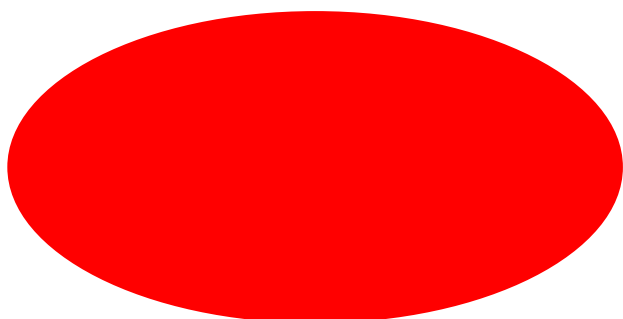


A Datamonitor report

Affinity Marketing in UK General Insurance 2003

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An introduction to the report

Financial services companies are constantly striving to find new ways to reach the most profitable client groups in a cost efficient way.

Affinity groups have played a large part in this over the last fifteen years, providing FSIs with well defined target customer lists in exchange for a relatively small financial reward. However, the best affinity groups have already been signed up, partners are becoming more demanding and, for more developed product groups such as affinity cards, FSIs are beginning to question the logic of traditional affinity. New models like "developed affinity" are emerging which offer great potential for FSIs.

Through a series of four reports, Datamonitor presents a comprehensive guide to affinity marketing across UK Financial services. An extensive series of interviews with affinity partners across eight different sectors provides insight into what affinity partners look for in a relationship, their concerns and their future plans. In-depth interviews with FSI are used to size, segment and identify the best development opportunities in UK affinity marketing.

- **Affinity Marketing in UK Financial Services 2003** presents Datamonitor's findings across the whole of the UK financial services universe
- **Affinity Marketing in UK Retail Banking 2003** identifies opportunities in cards, personal loans and mortgages
- **Affinity Marketing in UK General Insurance 2003** sets out the dynamics of affinity marketing in household, motor and travel insurance
- **Affinity Marketing in UK Life and Pensions 2003** considers the more limited impacts and great opportunities to be found in affinity marketing of long term savings products.

All four reports in the affinity marketing in UK financial services series draw on Datamonitor's unique FS DealBASE database to present information on the opportunities and challenges of Partnership marketing and distribution in the UK.

Scope and coverage

- Sectors: Retail Banking: Cards, personal loans, mortgages. General Insurance: Household, motor, travel. Long term savings: Life and Pensions.
- Partner sectors: Charities, educational institutions, interest and lifestyle groups, motor associations, trade unions, sports clubs, governmental organisations.



Report methodology

This report draws on the findings of two extensive Datamonitor surveys carried out with a range of organizations involved in affinity partnership and financial services. Datamonitor's **Affinity Groups Survey 2003** involved carrying out around 90 interviews with strategists, marketing executives and chief executives of major UK affinity groups. Datamonitor's **Partnership Marketing Survey 2003** is the result of interviews with product, marketing and strategy executives at major UK FSIs involved in life, pensions and investments, retail banking and general insurance.

Key findings and report highlights

- FSIs consider that access to a captive customer base is the most important reason for setting up an affinity deal. This is supported by the strong loyalty of affinity groups' members, who tend to carry their affinity products over from one year to the next. More than half of the affinity groups surveyed said their main reason for entry into affinity schemes is to boost revenues.
- Co-branding is the most commonly formed affinity relationship in life and pensions as this allows a high level of involvement from the I, L&P provider and the affinity group.
- Datamonitor's Partnership Marketing Survey 2003 found that the huge number of affinity groups that offer retail banking products are in fact served by a relatively small number of card issuers, loan providers and mortgage lenders. In fact, just 31.8 per cent of the retail banking interviewees reported that they use affinity marketing as a customer acquisition channel for their products.
- Affinity groups in insurance partnerships tend to be most involved in updating the contact database and, to a certain extent, marketing. Insurers overwhelmingly deal with service provision, including issuing the product, dealing with statements and documentation, and running call centers.

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Captive customer base

The primary reason that FSIs are keen to enter into affinity partnerships is to gain access to affinity groups' membership databases. 44.4 per cent of the FSIs surveyed said this was the key attraction of affinity schemes, testifying to the desirability of holding a comprehensive consumer database in order to target a raft of potential new consumers.

As competition intensifies and consumers become ever more fickle and demanding of their FSI, providers are looking for innovative ways to gain access to new clients. The nature of affinity groups is such that members tend to have reasonably similar characteristics and can more easily be targeted. Furthermore, affinity group members will tend to be more receptive to products endorsed by their affinity groups owing to the levels of trust and loyalty that these groups have built up with their members over a number of years.

Affinity groups have access to a great deal of information about their members, not only on to FSIs, allowing them to market directly on behalf of the affinity group in their own geographies by entering the affinity arena, and foreign-based FSIs, which are particularly successful at proliferating in the UK affinity market.

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Mechanics of affinity deals

The figure below shows that affinity arrangements generally incur considerably more work for the insurer than for the partner. This is unsurprising, as most partners have little experience with the technical nature of insurance, and are hence only able to have any notable involvement in the maintenance of databases and provision of marketing. Although some are involved in product issue, customer enquiries and call centers, these activities are largely handled by the insurers, who have the relevant experience in such fields. Although the involvement of partners tails off as the services required get more technical, it is interesting to note that insurers maintain a high level of involvement in all areas.

Service chain provision by insurers and partners

Service	Insurers (%)	Partners (%)
Marketing	~95	~5
Product Issue	~85	~15
Customer Enquiries	~80	~20
Call Centers	~75	~25
Claims	~65	~35
Other	~55	~45

Source: Datamonitor Affinity Groups Survey 2003

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Improved brand image

Almost one in five FSIs said that improving brand image was the most important reason for forming an affinity scheme. This is generally made possible by generating goodwill among an organisation's members and also in the wider community. Brand image can be developed through involvement with ventures outside the scope of an FSI's usual sphere of activity, as consumers increasingly associate the FSI with concerns nearer to their own interests.

Revenue generation is by far the most important factor persuading affinity groups to offer retail banking products

Reason	Percentage
They boost revenues for our group	61.4%
Our members asked us to provide products	12.3%
Financial products form another way for our members to show loyalty to our group	8.8%
They increase the exposure of our group	8.8%
We were approached and it seemed like a no lose situation for us	5.3%
Other	3.5%

Question asked: What is your main reason for offering affinity products?
Source: Datamonitor Affinity Groups Survey 2003

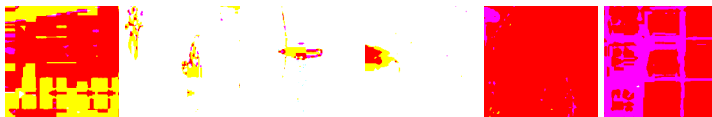
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Improved customer loyalty

Over 1 in 10 FSIs said they saw affinity schemes as an effective way of increasing customer loyalty. Affinity groups tend to have a high degree of membership loyalty, which is of benefit to many FSIs which have seen retention rates decline in recent years due to increasingly

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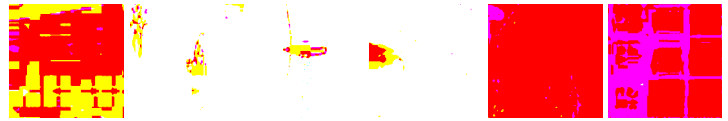
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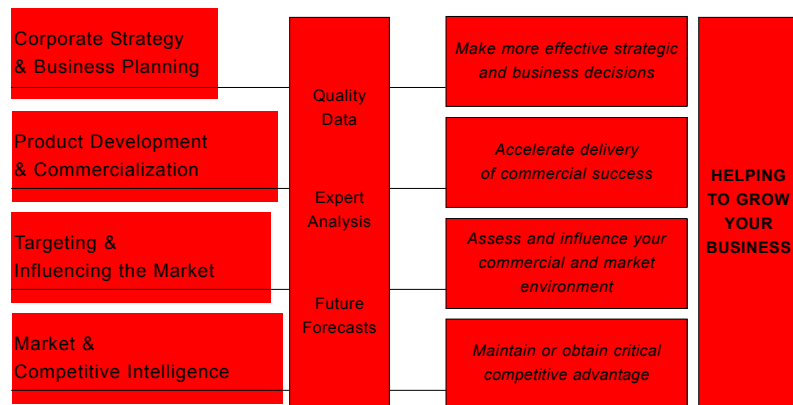
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