

Private Motor Insurance Market

Summary of Views by Interested Party.

Submitted by former director of Hex Holdings Ltd (Brian Hecks).

Background.

Brian Hecks is a former director of Hex Holdings Ltd. Brian was General Manager for the business. Sales and branch operations were amongst his responsibilities.

Hex Holdings was a business that focussed on supply of refinish paint and related consumable items to vehicle repair centres.

Hex Holdings entered into administration during September 2011. The business reached an annual turnover of £20m, had a customer base of 700-1,000 vehicle repair centres and was one of the largest suppliers of vehicle paint refinish materials in the UK.

Hex Holdings became the largest distributor of Akzo Nobel car refinish products from the late 1990's until 2007. In the year leading up to administration Hex Holdings had trading accounts with Akzo Nobel, PPG, DuPont Performance Coatings and DuPont Refinish.

The restriction of available customers and the reducing credit limits from suppliers contributed towards Hex Holdings having to enter into administration.

Views.

Below is a summary of views with regard to how the activities of the vehicle repair market is helping to inflate the cost of repair and then having an impact on insurance premium costs.

For non-fault accidents the contracts offered to vehicle repairers by claim handlers require the labour rate to be charged at rates that vary according to the identity of the 'at fault' party. The corresponding management charge taken by the claims handling company will also vary. Because the management charge is not shown on the repair invoice, the repair bill that is presented to the 'at fault' party is at the full price. Any opportunity for the 'at fault' party to negotiate rates has been removed. In many cases the claims handler will be getting repairs carried out by the same vehicle repairer at more competitive rates but elects to charge a higher rate and increase income from management charges.

For the supply of paint insurance companies, claims handlers and vehicle manufacturers are taking rebates (approval fees) in exchange for exerting influence over the product used and/or the source of supply. In order to fund the cost of these rebates the paint manufacturers have applied well above inflation price increases for many years.

There are four main paint manufacturers in the UK Market (Akzo Nobel, PPG, DuPont and BASF). Each of these manufacturers operates a multi-brand approach in the market. In some cases identical products are supplied for each brand. Brands that are approved by insurance companies, motor manufacturers or claims handlers have experienced greater price rises than other equivalent products that are not approved.

The fact that each manufacturer seeks approvals for a sub-set of the brands it offers means that the manufacturer can minimise the effect of product substitution. A vehicle repairer may wish to choose a product from the same manufacturer that carries the same product warranties because it is cheaper. The vehicle repairer is not allowed to substitute the product because this particular brand is not approved.

“Paint marketing associations” are used to reduce competition and / or “police” collection of rebates. The paint marketing associations can gain an “approved supplier” status. In these instances the number of supplier options is reduced for the vehicle repairer. In some paint marketing associations distributors have to adhere to postcode territories and non-competition with neighbouring distributors or they risk expulsion from the association and loss of approval to supply certain vehicle repairers.

Most of the paint manufacturers operate via a UK subsidiary that is responsible for the marketing and distribution of the paint brands in the UK. Many of the rebates / approvals only apply to the UK market. As a result the cost of the approval fees is a “UK cost” for the paint manufacturers. As the value of the approval fees has increased it has become increasingly important for the paint manufacturers to “partition” the UK market to fund the cost of UK rebates and approvals. UK sales teams for the paint manufacturers will “brief against” non-UK sources of paint. Influencers will also discourage non-UK sources of paint to preserve the maximum value of rebate.

Market influencers (insurance companies, motor manufacturers and claims handlers) will often justify rebates on paint by claiming that they are the “final customer” for the paint products. This is not true. There is no direct correlation between the products that are on the distributor invoice to the vehicle repairer and the invoice from the vehicle repairer to the “influencer”. Vehicle repairers are obliged to buy the components (up to 120 items) of a paint system in the packaged quantities offered by the supplier. The vehicle repairer then mixes small volumes of a selection of components from the system to reproduce the colour of the vehicle to be repaired. (A single component purchased by the vehicle refinisher can be used to repair as many as forty vehicles.) In the vast majority of cases the influencer pays the repairer a price that is calculated by the dominant industry estimating system (Audatex). This estimate is based on an average price of approved paints, makes approximations with regard to the quantity of product required and takes no account of the minimum purchase volumes for the component parts of the paint system. The result is that it is not possible for a rebate that is based on the purchases of a particular brand by a vehicle repairer to accurately reflect the value of paint that is purchased by the influencer from the repairer. This system has increased the inflationary pressure of rebate costs. In many cases rebates are paid to multiple “influencers”. For example if a Mercedes approved vehicle repairer uses Spies Hecker paint (a DuPont brand) to repair a vehicle that is insured by AXA then a rebate is paid to Mercedes and AXA insurance. (Please note that even if the make of the vehicle repaired is a Peugeot the rebate is still paid to both AXA and Mercedes).

Brian Hecks,
22 Sovereign Court,
Victoria Street,
Loughborough.
LE11 2TL.