



Grupo Caixa Geral de Depósitos



Group 1

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1 Introduction

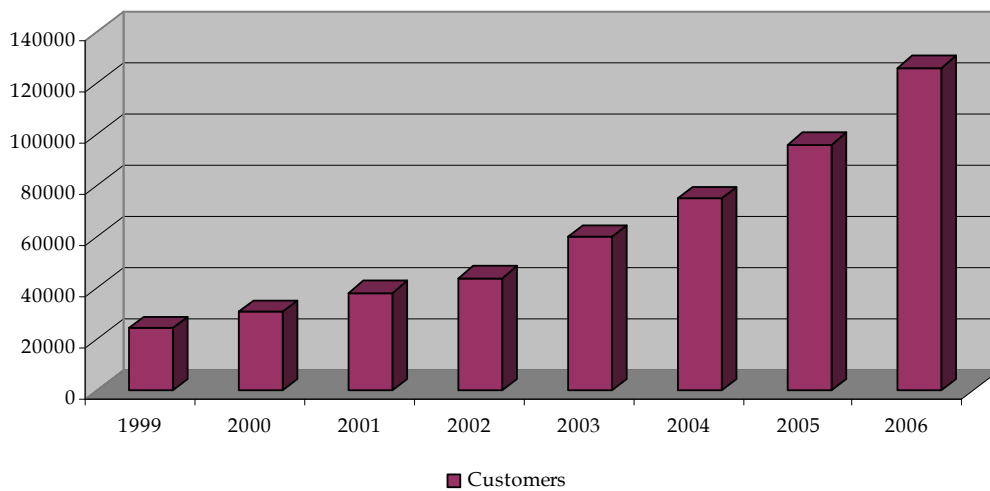
The ISP (Portuguese Insurance Institute) is the official authority that control and supervises the insurance business. They are responsible for the legal framework concerning taking up and pursuit of the insurance business and the taking up and pursuit of the insurance intermediaries (brokers) activity.

In Portugal exists 25 companies operating in the car insurance business which represents a total of 5.838.388 served customers. This is a very traditional sector that works mainly trough insurance brokers.

In 1998, was created the Company "Via Directa - Companhia de Seguros, S.A", which started exploring the brand "*OK! TeleSeguro*". *The Company offered trough its brand "OK! TeleSeguro" car insurances* using a new concept in the market, reaching consumers through direct selling first by phone and then trough phone and internet.

Its value proposition is offering car insurances through friendly and effective service, being able to simulate and underwrite by phone or online the product they want, without having to justify it in front of a desk and spending the least time and money possible with it. So the target consumers are urban residents, middle aged, averaging class B and C1.

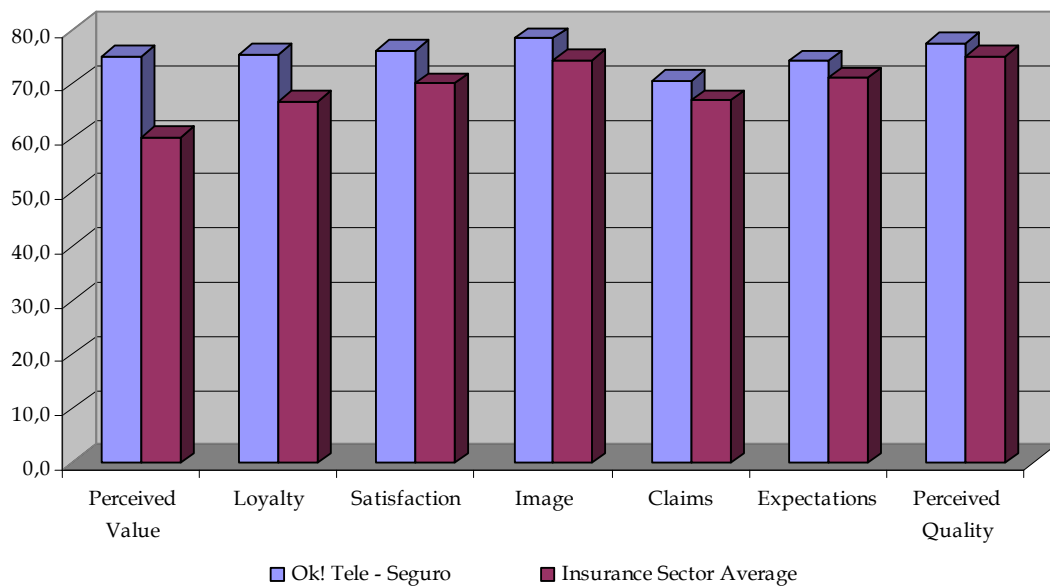
It was the first insurance company in Portugal which gave the possibility to simulate the insurance price online and in the year 2000 they launched sales insurance online, and in 2003 customers were able to report the accidents online as well.



Company presented significant growth in customers number and in 2006 they had 120.000 customers. In the year 2006 the global automotive insurance market increased their sales in 0,2% where *OK! TeleSeguro* had an increase of about 20%.

They are recognized by their customer service, and in the year 2004 and 2005 they were the leaders in the ECSI (European Customer Satisfaction Index) in Portugal.

	Ok! Tele - Seguro	Insurance Sector Average
Perceived Value	75,0	60,1
Loyalty	75,4	66,7
Satisfaction	76,1	70,1
Image	78,3	74,4
Claims	70,6	66,8
Expectations	74,1	71,1
Perceived Quality	77,5	75,0



The brand *OK! Teleseguro* has a strong image and in the customers point of view *it is seen with higher* “Perceived Value” and “Perceived Quality”, compared with the average of the sector. Due to the high levels of satisfaction, customers respond with loyalty. These are the most important things, in the customer eyes, that distinguish *OK! TeleSeguro* from other insurance companies.

2 Business Model

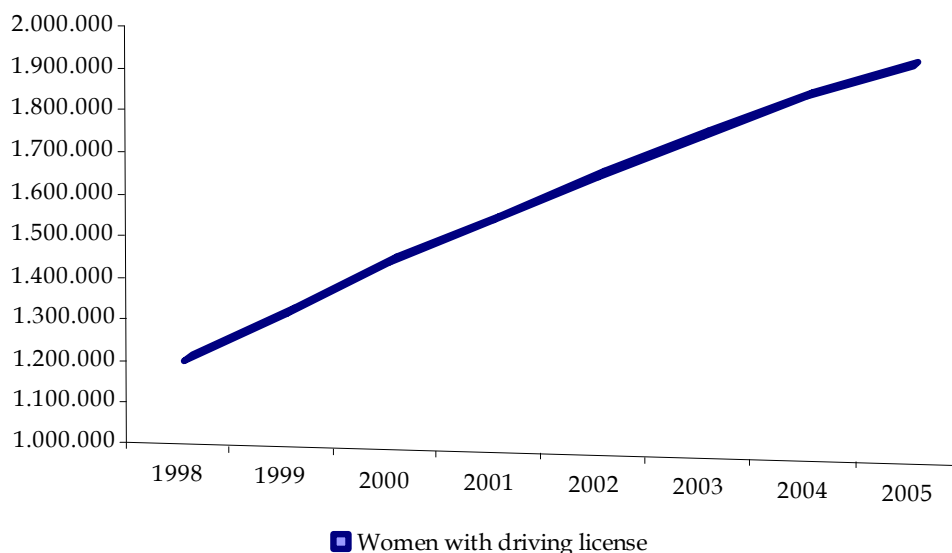
Company strategy is based on offering a single type of insurance (car insurances only), trough call centres and internet, which can be customised according to the clients needs, at a low price. To achieve its strategy a light structure was design with the purpose to have a cost structure that allows fare margins with an attractive price to its customers. The financial analysis of the cost structure is described later in this document.

The company develops specific products to niches, with high growth rates potential, delivering differentiated products to each niche. For women it was developed a product named “*OK! Mulher*”, with specific features that clearly differentiates it from the product offered to men, and from the products offered by the competitors.

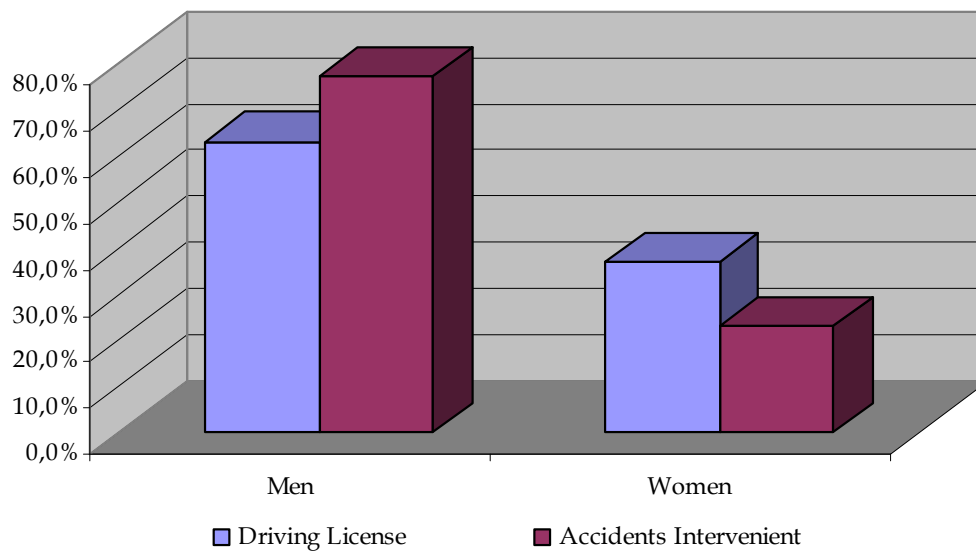
On the women insurances it was included a set of services, that are valued by that segment, namely: (i) maintenance assistance, which includes information and scheduling of the maintenance reviews, substitute car in case of maintenance and car accident, among others; (ii) Domestic assistance, which includes cleaning services, babysitting and laundry services in case of car accident, among others, (iii) Medical assistance, which includes emergency phone assistance, availability of emergency transport, deliver of medication at home, among other services.

OK! TeleSeguro started targeting its product to the urban middle aged men (class B and C1) offering a low-cost insurance with friendly and effective service. Afterwards, they target women, designing a special insurance product only for this segment.

Their focus on the women niche was due to two main reasons: the number of women with driving license has increased almost three times in the last 10 years in Portugal with an increase of about 62% from 1998 to 2005; and women have less car accidents which diminish the risk of the business typically with low margins.



In the next chart, we can see that men have a higher level of accidents than women.



At the end of 2005 in Portugal, 63% of the driving licenses were owned by men against 37% by women and men were responsible for 77% of accidents and women only by 23%. So targeting women reduces the risk of the insurance business.

The internal operations are aligned to enable *OK! TeleSeguro* to have a customer oriented service which reflects the highest levels of customer satisfaction in the market (market leaders).

The certified internet site (*Verisign®* and *Qweb®*) offers confidence to their users, which is crucial to the business.

3 SWOT

Strengths	Weaknesses
<ul style="list-style-type: none"> • Speed of underwriting procedures • Low bureaucracy • On-line Simulation • On-line accident participation 	<ul style="list-style-type: none"> • No personal attendance (branches) • Trust in the internet deals
Opportunities	Threats
<ul style="list-style-type: none"> • Increase of internet users • More effective and secure internet payments methods • Significant increase in women with driving license • Maturity of insurance market 	<ul style="list-style-type: none"> • Increasing competition • Easy imitation of business model • Low performance of Portuguese economy • Maturity of insurance market

We consider that the stage of maturity of the insurance market can be both an opportunity and a threat. The opportunity is related with big players established in the market are hardly flexible enough to copy the *OK! TeleSeguro* model; the threat is that in this mature market the establish companies can always respond to the innovation by launching new low-cost brands. Another threat in this mature market is that insurance consumers are growing at a 0,2% per year, which is a very low growth rate.

The acquisition of *OK! TeleSeguro* by other player does not seem a threat as it is hold partially by the biggest national bank, although there are bigger ones in Europe.

4 Strategic Innovation

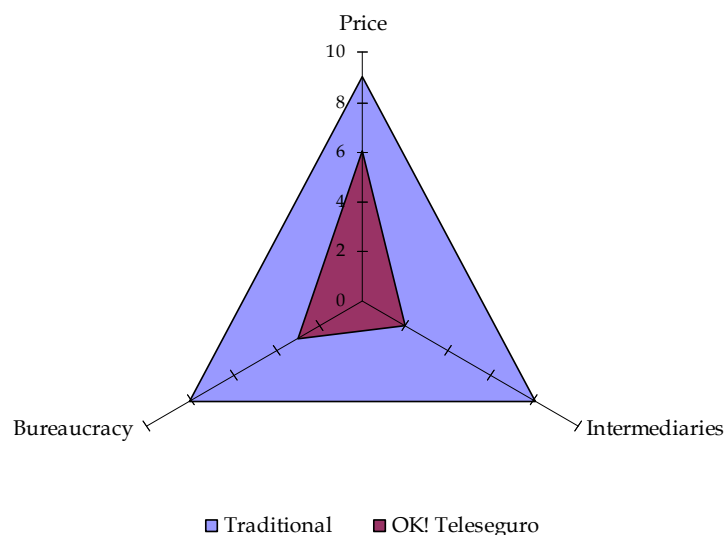
4.1 WHO

OK! TeleSeguro started its segmentation aimed to professional urban residents, middle-aged, averaging social class B and C1, both sexes. This allows segmentation to the majority of driving licences with occupied professional lives. The recent segmentation strategy is aimed to niches. The target is now urban women, reflecting an incremental innovation phase as its own market matures.

4.2 WHAT

Customize products to segmented customers (niche strategy); lower price than the market of automotive insurances; and high quality perceived by its customers due to quality of service delivered from the answering service and the feel of resemblance and attraction delivered through the advertisement campaigns.

“Do-it-yourself” insurance: Pricing simulations; add-on-features which allows building of a package; accident participation online; Domiciliary assistance;

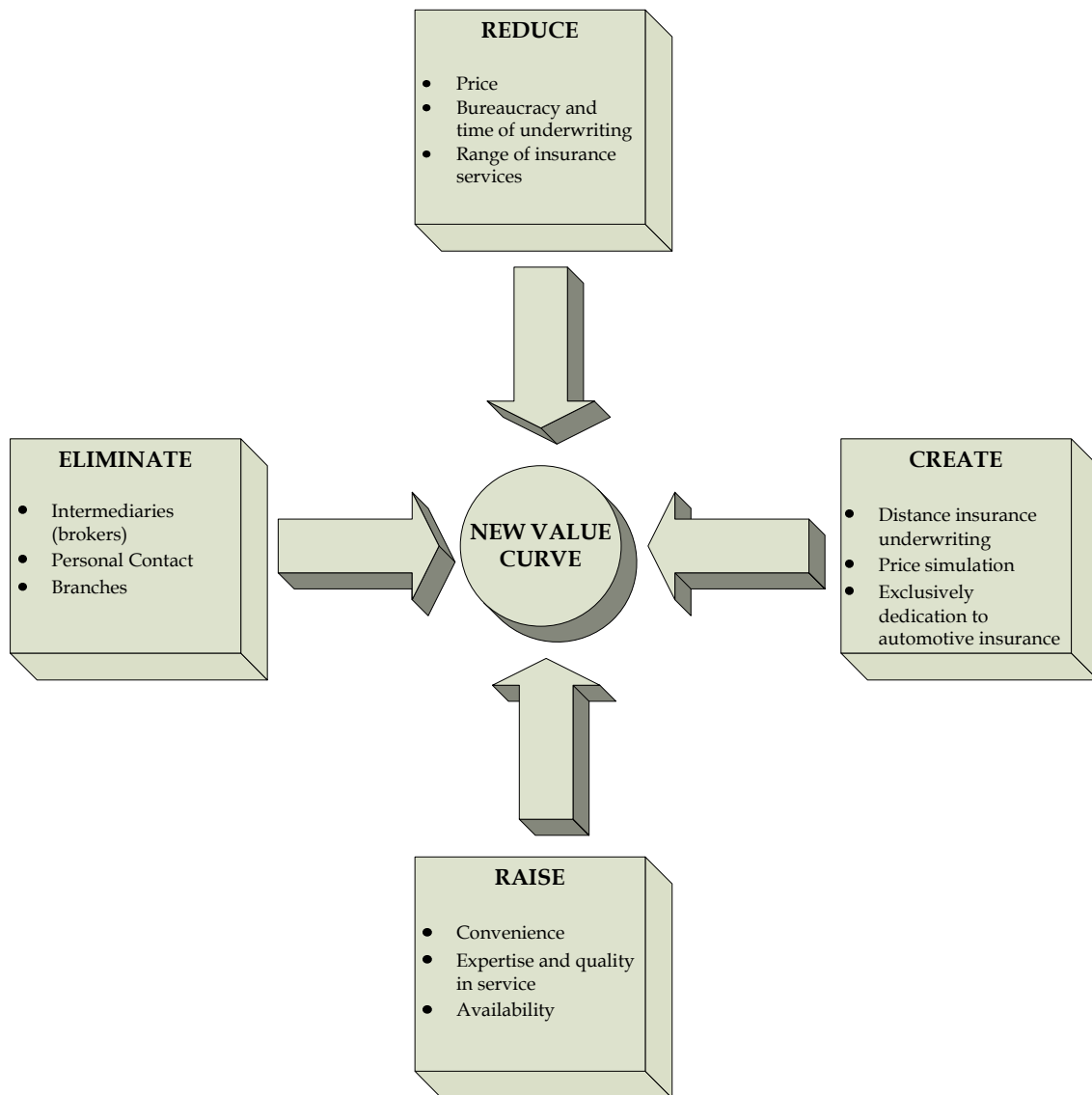


4.3 HOW

Customers reach the internet site or the call-centre and simulate the product they wish to obtain; by giving the name and the home zip code the insurance company reaches the potential customer complete information, including residency, present insurance company and sinister history. The customer is asked about the features He or She wants to buy and the product is built. Immediately they receive an ATM reference for the insurance fee; 24 to 48 hours posterior to the payment confirmation the customer receives the “International Motor Insurance Car” at home.

Ok! TeleSeguro has the most available commercial service in the market, which allows customers to reach the company through the call-centre from 8:30 until 23:00 and the internet site 24 hours per day, every day. This also allows a larger selling period than the traditional insurance companies which usually attend customers from 9:00 until 16:00.

5 Creating a New Value Curve



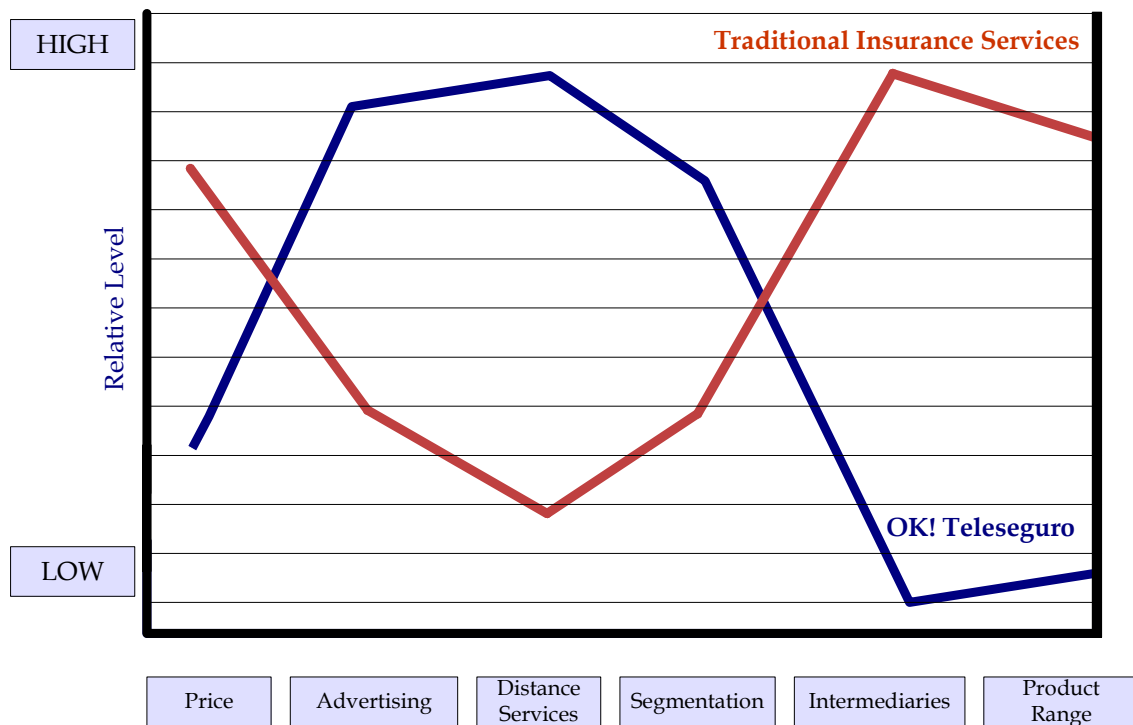
The process of Creating a New Value Curve takes form through the answer to four basic questions:

- a) What factors should be eliminated that the industry has taken for granted?
 - Traditional insurance companies assumed the need for intermediaries as if it was impossible to place the services at the disposal of customers. The reality

showed that it is not impossible to place the service without intermediation and even in many cases (more and more every day) these were not needed at all;

- Traditional insurance companies took for granted the need for Personal Contact in sales activity. *OK! TeleSeguro* came to market and showed it was not necessary to contact the customers personally in order to sell them automotive insurance services.
- b) What factors should be reduced well below the industry standard?
- The level of price in this industry is affected by the Intermediaries margins, and other factors like the bureaucracy and time of underwriting; these factors made it impossible for traditional insurance companies to practice lower prices as those practiced by the value innovator - *OK! TeleSeguro*;
 - The range of insurance services can be reduced to one solely insurance service – *OK! TeleSeguro* focused successfully in automotive insurance services, which is ironically, traditionally the product with lower margins in the insurance industry.
- c) What factors should be created that the industry has never offered?
- Possibility to make an insurance underwriting without being in an insurance company or its intermediaries office;
 - Possibility to have a price simulation from the place the customer is at any time, between a wide time schedule;
 - Exclusive dedication to automotive insurance services.
- d) What factors should be raised well beyond the industry standard?
- The customer convenience in exploring information and buying insurance services was quite affected by the need for a travel to the insurance company or an intermediary office;
 - Due to a wide range of services, the traditional insurance companies demonstrate a lack for expertise which affected their quality of service.

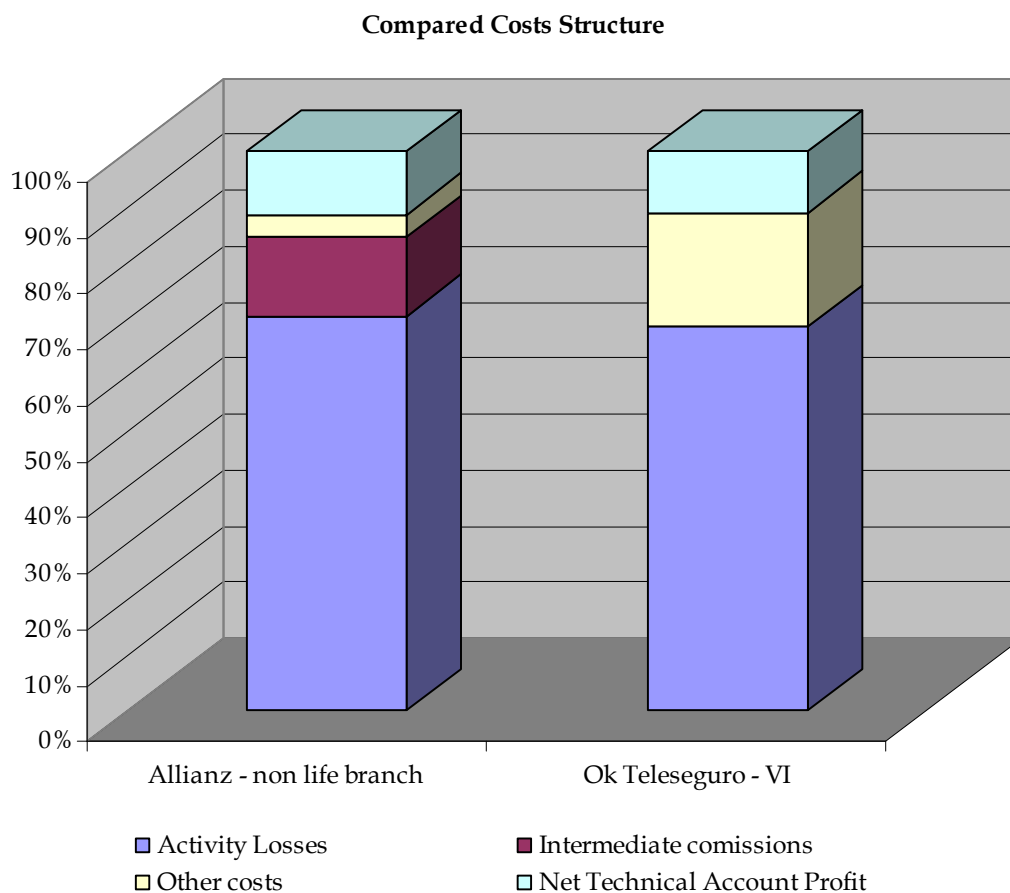
"OK! Telesseguro" Value Curve



Answering the four questions above led to the creation of a new value curve, which combines lower prices, distance services (non presential), unneeded intermediaries and reduction of product range.

6 Financial Analysis

When we compare two Costs Structures related to Net Premium Written Value, one from a traditional type of Non Life Insurance Company - *Allianz*, and another from the Value Innovator Non Life Insurance Company chosen - *OK! TeleSeguro*, we can see some dramatic differences between them. When looking to the graphic bellow, we immediately conclude that:



- There is no visible value for Intermediate Comissions in *OK! TeleSeguro* company, while this item represents about 14% of Net Premium Written Value in *Allianz*;
- The Other Costs item in *OK! TeleSeguro* is about five times bigger than in *Allianz* normally due to the advertising costs;

- Net Technical Account Profit, is almost identical, around 11% of Net Premium Written Value in both two companies. But this means that *OK! TeleSeguro* while strictly focused in Automotive Insurance services gets the same net profit margin than *Allianz* which is a broad Service Insurance Company. This is an excellent compared Net Profit Margin for *OK! TeleSeguro* hence we know from statistics that, automotive accident happen with far more frequency than any other kind of accident covered by insurance services and that the Net Profit Margins of other kinds of insurance services like house, industry and commerce, and work accidents is higher than the automotive one.

7 Conclusion

OK! TeleSeguro is a company that has a differentiated product that is aimed to reach certain segments of the market. It moves in niches of the market averaging high growth rates in those niches. Although it's short history, *OK! TeleSeguro* already has 1,6% of the automotive insurance market, and with the recent business growth it is expected to gain market share either from other competitors (as it offers lower prices with the highest perceived value), either from re-creating the market (as it attracts women who were not the agents of the buying decision process and/or did not had a driving licence).

The segmentation to these fast growing markets is enabled by a strong advertisement campaign, typically more costly than its competitors, although its global cost structure is lower than the average in the market. This lower cost structure is almost obtained by an ablation of the mediators and their commissions, focusing the company in a direct selling strategy.

There are two different types of innovation one can observe in *OK! TeleSeguro*: The first one is a **disruptive innovation** and is related to the elimination of the mediators and the introduction of new distribution channels (phone and internet) enabling a direct selling method which allowed a low-cost structure and a price reduction that gave a competitive advantage. The second innovation process is an **incremental innovation** that is related to the design solution aimed to women which enabled the company to reach a growing group of consumers that were neglected until then, with another advantage, that was that this growing, and eligible consumers, have lower risk of accidents.

In both cases the innovation process reverted in to above average market growth rates and above average margins in a business line of insurance that was traditionally very low.

We believe that the core-competency of *OK! TeleSeguro* is the business model which allows a low cost per new customer associated with a strong, emotional and focused marketing campaign.

The company was able to develop a strong image either perceived by men (through a character named "Marta" who delivers well being and reliability), either perceived by

women (through strong and muscled men that would deliver the special features in the *OK! Mulher* product).

We believe that the business model is not very difficult to imitate but it has an image/brand that is a scare and valued resource.

The switching cost is very low and there are not any more scare resources other than the developed image, which puts in risk the sustainability of the competitive advantage.

Most responsible for the success of this low-cost business was the fact that this is a product that is legally impose to consumers who wish to own a functional vehicle so **acceptability** and **awareness** are not a question. The **affordability** is secure by maintaining the cost structure and the low price compared to the competitors, the **availability** is also guaranteed by the general presence of telephones and in less scale of internet all through Portugal.