurumPROTECT that is available exclusively through the aggregator channel. Providing tailored products for this channel is one of many success factors for insurers using the aggregator channel. Other success factors include competitive pricing, an optimized product for the aggregator ratings, and seamless connectivity and user handover between aggregator and insurer. Furthermore, insurers can exploit spillover traffic that is inevitably generated by aggregator users who start researching the brands—that were visible in the aggregator panel—in external channels such as search engines. Insurers can and should try to convert this traffic directly to avoid paying commissions.

3. Pursue acquisition

For an insurer, acquiring an aggregator locks in a sales channel and access to leads. Providers may also acquire an aggregator as a way to hire a fully functioning marketing, tech, and conversion optimization team—for example, ING Direct bought Interhyp in 2008 and Travelers acquired Simply Business in 2017. Targets are likely to be smaller, more affordable niche players—although price comparison website Confused.com, one of the United Kingdom's largest aggregators, is owned by Admiral. The result can be the inevitable challenge of managing conflicting interests and maintaining so-called Chinese walls when competing insurers rely on another company's acquired aggregator.

Yet insurance companies face competition in acquiring aggregators. Private equity firms, media companies, and other aggregators are all looking to buy—and not all aggregators will be acquired. Some will consider an IPO, which is attractive for at-scale players that can still grow by adding product lines, capturing the value chain, expanding geographically, or acquiring competitors for market share or technology. Others will remain independent.

Aggregators will continue to grow across Europe and are likely to capture an even bigger share of the online insurance market as customers become increasingly comfortable buying financial products online. Insurers should monitor this growth closely and examine their options for engaging with aggregators to determine how to maximize their opportunities during the next phase of this sales channel evolution.

---

[1] Since the European market is dominated by a few pure-play online travel agencies (OTA), which mostly do not provide offers outside the core sales segment, we have excluded travel from this analysis.

[2] For more on the methodology for compiling the rankings, see BrandIndex.com: “The 1,300 brands in YouGov BrandIndex were ranked using the Buzz score which asks respondents, ’If you’ve heard anything about the brand in the last two weeks, through advertising, news or word-of-mouth, was it positive or negative?’ Scores are net scores, calculated by subtracting the percentage of negative responses from the percentage of positive responses for each brand. The Buzz Rankings chart shows the brands with the highest average Buzz scores between January and December 2017.” 2017—Buzz Rankings: UK online services and 2017—Buzz Rankings: UK Finance: Insurance and Investments, YouGov BrandIndex, accessed June 6, 2018, brandindex.com.

[3] Ida Axling and Sian Barton, “Amazon ‘working with’ UK brokers and insurers,” *Insurance Age,* May 22, 2018, insuranceage.co.uk.

Simon Kaesler is a partner in McKinsey’s Frankfurt office, **Johannes-Tobias Lorenz** is a senior partner in the Düsseldorf office, and **Felix Schollmeier** is an associate partner in the Munich office.

Contact

For more information on digital insurance, please contact:

João Bueno, Senior Partner, São Paolo
Joao_Bueno@mckinsey.com

Tanguy Catlin, Senior Partner, Boston
Tanguy_Catlin@mckinsey.com

Omar Costa, Senior Partner, Warsaw
Omar_Costa@mckinsey.com

Piero Gancia, Partner, Milan
Piero_Gancia@mckinsey.com

Brad Mendelson, Senior Partner, Hong Kong
Brad_Mendelson@mckinsey.com

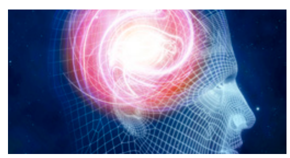
Rui Neves, Senior Partner, Lisbon
Rui_Neves@mckinsey.com

Further insights

McKinsey's Insurance Practice publishes on issues of interest to industry executives. Our recent articles include:

Insurance beyond digital: The rise of ecosystems and platforms

The five trends driving insurtech, live from DIA 2018



Insurance 2030—The impact of AI on the future of insurance

December 2018

Cover image: ru3apr/Getty Images

Printed in the United States of America.