

## PRIVATE MOTOR INSURANCE MARKET INVESTIGATION

### Provisional findings report

Published: 17 December 2013

The Competition Commission has excluded from this published version of the provisional findings report information which the Inquiry Group considers should be excluded having regard to the three considerations set out in section 244 of the Enterprise Act 2002 (specified information: considerations relevant to disclosure). The omissions are indicated by [X]. Some numbers have been replaced by a range. These are shown in square brackets. Non-sensitive wording is also indicated in square brackets.

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### Glossary

# Summary

## The reference

1. On 28 September 2012, the Office of Fair Trading (OFT) referred the supply or acquisition of private motor insurance (motor insurance) and related goods or services in the UK to the Competition Commission (CC) for investigation and report. The reference was made under sections 131 and 133 of the Enterprise Act 2002 (the Act).
2. The CC is required to decide whether ‘any feature, or combination of features, of each relevant market prevents, restricts or distorts competition in connection with the supply or acquisition of any goods or services in the United Kingdom or a part of the United Kingdom’.<sup>1</sup> If the CC decides that there is such a feature or combination of features, then there is an adverse effect on competition (AEC).<sup>2</sup> This report sets out our provisional findings based on the evidence we have reviewed and the analysis we have carried out to date. We are required to publish our final report by 27 September 2014.

## Provisional findings

3. We identified two relevant markets:
  - (a) motor insurance; and
  - (b) price comparison websites (PCWs).
4. A range of post-accident services were also relevant to our analysis, particularly claims management, repairs, salvage and car hire.

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<sup>1</sup> Section 134(1) of the Act.

<sup>2</sup> Section 134(2) of the Act.

5. In the motor insurance market, we found strong rivalry in the sale to consumers of basic motor insurance. But we provisionally identified features of the supply of motor insurance and related services giving rise to AECs in the following areas:
  - (a) (i) separation of liability for costs and control of costs in the handling of non-fault drivers' claims; and (ii) various practices and conduct of the parties managing such claims, which together results in higher costs to at-fault insurers and mean that consumers pay higher motor insurance premiums;
  - (b) (i) lack of effective monitoring by insurers and CMCs of the quality of car repairs; and (ii) significant limitations in consumers' own ability to assess the quality of repairs, with the result that cars are too often not repaired to the standard to which consumers are entitled; and
  - (c) (i) insufficient information provided to consumers in the sale of add-on products to motor insurances; and (ii) point-of-sale advantages enjoyed by insurers in the sale of add-on products, with the result that it is more difficult for consumers to identify the best-value offers and consumers may purchase add-on products at an inflated price.
  
6. In the PCW market, we found that some of the contracts between insurers and PCWs contained conditions that limited price competition, reduced innovation and restricted entry. We also identified that PCWs have a degree of market power by virtue of the number of single homing consumers (that is, consumers who do not shop around between PCWs). These wide 'most-favoured nation' (MFN) clauses, and practices having an equivalent effect where a PCW takes advantage of single homing, are a feature of the PCW market. The result is that consumers pay higher motor insurance premiums.
  
7. Each of the AECs we have identified are set out in Section 10.

## **The reference product**

8. Under the Road Traffic Act 1988, motorists are obliged to hold a valid insurance policy to cover 'third party' risks, ie the risk that they will cause death or personal injury to another person or damage to another person's property while driving and consequently have to pay damages.
  
9. In addition to the risks which are compulsorily insurable, risks covering fire and theft are also often covered. However, the most commonly purchased type of motor insurance is comprehensive insurance. This covers damage caused to the insured's own vehicle and the insured's own medical expenses arising from an accident as well as third party, fire and theft. Comprehensive cover may also provide extra benefits such as a courtesy car, roadside assistance, or windscreen repair or replacement. These benefits are either included in the comprehensive cover or can be purchased as an add-on for an additional premium.
  
10. By law, the at-fault party in an accident is required to compensate the non-fault driver for any damage to property, personal injury and consequential loss. We are not considering personal injury claims as part of our investigation. The cost of services chosen by the non-fault party to make good the consequences of an accident will effectively be the liability of the at-fault party's insurer. The non-fault party is entitled to have their car restored to its condition prior to the accident and to the use of a 'broadly equivalent' temporary replacement vehicle ('replacement car') pending completion of repairs to their car. Provision of a replacement car is subject to the non-fault driver's duty to mitigate their loss with regard to their need. Neither the at-fault party nor their insurer may choose the provider of these services, or specify the terms on which services are provided, notwithstanding their ultimate liability. The repairer and the provider of a replacement car will typically be chosen by the non-fault party's insurer or by a claims management company (CMC). Alternatively, the

non-fault party may arrange these services and seek reimbursement from the at-fault insurer. A third possibility is that the non-fault party agrees that the at-fault insurer organize the provision of the services.

## **Industry background**

11. Our terms of reference are confined to the insurance of private motor cars (and exclude commercial vehicles and motor cycles). There were around 25.7 million privately registered cars as at 31 December 2012. This is around 75 per cent of the vehicles registered in the UK.
  
12. Insurance policies are underwritten by insurers. We estimate that the value of the gross written premium (GWP) for private motor insurance was just over £10 billion in 2012, of which £7.4 billion, about 69 per cent of the market, was accounted for by the ten largest motor insurers. The largest motor insurance provider is Direct Line Insurance Group, which is responsible for almost one-quarter of the sales made by the ten largest insurers. Insurance policies are sold through a number of different distribution channels. The ten largest insurers sold over one-third of their GWP direct by telephone or online, with 31 per cent sold via brokers and nearly one-quarter sold via PCWs. PCWs have become an increasingly important sales channel for motor insurance accounting for a significant percentage of new business sales.
  
13. Of the four largest PCWs, two are owned or part-owned by the larger insurers and one by a large broker. Of the ten largest motor insurance providers, three also own brokers.

## **The claims process**

14. Following a road traffic accident, policyholders can claim for any loss they have incurred. Claims usually involve repair to damaged vehicles and property and com-

compensation for any injuries or losses incurred. In many cases, the costs incurred in repair and compensation are covered by motor insurance and insurers are therefore closely involved in the claims management process.

15. In 2012, Datamonitor recorded that there were 2.9 million claims notified and the gross claims incurred amounted to £8.6 billion, giving an average claim cost of £2,933. Average claims costs have been rising year on year since at least 2007, while the number of claims over the same period has fallen.
16. Data provided by the Association of British Insurers shows that in 2012, 28 per cent of claims costs related to personal injury, which are not covered in this investigation. 65 per cent of claims costs were categorized as accidental damage, property damage and other costs. The costs of vehicle repairs, write-offs and replacement cars following a road traffic accident, the subject of our investigation, were included in these latter three categories.
17. Using data provided to us by five of the ten largest insurers on claims costs relating to road traffic accidents excluding windscreen, fire and theft claims in 2012, we estimated that:
  - (a) 60 per cent related to claims by non-fault claimants (ie claims on insurers by third parties when the insurers' policyholders were at fault);
  - (b) 13 per cent related to non-fault claims by policyholders on their own policy;
  - (c) 15 per cent related to at-fault claims by policyholders for their own damage; and
  - (d) 12 per cent related to claims when there was split liability.
18. We estimated that in 2012, up to 600,000 cars were written off as a result of accidents.

19. The drivers involved in a road traffic accident involving a vehicle collision may, or may not, know or agree at the time of the accident which driver is at fault and which is the non-fault driver. The drivers' insurers need to identify which driver caused the accident in order to establish which insurer will need to pay any resulting claims. Drivers usually contact either their insurer or the broker which sold them their insurance policy, in order to inform them of the accident and to describe the circumstances of the accident, which is called the first notification of loss (FNOL).
20. The claims handler will seek to make an immediate assessment of who is at fault. If an immediate assessment is not possible, the claim will be passed to specialist claims handlers for further investigation.
21. We estimated that, at FNOL, insurers established who was at fault in 75 per cent of cases; 20 per cent of cases were categorized as split liability; and 5 per cent of cases were not decided. Evidence from the ten largest motor insurers suggested that the categorization of a driver as non-fault very rarely changed.

### **At-fault claims**

22. The legal entitlements of the at-fault driver involved in a road traffic accident are as stipulated in their motor insurance policy. Following a vehicle collision, if the at-fault driver has a comprehensive insurance policy, they are generally able to make a claim under their own insurance policy to cover the cost of repair to the vehicle, subject to a pre-agreed excess. A comprehensive insurance policy will also sometimes include the provision of a courtesy car to the at-fault driver.
23. At-fault repairs are usually managed by the at-fault insurer, sometimes outsourced to a CMC. Under most motor insurance policies, the owner is entitled to have their

vehicle repaired at a repairer of their choice but the insurer retains a right to approve the repair estimate prior to the work being undertaken.

### **Non-fault claims**

24. The right under tort law of the non-fault driver involved in a road traffic accident is to be put into as good a position as they would have been in had the accident not occurred, at the cost of the at-fault driver.
25. The non-fault driver may claim compensation from the at-fault driver to cover:
  - (a) repair of vehicle damage, or in the case of a write-off, a cash payment equivalent to the pre-accident value of the vehicle, less the salvage value;
  - (b) the reasonable costs of car hire; and
  - (c) any other losses incurred as a result of the accident.
26. Although the legal systems differ between England and Wales, Northern Ireland and Scotland, the differences are not significant in relation to most areas of the claims management process, although they may result in variations in the ultimate claim costs.
27. Several parties might be involved in a non-fault claim process, including the non-fault broker, the non-fault insurer, the at-fault insurer, a CMC, a repairer and a replacement car provider:
  - (a) the non-fault driver is likely to contact their insurer or broker immediately after the accident, but might also contact a repairer or car dealership;
  - (b) the non-fault driver might be contacted by the at-fault insurer, in an attempt by the at-fault insurer to 'capture' and manage the non-fault claim; and
  - (c) other service providers, such as CMCs and credit hire companies (CHCs), might contact the non-fault driver following a referral from another party.

28. Our survey of non-fault claimants found that the claimant's own insurer was mainly responsible for managing the claim in 42 per cent of cases, and the at-fault insurer was mainly responsible for managing the claim in 32 per cent of cases. A CMC was mainly responsible for managing the claim in 16 per cent of cases.
29. When a non-fault claim is managed by the non-fault insurer or by a CMC, subrogation allows the insurer or CMC, once it has provided the replacement car and the repair, to benefit from the rights of the non-fault party to recover from the at-fault insurer.

### **The relevant markets**

30. Many parties are involved in the provision of motor insurance. We have focused our investigation on:
- (a) insurers (which supply motor insurance to cover for the costs arising from a motor accident);
  - (b) brokers (which act as agents for insurers in selling motor insurance);
  - (c) PCWs (which provide websites on which the prices of motor insurance, and other goods and services, can be compared);
  - (d) CMCs (which manage various aspects of drivers' claims, eg repair work, the provision of a replacement car and compensation for personal injury);
  - (e) car hire companies (which provide replacement cars while a claimant's own car is unavailable, either under contract to an insurer or CMC (direct hire) or directly to non-fault claimants, with the cost recovered directly from fault insurers (credit hire));
  - (f) repairers (which undertake the repair work to vehicles damaged in motor accidents); and
  - (g) parts and paint suppliers (which supply the parts and paint for repair work to vehicles).

31. Our terms of reference refer to private motor insurance and related goods or services. There are two kinds of related services that are relevant to our inquiry: PCWs and post-accident services.
32. Motor insurance is sold by insurers and brokers. Different types of cover are sold and the price of motor insurance policies depends on a driver's particular risk factors. We did not separate the market by seller, cover type or customers.
33. Although some suppliers operate on a local or regional basis, most insurance sales are transacted by telephone or online, and we conclude that the appropriate geographic market for motor insurance is national, rather than regional or local.
34. PCWs facilitate the buying and selling of motor insurance. They are 'two-sided markets' with two groups of users: consumers searching for motor insurance and motor insurers. We decided that PCWs constitute a distinct market whose geographic scope is the UK in its entirety.
35. Post-accident services are an important part of the supply chain for the motor insurance market and consequently the efficiency with which these services are supplied may affect the price of motor insurance. We considered the main post-accident activities that were relevant to our investigation to be claims management, repairs, salvage and car hire.
36. We provisionally conclude that the markets that are relevant to our assessment of competition were:
  - (a) motor insurance; and
  - (b) PCWs.

## Theories of harm

37. We investigated different ways in which competition could be harmed (also known as 'theories of harm' or 'ToH') in the relevant markets and used these to structure our investigation.
  
38. For competition to function effectively, customers need to be willing and able to: access information about the various offers available in the market; assess these offers to identify the good or service that provides the best value for them, taking account of the full costs of provision as well as the benefits; and act on this assessment by switching to purchasing the good or service from their preferred supplier. There are complexities in the motor insurance industry which may hamper the effective functioning of competition.
  
39. We initially identified five potential areas of harm, not necessarily mutually exclusive:
  - (a) separation of cost liability and cost control ('separation');
  - (b) the beneficiary of post-accident services being different from and possibly less well informed than the procurer of those services;
  - (c) market concentration;
  - (d) competition-softening strategies by sellers; and
  - (e) vertical relationships.
  
40. On initial investigation of the relevant markets, we were able to discount some of our theories. We observed low levels of concentration that allowed us to discount our third theory of harm except in relation to PCWs. We observed high levels of switching in our investigation of our fourth theory of harm, so our further investigation under this theory focused on the sale of add-on products. Under the fifth theory of harm, we concentrated on MFN clauses in contracts between insurers and PCWs.

## Separation of cost liability and cost control (theory of harm 1)

41. Separation occurs because, under tort law, a non-fault driver is entitled to compensation for their loss from the at-fault driver through the at-fault driver's insurer. The cost liability lies with the at-fault driver, and, ultimately the at-fault insurer but the cost control lies with the party managing the claim. This party could be the non-fault insurer or an intermediary such as a CMC or a CHC rather than the at-fault insurer. The value of the claim that can be recovered by the party managing the claim is determined not by the actual cost incurred, but by the level of claim which a court would consider 'reasonable'.
42. At-fault insurers have an incentive to 'capture' a claim so that they can control costs effectively. A captured claim is one where the at-fault insurer agrees with the non-fault driver that it will manage the claim. We estimate that claims were captured in about 32 per cent of cases and there was separation of cost liability and control in about 64 per cent of cases.
43. We identified a number of ways in which claims are made at a level higher than the cost actually incurred:
  - (a) Claims handling and car hire intermediaries charge at-fault insurers more than the cost incurred in the provision of replacement cars. They in turn compete, via referral fees, to obtain work from the insurer and in so doing provide non-fault insurers, brokers and others with an opportunity to earn additional income from these fees.
  - (b) Some non-fault insurers charge at-fault insurers more than the cost of repairs incurred (though the practice of one insurer is currently subject to litigation in the Court of Appeal).
  - (c) When cars are written off, some at-fault insurers do not receive the full salvage value of the car.

44. We found that, the higher costs passed on to at-fault insurers are likely to be broadly reflected in higher premiums. We would expect that the effect on individual premiums would vary according to drivers' risk of having an at-fault accident, meaning higher-risk drivers will be particularly affected .
45. Also, at the same time, the revenue stream to non-fault insurers and brokers described in paragraph 43 is likely to reduce the premiums charged by insurers and therefore partially offset the higher premiums attributable to the higher costs to fault insurers. The overall effect on individual premiums is likely to vary according to the drivers' risk profile.
46. Taking both into account, we identified a net increase on premiums.
47. Separation may lead to direct benefits to customers if CHCs/CMCs provide better service than at-fault insurers, but we think these direct quality-of-service differences are small. We noted that the existence of alternative providers, such as CHCs/CMCs, is likely to act as a deterrent to at-fault insurers providing a poor-quality replacement car service.
48. Associated with these effects, an inefficient supply chain, involving excessive frictional and transactional costs, has emerged. Insurers and brokers are competing to find ways of earning a rent from their control of non-fault claims, rather than concentrating on offering the lowest price and best quality of claims handling and other service to customers. Furthermore, since the greatest effect is on drivers with the most adverse risk factors, prices to individual drivers are not fully reflective of expected costs. These are not effects that would be observed in a well-functioning motor insurance market.

49. These effects are currently greatest in the provision of replacement cars which, when cost liability and control are separate, is usually done via credit hire. The effects are currently smaller in repairs and write-offs where different non-fault insurers have different practices, and frictional and transactional costs are currently lower.
50. We therefore identified two features of the supply of motor insurance and related services which we provisionally conclude have, in combination, an AEC:
- (a) separation—that is, that the insurer liable for the non-fault driver’s claim, ie the insurer to the at-fault driver, is often not the party controlling the costs; and
  - (b) various practices and conduct of the other parties managing such non-fault drivers’ claims which (i) were focused on earning a rent from control of claims rather than competing on the merits; and (ii) gave rise to an inefficient supply chain involving excessive frictional and transactional costs.
51. We provisionally conclude that these features distort competition in the motor insurance market. We estimate a net adverse effect on consumers of between £150 million and £200 million per year. Since the estimated GWP across the industry is around £11 billion, this net effect corresponds to 1.3 to 1.8 per cent of the average premium, or about £6 to £8 per motor insurance policy.

**Possible underprovision of service to those involved in accidents (theory of harm 2)**

52. There are two reasons why claimants might not get post-accident services of the quality to which they are entitled by law:
- (a) Insurers and other claims managers procuring repairs, replacement cars and write-offs do not have the necessary incentive to ensure that claimants get the quality of service to which they are entitled.
  - (b) Claimants may not be sufficiently well informed to judge whether they receive the quality of service to which they are entitled either because they are not aware of

their legal or contractual rights, or because they do not have the technical skills to assess quality.

53. We did not see evidence of systematic underprovision for replacement cars and write-offs. We therefore focused our investigation on repairs.
54. On first investigation we did not find evidence suggesting that there was a systematic underprovision of repairs, but to investigate further we commissioned an independent assessment of repair quality.
55. Following the completion of the independent assessment of repair quality, our overall assessment of the evidence is as follows:
  - (a) Evidence from insurers suggests that they carry out repair audits (which in most, but not all, cases cover quality), require PAS accreditation and offer warranties; but these do not in themselves ensure that repairs are carried out to the legal standard.
  - (b) Evidence from repairers suggests that excessive pressure on costs could be leading to 'cutting corners' on repairs, with some examples of poor-quality repair.
  - (c) Evidence from consumers themselves suggests that the great majority of non-fault claim vehicles are repaired to their pre-accident condition, but many consumers might not be able to assess accurately the quality of repairs.
  - (d) The independent assessment of the cars by experts indicated that the proportion not repaired to pre-accident condition is considerably higher than suggested by consumers themselves.
56. We believe that more weight should be attached to the evidence from experts. That is, evidence from repairers and from the results of the vehicle inspections by independent engineers. We recognize that consumers might not be able to assess

accurately the quality of repairs. Consequently, our provisional view is that too many non-fault claimants receive a quality of service below the legal standard.

57. Most of the evidence relates to non-fault claims and to repairs managed by insurers but we considered that the position for at-fault claims and repairs managed by CMCs is likely to be similar.

58. We consider that the market is not working well in the following ways:

(a) Competition between repairers to obtain business from insurers is focused on low cost rather than high quality of repair; that is, repairers are insufficiently rewarded for offering a high quality of repair. In a well-functioning market, repairers would be sufficiently incentivized to provide claimants with repairs up to the legal standard.

(b) Insurers do not have the necessary incentive to ensure that claimants get the quality of service on repair to which they are entitled, for instance because reputational effects are weak.

59. We therefore identified the following two features of the supply of motor insurance and related services which we provisionally conclude have, in combination, an AEC:

(a) insurers and CMCs do not monitor effectively the quality of repairs; and

(b) there are significant limitations to claimants' ability to assess the quality of car repairs.

These features distort competition between repairers to obtain business from insurers and other managers of drivers' claims.

#### **The sale of add-on products (theory of harm 4)**

60. 'Add-ons' are additional insurance products that provide cover for various risks over and above the core risks covered by a basic motor insurance policy, usually sold on top of the basic motor insurance policy for an additional premium.
  
61. We found that different levels of information are provided by different motor insurers and that overall the information provided is insufficient for consumers to make informed purchasing decisions. It may therefore be difficult for consumers to identify the best-value offers in the market. In NCB protection, the problem is particularly acute because of the nature of the product. A lack of transparency of NCB scales and a lack of clarity on the difference between NCB and NCB protection means that consumers are unable to evaluate properly the protection on offer and the impact on their insurance premium.
  
62. Insurers have a point-of-sale advantage when selling add-ons because it is difficult and time consuming for customers to compare the combined price of basic motor insurance policies and add-ons across different providers. The point-of-sale advantage is a source of market power for insurers.
  
63. It is possible to compare on PCWs whether the most commonly purchased add-ons are part of a basic motor insurance policy or can be purchased as an add-on. However, this comparison is relatively limited because the PCWs only provide a generic description of each add-on and not one that explains how the products differ between motor insurers. In addition, the PCWs provide only an indicative price of each add-on rather than the actual price that is returned following click-through to the motor insurer's website. Further, the quotes returned by a PCW are ranked based on the price of the basic motor insurance policy. This excludes the price for the selection

of add-ons displayed by the PCW, thus restricting the ability of consumers to make comparisons of the total price of the motor insurance policy including add-ons.

64. A point-of-sale advantage may also be generally present for consumers who renew their policies or purchase through direct channels rather than through PCWs.
65. We identified the following two features of the supply of motor insurance which we provisionally conclude have, in combination, an AEC:
  - (a) information asymmetries between motor insurers and consumers in relation to the sale of add-ons; and
  - (b) the point-of-sale advantage held by motor insurers when selling add-ons.
66. We provisionally conclude that these two features distort competition in the motor insurance market. This is because they mean it is more difficult for consumers to identify the best-value offers in the market and may lead to consumers purchasing products at an inflated price.
67. The customer detriment arising from the AEC is particularly difficult to quantify. We intend to carry out further work to ascertain the level of detriment caused by the features described above and the extent to which this impacts motor insurance premiums.

#### **Price comparison websites and MFN clauses (theory of harm 5)**

68. PCWs are a 'two-sided' markets where PCWs provide motor insurance price comparisons to consumers and sales opportunities to insurers and brokers. About 23 per cent of all business is conducted through PCWs and about 55 to 60 per cent of new business comes through PCWs. We found evidence that price competition between

insurers on PCWs is intense, and we believe that PCWs could therefore be a pro-competitive force in the market.

69. PCWs earn a commission on insurance policies that are sold through their intermediation. Insurers set the premiums at which their policies are available. The premium covers expected costs, including the negotiated commission fee for sale through the PCW. PCWs are not wholesalers of insurance—they do not set retail prices.
70. On the retail side of the market, because many consumers do not shop around between different PCWs (that is, they ‘single home’), we estimate that around 30 per cent of PCW users are accessible to insurers only through a single PCW. However, most consumers use more than one sales channel to search for insurance. There are four large PCWs, very roughly of equal size, so that we estimate that each PCW can exclusively deliver to an insurer approximately 8 per cent of all consumers who use PCWs for purchase.
71. Most insurers therefore consider it essential to list on all the major PCWs. The range of policies offered by different PCWs does not therefore differ greatly. A small number of brands choose not to list on PCWs at all, especially those with the most established direct selling operations.
72. We examined concentration and market power in the PCW market and we also considered the ‘MFN clauses’ contained in the contracts between PCWs and insurers. The two issues are linked: horizontal market power allows the PCWs to negotiate effective MFN clauses. We found that these can have a problematic effect on competition. An MFN clause restricts the ability of the insurer to charge on other sales outlets a price different from the price offered through the PCW.

73. We categorize MFN clauses into two broad types: 'wide' and 'narrow'. Wide MFN clauses specify that the premium may not be lower on any other PCW or on the insurer's own website (and, in some cases, in any sales channel at all); narrow MFN clauses specify that the insurer's own website will not offer policies at a lower premium than available on the PCW.
74. Wide MFN clauses soften price competition between PCWs. With a wide MFN clause in place, a PCW does not face the possibility that a retail customer will find the same policy more cheaply on a competing PCW. There is little incentive for a PCW facing a competitor with a wide MFN clause to seek better prices for their retail consumers from insurers because that better price would be passed on to the competitor also. There is, therefore, little reward for price reductions. Conversely, a PCW with a wide MFN clause need not be concerned when it raises commission fees. It is safe in the knowledge that this will not make sales through its channel less competitive compared with sales through other PCWs.
75. Narrow MFN clauses will not usually have the same impact on competition because they maintain the possibility of premiums varying on different PCWs. We identify one special case in which narrow MFN clauses can lead to a substantial softening of price competition but we found that this applies only for brands which are listed both on PCWs and on a strong direct sales channel, and whose competitiveness against PCW channels the insurer wishes to maintain. We found that the number of brands meeting these conditions is small.
76. We consider that the softening of price competition due to wide MFN clauses will lead to less entry, less innovation and higher commission fees, all leading to higher premiums.

77. The common strategy for an entrant seeking to gain a foothold in a market by offering a cheaper product is precluded by wide MFNs. We found evidence that entry has been deterred because of the difficulty of offering a differentiated product.
78. Innovation by PCWs, to the extent that it reduces the expected cost of supplying insurance—for example, through better fraud prevention—will not be incentivized as much when wide MFN clauses are present because the lower cost of provision will not be reflected in a lower premium.
79. Premiums are higher with wide MFN clauses because it is not possible for competing PCWs to offer lower prices to gain market share. We found evidence of price reductions and commission reductions being offered by PCWs but these being turned down by insurers because of the presence of wide MFNs in contracts with other PCWs.
80. We consider that narrow MFN clauses, but not wide ones, may be necessary for the survival of PCWs as a business model. A narrow MFN provides some credibility to the proposition that the policies found on the PCW have prices that cannot be found more cheaply simply by going to the direct website of the provider. Without that reassurance, consumers would learn that PCWs could not be trusted to be a better alternative to direct search and demand for their services might disappear.
81. For a search among insurers to be valuable to the retail consumer—and to contribute to rivalry among insurers—it must return the identity of the seller, and so necessarily has to return the information that is needed for the consumer to bypass the PCW and go to the direct website. Without narrow MFN clauses there is a risk that retail consumers might undermine the business models of PCWs.

82. We believe that PCWs enhance rivalry in the insurance market. A risk to the existence of PCWs from the absence of narrow MFN clauses would therefore be damaging to competition. We do not find that wide MFN clauses are necessary for the continued existence of PCWs.
83. We examined whether the market power derived from single homing, which allows PCWs to negotiate MFN clauses, could be used to deliver equivalent results through other behaviour. We found that it might be possible for a PCW to achieve price parity by using, or threatening, selective delisting of insurers to soften price competition between PCWs. This is not an identical outcome to that achieved through MFNs, but it approaches it.
84. We identified the following feature in the supply of motor insurance and related services which we provisionally conclude has an AEC: wide MFN clauses in contracts between motor insurance providers and PCWs, and practices having equivalent effect where a PCW takes advantage of single homing to prevent a provider of motor insurance and PCWs from competing on price.
85. We provisionally conclude that this feature distorts competition between PCWs, and thus ultimately restricted entry to the PCW market, reduced innovation by PCWs and increased premiums for motor insurance to the retail customer.