

## Direct Line Group

### Private Motor Insurance Market Investigation

Direct Line Group (DLG) welcomes the market investigation reference (MIR) to the Competition Commission (CC) and the CC's invitation for parties to send a summary of their position regarding the private motor insurance market, and in particular the issues of replacement vehicles and repair focused on by the Office of Fair Trading (OFT).

[CONFIDENTIAL]. These remarks also summarise key points of context which DLG believes are important for the CC to consider as it commences its exploratory thinking. DLG looks forward to discussing these issues in detail with the CC as its investigation progresses.

- ***Provision of replacement vehicles and repair raises costs for insurers.*** DLG agrees with the OFT's conclusions that the way in which certain industry players (including credit hire operators, accident management companies, insurers, brokers and repairers) operate in relation to the provision of replacement vehicles and repair creates a level of market dysfunction that raises claims costs for insurers. DLG pro-actively seeks to mitigate these but remains concerned that such cost inflation results in a worse outcome for motorists.
- ***While bodily injury is the principal inflationary pressure, the Government is already implementing a remedy on this side of the market.*** It is common ground as between the OFT, Whitehall and industry that the biggest driver of cost – and in turn premium – inflation has been bodily injury. While DLG submits that, for context, the CC needs fully to understand the sources of cost inflation, and how, if any, these issues intersect with the problems caused by the provision of replacement vehicle and repair, DLG is conscious that the Ministry of Justice, Department for Transport, and other government stakeholders were long seized of these issues and have embraced a solution that DLG (alongside most other industry participants) endorses.
- ***Replacement vehicles and repair issues are complex and require significant analysis and remedy.*** These issues are substantial and complex and DLG is conscious that analysis of these issues will require significant time and resource on the part of the CC (and respondents). Given this and the fact that remedies already in train regarding bodily injury, DLG strongly believes that these should ultimately be the focus of the CC's investigation.
- ***While the problematic issues are recognised, there is no ready-made solution.*** There appears to be widespread agreement on the insurer side of the market that there is a level of market dysfunction as to the provision of replacement vehicle hire and repair. Hence the ABI, DLG and others have welcomed the MIR. But while there is consensus that this is an issue, it does not follow that it is a simple problem with a clear-cut solution. For example, DLG would wish to disabuse any notion that a simple ban on referral fees in and of itself would reduce cost inflation in relation to vehicle hire/repair. Alongside any referral fee remedy it would be necessary to achieve an equivalent reduction in the cost and duration of credit hire (removal of referral fees on their own would tend towards higher costs and higher premiums, which would perversely leave motorists worse off). [CONFIDENTIAL]. Any analysis of remedies is likely to consume significant time and

resource and DLG believes that the CC will need to leave sufficient time to tackle these difficult issues and to achieve a level playing field.

- ***The wider private motor insurance market is highly competitive and pro-competitive investments should not be discouraged.*** The OFT has concluded that the private motor insurance market as a whole is both fragmented and very competitive, with a "high degree of rivalry" at the retail level.<sup>1</sup> This is consistent with the earlier conclusion of the House of Commons Transport Select Committee, and with DLG's own experience [CONFIDENTIAL]. In this competitive market, DLG is a leading player, having invested heavily so as to achieve [CONFIDENTIAL]. DLG is conscious that any remedy must not discourage this type of investment, and focus instead on achieving efficiency.
- ***Allowing insurers to provide customers with the assistance they require is important.*** DLG is conscious that it supports customers at times of difficulty, e.g. following an accident. As part of its offering it can provide all the assistance and services that customers require during these difficult periods, e.g. by offering them access to garage repairers, replacement vehicles and legal assistance where required. Any ultimate remedy should be sensitive to these customer needs.
- ***DLG assistance.*** DLG is very willing to assist the CC in any way it can throughout this MIR. For example, in recognition of the complexity of the market, we would be happy to make ourselves available to provide the CC with further background information or technical explanation as needed. As regards the analysis of replacement vehicle hire, it is important to understand the underlying legal requirements which exist, e.g. the fact that "not-at-fault" customers are entitled to a like-for-like replacement vehicle while "at-fault" customers are not. There is a significant body of case law underpinning these practices which will need to be taken into account during the enquiry. DLG would be happy to explain this in more detail to the CC, as appropriate.

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<sup>1</sup> The OFT has concluded that "[f]rom the evidence gathered, we concluded that the private motor insurance market does not appear to be particularly concentrated, there appears to be a high degree of competitive rivalry between insurers and consumers are generally shopping around effectively for private motor insurance cover"; OFT Report on the market study, OFT1422, May 2012, para 2.14.