

## PRIVATE MOTOR INSURANCE MARKET INVESTIGATION

### Provisional findings report—erratum published under Rule 10.3 of the Competition Commission Rules of Procedure

1. On 28 September 2012, the Office of Fair Trading, in exercise of its powers under section 131 of the Enterprise Act 2002 (the Act), referred to the Competition Commission (CC) for investigation the supply or acquisition of private motor insurance (motor insurance) and related goods or services in the UK.

#### Provisional findings

2. The provisional findings report (the report) was published on 19 December 2013. The Group appointed to consider this reference has provisionally found that there are features of the UK market for motor insurance and related goods or services that, either alone or in combination, prevent, restrict or distort competition such that there are adverse effects on competition (AECs).
3. In response to our report, a party to the investigation requested additional information in relation to Section 6 of the report. Following this request, the CC published a [notice](#) of its intention to disclose additional information. We also noted an inconsistency in our estimation of the detriment to consumers arising from the AEC identified in Section 6 of the report.
4. An error in paragraph 8.30 of the report was identified separately.

#### Estimation of the consumer detriment

5. The Group has provisionally identified the following two features of the supply of motor insurance and related services<sup>1</sup> which have, in combination, an AEC:
  - separation—that is, that the insurer liable for the non-fault driver's claim as insurer to the at-fault driver is often not the party controlling the costs; and
  - 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.

We provisionally concluded that these features distorted competition in the motor insurance market.

6. The calculation of the detriment to consumers is based, among other things, on a comparison of the average credit hire bill, average credit hire daily rates and average insurer direct hire rates (Appendix 6.1, Table 6, of the report).
7. Both average credit hire bill (£1,085) and average credit hire daily rates (second numerical column of Table 6 of Appendix 6.1) include VAT. However, the insurer

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<sup>1</sup> The provision of claims services to non-fault drivers is related to the supply of motor insurance in a number of ways. It is the insurer to the at-fault driver which ultimately bears the costs of providing these services. Further, the party managing the provision of these services is often the insurer to the non-fault driver or a third party the non-fault driver is referred to by their own insurer or broker.

direct hire daily rates (third numerical column of Table 6 of Appendix 6.1) exclude VAT and are not on a consistent basis to the credit hire daily rates. Adjusting to remove this inconsistency shows that credit hire rates are about twice as high as direct hire rates and that the average cost difference is £555 per hire (instead of £640). An amended version of Table 6 of Appendix 6.1 of the report is set out in [Annex A](#) to this Notice.

8. This has an impact on the estimation of the detriment in Section 6 of the report. In particular, the total cost increase due to credit hire, as estimated in Appendix 6.1, Table 6.3, of the report, becomes £167 million. The overall net detriment from separation is then £120 million (instead of £150 million) and the range for the net detriment (paragraphs 6.83 and 6.84 of the report) is £120–£155 million, which corresponds to 1.1 to 1.4 per cent of the average premium (instead of 1.3 to 1.8 ) or about £5 to £6 per policy (instead of £6 to £8). A list of amendments to the report following this revision of our estimation of detriment is set out in [Annex B](#) to this Notice.

### Paragraph 8.30 of the report

9. Paragraph 8.30(a) of the report should read as follows:

(a) LV describes courtesy car cover as follows:

for a small additional fee you can be covered for a courtesy car.  
We'll pay for the courtesy car while your car is being repaired by our selected repairer service, or for up to 14 days if your car is damaged beyond economical repair, can't be driven or has been stolen and not recovered. We'll insure the courtesy car; you'll just have to pay for the fuel.

This description does not disclose the type of car provided under the cover. Further, it does not explain to consumers that this add-on may not be necessary in circumstances when they are not at fault for an accident (where their replacement car needs can be met under tort law).

### The next steps

10. Anyone wishing to comment on these changes to the report, including the impact of these changes on remedies, is now invited to provide the Group with their reasons in writing.
11. These reasons should be received by the Group no later than **Friday 28 February 2014**.
12. The Group will have regard to any such reasons in making its final decisions in this investigation.

(signed) ALASDAIR SMITH  
Group Chairman  
17 February 2013

*Note:*

Comments should be made in writing to:

Inquiry Manager  
Private Motor Insurance market investigation  
Competition Commission  
Victoria House  
Southampton Row  
London  
WC1B 4AD

or by email to: [PMI@cc.gsi.gov.uk](mailto:PMI@cc.gsi.gov.uk).

Revised Table 6 of Appendix 6.1 of the report

GTA car category	Example car	GTA credit hire daily rate £ (VAT excluded)	Average insurer direct hire daily rate £* (VAT excluded)	Overall implied credit hire daily rate £ (VAT included)	Average insurer direct hire daily rate £* (VAT included)	Multiple of GTA rate over average insurer direct hire rate	Multiple of implied credit hire rate over average insurer direct hire rate
<i>Standard</i>							
S1	Peugeot 107	30.28	14.18	39.79	17.01	2.1x	2.3x
S2	Ford Fiesta	34.33	14.95	43.09	17.94	2.3x	2.4x
S3	Ford Focus 1.4	36.62	17.83	46.63	21.40	2.1x	2.2x
S4	Ford Focus 1.6	39.26	19.55	48.49	23.46	2.0x	2.1x
S5	Ford Mondeo 1.8	41.54	21.93	50.81	26.32	1.9x	1.9x
S6	Ford Mondeo 2.0	44.25	23.52	54.76	28.22	1.9x	1.9x
S7	Peugeot 607	62.06	28.09	70.79	33.71	2.2x	2.1x
Weighted average						2.1x	2.1x
<i>MPV</i>							
M	Vauxhall Meriva	48.38	27.99	59.30	33.59	1.7x	1.8x
M1	Ford Focus C-Max 1.4/1.6	55.91	30.63	64.43	36.75	1.8x	1.8x
M2	Ford Focus C-Max 2.0	63.75	33.70	74.37	40.44	1.9x	1.8x
M3	Ford Galaxy	74.94	31.53	84.27	37.83	2.4x	2.2x
M4	Mercedes Benz Viano 2.0	95.07	44.90	101.29	53.88	2.1x	1.9x
M5	Mercedes Benz Viano 2.2	142.59	49.33	148.06	59.19	2.9x	2.5x
M6	Mercedes Benz Viano 3.5	180.62	55.87	162.92	67.04	3.2x	2.4x
Weighted average						1.9x	1.8x
<i>4x4</i>							
F1	Toyota RAV4 (2.0)	93.94	50.07	106.21	60.09	1.9x	1.8x
F2	Toyota RAV4 (2.2)	100.66	51.12	110.26	61.34	2.0x	1.8x
F3	BMW X3 (2.0)	108.49	52.30	130.09	62.76	2.1x	2.1x
F4	BMW X3 (2.5)	133.10	63.32	149.14	75.98	2.1x	2.0x
F5	BMW X5 (3.0)	178.93	67.72	196.22	81.26	2.6x	2.4x
F6	BMW X5 (Xdrive40d)	201.31	77.80	216.85	93.36	2.6x	2.3x
F7	BMW X5 (V8 4.4)	234.86	96.51	254.22	115.81	2.4x	2.2x
F8	BMW X5 (4.8 Sport 5 door auto)	251.64	89.37	265.22	107.24	2.8x	2.5x
F9	Porsche Cayenne Turbo (4.5)	307.56	141.49	310.01	169.79	2.2x	1.8x
Weighted average						2.2x	2.0x
<i>Prestige</i>							
P1	BMW 116 (1.6)	78.28	37.37	86.71	44.85	2.1x	1.9x
P2	BMW 118 (1.8)	87.24	40.39	94.82	48.46	2.2x	2.0x
P3	BMW 120 (2.0)	92.82	47.93	105.05	57.52	1.9x	1.8x
P4	BMW 320 (2.0)	112.95	54.32	126.19	65.18	2.1x	1.9x
P5	BMW 520 (2.0)	140.92	58.58	151.76	70.30	2.4x	2.2x
P6	BMW 525 (2.5)	167.76	70.28	174.79	84.33	2.4x	2.1x
P7	BMW 530 (3.0)	195.72	79.38	208.03	95.26	2.5x	2.2x
P8	BMW 730 (3.0)	223.66	104.62	235.04	125.55	2.1x	1.9x
P9	BMW 735/740 (3.5/4.0)	257.23	109.74	290.84	131.68	2.3x	2.2x
P10	BMW 750 (5.0)	316.51	118.78	249.53	142.54	2.7x	1.8x
P11	Bentley Continental	444.55	204.19	495.82	245.03	2.2x	2.0x
P12	Bentley Flying Spur	665.44	305.25	590.92	366.30	2.2x	1.6x
P13	Rolls Royce Phantom	964.88	n/a	1,050.81	N/A	N/A	N/A
Weighted average						2.2x	2.0x
<i>Sports</i>							
SP1	Mini Cooper (1.6)	75.36	33.76	88.87	40.51	2.2x	2.19
SP2	Mini Cooper S (1.6)	88.08	39.97	97.25	47.96	2.2x	2.0x
SP3	Mini Cooper S (1.6) Cabriolet	98.41	58.80	107.50	70.55	1.7x	1.5x
SP4	Audi TT Coupe 1.8T	120.79	58.05	128.61	69.65	2.1x	1.8x
SP5	Audi TT Roadster 1.8T	131.97	60.61	149.60	72.73	2.2x	2.1x
SP6	Audi TT Roadster 1.8T Quattro	184.54	77.72	189.84	93.26	2.4x	2.0x
SP7	Audi TT Roadster 3.2T	206.91	93.41	216.82	112.09	2.2x	1.9x

	Quattro						
SP8	BMW 325 Cabriolet	229.27	87.84	254.64	105.40	2.6x	2.4x
SP9	BMW 630	251.64	107.95	275.56	129.54	2.3x	2.1x
SP10	BMW M5	287.98	130.54	320.53	156.64	2.2x	2.0x
SP11	Aston Martin Vantage (6.0)	346.70	129.69	439.70	155.63	2.7x	2.8x
SP12	Aston Martin DB7 coupe	455.75	209.26	488.81	251.11	2.2x	1.9x
SP13	Aston Martin DBS Coupe	665.44	305.09	728.75	366.11	2.2x	2.0x
	V12 6L						
Weighted average						2.2x	2.0x
Overall weighted average						2.1x	2.0x

### List of amendments to the report following revision of our estimation of detriment

<i>Relevant paragraph</i>	<i>Amended paragraph</i>
<b>Summary</b>	
Paragraph 51	We provisionally conclude that these features distort competition in the motor insurance market. We estimate a net adverse effect on consumers of between £120 million and £150 million per year. Since the estimated GWP across the industry is around £11 billion, this net effect corresponds to 1.1 to 1.4 per cent of the average premium, or about £5 to £6 per motor insurance policy.
<b>Section 6</b>	
Paragraph 6.14(c)	Comparison of the average credit hire daily rate charged by these CHCs with the direct hire daily rate paid by three insurers for similar cars showed that the credit hire daily rate was 2 times as high.
Footnote 14	Many credit hire claims are settled under the GTA, but average charges by CHCs appear to be below GTA rates—average charges were 2 times direct hire rates whereas GTA rates were 2.1 times direct hire rates.
Paragraph 6.16	We estimated that the average cost of a replacement car was £1,100 and that this was approximately £555 greater than the cost of a similar car in the absence of separation (see paragraph 6.14(c) and Appendix 6.1, paragraph 35—precise figures are affected by rounding).
Footnote 16	Our estimates of the average cost of a replacement car under separation are between £1,085 and £1,400. Assuming that credit hire costs 2 times as much as direct hire, the extra cost would be £555 to £715. Taking the figure that credit hire costs 2.1 times as much as direct hire, the extra cost would be £580 to £730 (the numbers are affected by rounding).
Paragraph 6.17	Of this estimated £555 extra cost of credit hire, on average about £340 is paid out in referral fees to non-fault insurers. The remaining £215 is therefore accounted for by higher costs of CHCs and any profits that the CHCs make.
Paragraph 6.18	For this reason, the total extra cost attributable to separation is likely to be significantly more than £555.
Paragraph 6.28	We provisionally found that separation usually results in provision of a replacement car on credit hire rather than direct hire terms, at an average extra cost to the at-fault insurer of at least £555 per replacement car, and average revenue to non-fault insurers from referral fees of about £340.
Paragraph 6.71(a)	Credit hire increases cost by an average of £555 per hire compared with an equivalent direct hire.

Relevant paragraph	Amended paragraph							
Table 6.3	Replacement car		Repair		Write-off		Total cost increase	
	No of claims		No of claims		No of claims			
	£ per claim		£ per claim		£ per claim			
	('000)		('000)		('000)			
	Credit hire/repair	555	301	324	85	125	21	
	Non-fault insurer handling			95	240	53	64	
	Total cost increase (£m)	167		51		6		224
Paragraph 6.73	On this basis, we estimated the total increase in subrogated costs at £224 million. We believe that this will be reflected broadly pro rata in higher premiums to consumers (see paragraph 6.53). Hence we estimate an adverse effect on consumers of about £225 million.							
Paragraph 6.82	We therefore estimated the net effect on consumers due to changes in premiums to be about £120 million (higher premiums associated with higher costs to at-fault insurers of £224 million less lower premiums associated with the net revenue stream to non-fault insurers of somewhat less than £104 million).							
Paragraph 6.83	Our figures above (see paragraph 6.17) suggest that the excess cost of credit hire over direct hire less average referral fee paid is £220 per hire or 16 to 20 per cent of the average credit hire charge of £1,100 to £1,400. Given our approach to transactional, frictional and management costs (see paragraph 6.70(d)) and estimated credit hire revenue in 2011 of £663 million, this implies consumer detriment from credit hire of £105–£130 million. A similar approach for credit repair suggests a further consumer detriment of about £35 million, implying a total consumer detriment of about £150 million.							
Paragraph 6.84	Taking both calculations into account, we estimated that the net effect on premiums was about £120–£150 million. Since the estimated GWP across the motor insurance industry is about £11 billion across about 25 million policies, the net effect we have estimated corresponds to 1.1 to 1.4 per cent of the average premium, or about £5 to £6 per motor insurance policy.							
Paragraph 6.92	We estimated the net detriment to customers to be about £120–£150 million.							
Section 10								
Paragraph 10.7	Our current estimate of the customer detriment in terms of higher premiums for consumers is set out in paragraphs 6.79 to 6.82 and amounts to £120–£150 million per year.							
Appendix 6.1								
Table 6	See Annex A to this Notice.							

Relevant paragraph	Amended paragraph						
Paragraph 35	Table 6 shows that, on average, credit hire rates are <b>around 2</b> times higher than direct hire rates. Dividing the total revenues for the CHCs in our sample by the total number of credit hire claims managed by them, we estimated the average credit hire bill to be approximately £1,085. Since credit hire rates are <b>2</b> times higher than direct hire rates, under direct hire the same services could be provided for about <b>£530</b> . We therefore estimate average cost difference due to the separation at approximately <b>£555</b> .						
Appendix 6.6							
Paragraph 5	As discussed in Section 6 and Appendix 6.1 (paragraphs 31 to 35), we estimated the average additional cost of a credit hire to be <b>£555</b> .						
Table 1	Our sample		Estimated total number of credit hires '000	Average difference between credit and direct hire bills £		Estimated total difference between credit and direct hire bills £m	
	Number of credit hires '000	Share of supply %					
	Referred by insurers	151	82	184			
	Referred by brokers	76	65	117			
	Total		301		<b>555</b>		<b>167</b>
Table 5	Replacement car		Repair		Write-off		Total cost increase
	£ per claim	No of claims ('000)	£ per claim	No of claims ('000)	£ per claim	No of claims ('000)	
	Credit hire/repair	<b>555</b>	301	324	85	125	21
	Non-fault insurer handling		95	240	53	64	
	Total cost increase (£m)			51		6	<b>224</b>
Appendix 6.7							
Paragraph 5(a)	Our assessment is that the effect of the separation of cost liability and cost control on costs ( <b>£224</b> million) exceeds the revenue stream (£104 million), implying that area X exceeds area Y.						
Paragraph 6	For example, assuming a straight-line demand curve with an arc elasticity of −0.2 and total car insurance premiums of £10,000 million, the loss of consumer surplus would be no more than £{0.00001*( <b>224</b> )^2}million, that is <b>£0.5</b> million.						