

## PRIVATE MOTOR INSURANCE MARKET INVESTIGATION

### Theory of harm 1: Analysis of the results of the non-fault survey in relation to overprovision

1. This working paper discusses evidence from the non-fault survey (see working paper 'Survey report') on whether there may be overprovision of repair services and temporary replacement vehicles (TRVs) to non-fault claimants.<sup>1</sup>
2. As we explained in the issues statement, the separation of cost liability and cost control might increase the costs of the services supplied by non-fault insurers, or claims management companies (CMCs)/credit hire companies (CHCs), to non-fault claimants (due to a weakened constraint on prices or an unwarranted increase in quality). In this paper we consider evidence from our non-fault survey on whether there is an unwarranted increase in quality (ie overprovision). As an example, the non-fault insurer may provide a better TRV to a claimant than that to which the claimant is entitled.

### Approach

3. Our non-fault survey asked respondents for their perceptions about four key post-accident service variables, as follows:
  - (a) the condition of the car after repairs were completed;
  - (b) the length of time taken to repair the car;
  - (c) the extent to which TRV needs were met; and
  - (d) the length of time for which the TRV was provided.
4. Under the hypothesis of theory of harm (ToH) 1, the incentive to keep the costs of a claim down will differ depending on whether the party handling the claim is liable for

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<sup>1</sup> Figures in this paper have been weighted to correct for oversampling in Wales, Scotland and Northern Ireland (NI). Details about our survey and the results can be found in the working paper 'Survey report'.

the cost. Therefore, for each variable, we assessed whether there was any significant difference in respondents' perceptions of the service provided depending on the party mainly responsible for managing the claim. We considered the following two scenarios:<sup>2</sup>

- (a) The non-fault insurer manages the claim (and has no agreements in place with the fault insurer and is not itself the fault insurer ('NF' in the tables below)).
- (b) The fault insurer manages the claim as a result of capturing it ('captured' in the tables below).

5. Under the hypothesis of ToH 1, the incentive to keep costs low is greatest for claims handled by the fault insurer (where there is no separation of cost liability and cost control) and lowest for the non-fault insurer. Therefore, in this paper, we compare the perceptions of 'non-fault' and 'captured' respondents.<sup>3</sup>

## Summary of results

6. Overall, the majority (75 per cent) of respondents said that their vehicle was in the same condition after the repair as it was prior to the accident, with 13 per cent saying that it was in a better condition and 10 per cent saying that it was worse. Of those respondents who received a TRV, the majority (68 per cent) said that it met their needs, with 17 per cent saying that it exceeded their needs and 14 per cent saying it was below their needs.<sup>4</sup> Similarly, the majority (87 per cent) said that they had it for about the right amount of time, with only 4 per cent saying that they had it for longer

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<sup>2</sup> We also considered categories of claims where the non-fault insurer manages the claim but has a bilateral agreement with the fault insurer which requires it to mitigate costs as well as claims where the fault insurer and non-fault insurer were the same. However, we found that the number of responses for claims in these two categories did not allow for a meaningful comparison.

<sup>3</sup> In the tables below, we also refer to 'All'. This refers to all types of claim, namely captured claims, claims handled by the non-fault insurer, claims where non-fault and fault insurer are the same, and claims where a bilateral agreement is in place between the non-fault insurer and the fault insurer.

<sup>4</sup> We noted that some consumers' vehicles might have been repaired to a better condition than prior to the accident if the repair to the accident-damaged part required replacing or repairing a part which was old or previously damaged. If this improvement was unavoidable as part of the repair, it would not be an instance of overprovision. With regard to the provision of TRV services, we are aware that some customers receive a higher grade TRV than their own vehicle due to the availability of car types within the provider's fleet. Again, this would be seen as a better service than necessary by the claimant but would not constitute overprovision and the bill charged by the provider to the fault insurer would be for the lower-grade vehicle to which the provider believed the claimant to be entitled.

than needed and 9 per cent saying that they had it for shorter than needed. For those responses which could indicate overprovision, there were no statistically significant differences between those whose claim was handled by the non-fault insurer and those whose claim was handled by the fault insurer liable for the cost.<sup>5,6</sup> However, since some repair work to accident-damaged vehicles might be hard for consumers to assess, we interpret the results on customers' perceptions of repair quality with some caution.

7. In most cases, non-fault claimants are not aware of the cost of their TRV; however, of those who were aware of this cost (25 per cent of those that received a TRV), 41 per cent said that they would have been content with a less good-quality TRV and 21 per cent would have been content with having it for less time. Since these proportions are significantly higher than across the sample base overall (for which the proportions are 17 and 4 per cent respectively), this would appear to us to suggest that some consumers might have been more willing to accept a lower-class TRV had they known the cost, thereby reducing the cost of their claim.
8. In interpreting these results, we recognize that survey responses are subject to error, that the sources for this analysis are respondents' perceptions, which are inherently subjective and not based on an objective assessment of post-accident services, and that there may be other factors influencing these responses.

## **Provision of repairs**

9. In this section, we discuss respondents' perceptions regarding the condition of the repaired car and the length of time required to complete the repair work.

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<sup>5</sup> The separation of cost liability and cost control might also drive differences in the degree of underprovision of post-accident services to claimants. Evidence on underprovision is discussed in the working paper 'ToH 2: Analysis of the results of the non-fault survey in relation to underprovision'.

<sup>6</sup> We also performed further analysis to consider whether other variables (such as the involvement of a CMC, the extent of personal injuries, the country and the severity of the damage) might influence the provision of post-accident services.

## ***Condition after repairs***

10. Different perceptions of the condition of repaired cars might reveal a different quality of repair service. Table 1 shows respondents' perceptions of the condition of their repaired car.

TABLE 1 **Condition after repairs**

	<i>All</i>	<i>Captured</i>	<i>NF</i>
<i>Compared with before the accident (%)</i>			
A lot better	5	4	5
Somewhat better	8	10	8
Same condition	75	73	78
Worse	10	13	8
Don't know	1	0	0
Other	0	0	0
Base (weighted)	1,163	364	629

Source: CC survey.

11. Most respondents said that the condition of their vehicle was the same or better after repairs (88 per cent). About 13 per cent of respondents considered that their vehicle was in a better condition, but there was no significant difference in these rates between captured and NF claims.
12. The main reasons for respondents perceiving their vehicle to be at least in the same condition as before the accident were because newer/better parts were used in the repair (5 per cent) and because in general the vehicle looked better than before the accident (3 per cent of respondents said the vehicle looked better and 2 per cent said the vehicle was cleaned/polished). These reasons appear to be the same both for captured and NF claimants. However, these results should be interpreted with caution since the number of responses was low.
13. Table 2 shows respondents' perceptions of their ability to assess the repairs to their vehicle. Overall, respondents perceived themselves to be fairly or very confident of their ability to assess the condition of their vehicle following the repairs (85 per cent), but a higher proportion of those who said that their vehicle was in a better condition

post-repair considered themselves able to assess this than those who said their vehicle was in a worse condition (92 per cent and 60 per cent respectively).

TABLE 2 Confidence of respondents to be able to assess repair work, by condition after repairs

	<i>Better condition</i>	<i>Same condition</i>	<i>Worse condition</i>	<i>Total</i>
Confident (%)	92*	87	60*	85
Indifferent (%)	5*	7	13*	8
Not confident (%)	4*	5	25*	7
Don't know (%)	0	1	2	1
Base (weighted)	154	872	128	1,154

Source: CC survey.

\*Difference is statistically significant; comparing 'better' and 'worse'.

14. We also considered whether the involvement of other organizations such as CMCs<sup>7</sup> might influence the repair work/process and cause a higher level of service provision.

Table 3 shows respondents' perceptions of the condition of their vehicle after the repair, split by whether a CMC was involved or not.

TABLE 3 Condition after repairs, by involvement of CMC

	<i>No CMC</i>	<i>CMC</i>
<i>Compared with before the accident</i>		
<i>Captured (%)</i>		
Better	15	7
Same	73	75
Worse	12	18
<i>NF (%)</i>		
Better	13	11
Same	79	79
Worse	8	9
<i>All (%)</i>		
Better	14	11
Same	75	77
Worse	11	12
Base (weighted)	927	230

Source: CC survey.

15. Table 3 suggests that the involvement of a CMC does not affect materially perceptions of repair quality compared with if there is not a CMC involved.

<sup>7</sup> Involvement of CMCs refers to the respondents' belief that a CMC managed the claim or was involved at some stage of the repair process. However, we found that the proportion of consumers stating that a CMC was involved was much lower than suggested by the data supplied to us by insurers. This indicates that some consumers are unaware when a CMC is involved.

### ***Length of time required to complete the repair work***

16. As another possible indicator of the extent of repair service provided, we considered the length of time taken to complete the repair work. To avoid spurious results driven by the mix of different types of damage across categories, rather than differences in the handling of the claim, we considered the average length of time taken to repair damage to the back of the vehicle as this was the damage most commonly reported by non-fault claimants in our survey. We conducted this analysis for high, medium and low levels of damage. Table 4 shows our results.

TABLE 4 **Average length of time (days) taken to repair a vehicle suffering rear damage, by severity of damage**

	<i>Days</i>	
	<i>Captured</i>	<i>NF</i>
Low damage	7	9
Medium damage	22	12
High damage	15	21

*Source:* CC survey.

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17. In our view, this comparison of the average length of time to complete the repair work between captured and NF claims does not suggest a distinct pattern. The average length of time to repair vehicles appears to be higher for NF claims than for captured claims for both vehicles which suffered a high level of damage or a low level of damage.
18. Similarly, we found no distinct results relating to the length of time to complete repair work when considering the effect of a CMC being involved.

### ***Further analysis***

19. We also conducted further analysis to consider other key variables, such as the extent of personal injury, the country of origin and the severity of accident damage. However, none of these other variables appeared informative with regard to the overprovision of post-accident repair services.

## TRVs

20. This section discusses whether there are differences in the quality of TRV services according to the party which principally manages the claim. In particular, we considered respondents' satisfaction with the quality of the TRV provided and whether the length of time respondents had access to their TRV was adequate for their needs.

### ***Satisfaction with the TRV provided***

21. In our survey of non-fault claimants, 90 per cent of respondents said that they were offered a TRV. Where no TRV was offered, 24 per cent of these respondents then asked for a TRV, resulting in 56 per cent of these respondents then being provided with a TRV. Where a TRV was requested but not provided, we asked respondents why this was the case, with the most common reasons being that they had been told they were not entitled to a vehicle or that there was a dispute over liability.
22. Table 5 shows the proportions of respondents who received a TRV split by who managed the claim.

TABLE 5 **Respondents who received a TRV**

	<i>All</i>	<i>Captured</i>	<i>NF</i>
<i>Have you received a replacement car? (%)</i>			
Yes	80	78	81
No	20	22	19
Base (weighted)	1,488	443	789

Source: CC survey.

23. Overall, 80 per cent of respondents received a TRV as part of their accident claim. A higher proportion of NF claimants received a TRV than captured claimants (81 and 78 per cent respectively). We asked respondents who received a TRV whether they needed it and a higher proportion of NF claimants said that it was not needed than

captured claimants (10 and 7 per cent respectively). However, these results were not statistically significant.

### ***Quality of the TRV provided***

24. As a further indicator of the possible overprovision of TRV services, we considered differences in whether the TRV met or exceeded the needs of respondents according to the party which managed their claim. Table 6 shows our results.

TABLE 6 **How well the TRV met needs**

	<i>All</i>	<i>Captured</i>	<i>NF</i>
Exceeded needs (%)	17	15	17
Met needs (%)	68	66	70
Below needs (%)	14	19*	13*
Base (weighted)	1,184	344	641

Source: CC survey.

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\*Difference is statistically significant.

25. Overall, the vast majority (85 per cent) of those who received a TRV said that it met or exceeded their needs (68 per cent said that it met their needs and 17 per cent said that it somewhat or far exceeded their needs). The proportion of respondents who were satisfied with the vehicle was higher among NF claims than captured claims, but the difference was not statistically significant.
26. The reasons why respondents considered their TRV to exceed their needs were most commonly that it was a better make/model than the vehicle they owned and it was newer or more spacious/bigger. We then considered whether these reasons varied according to the party which handled the claim. Table 7 presents the results.



TABLE 7 Reason(s)\* why the TRV exceeded the needs†

	<i>per cent</i>		
	<i>All</i>	<i>Captured</i>	<i>NF</i>
It was newer	39	53‡	34‡
It was more powerful/had a bigger engine	12	6	13
It was more spacious/bigger	30	23	31
It was less bulky/smaller	1	0	3
More economical	3	10‡	2‡
Higher specification	5	6	6
Low expectations/requirements	5	0	5
Was a good car (various)	2	4	2
Similar to my car/suitable to my needs	4	6	5
More expensive to run	2	0	3
Had vehicle for longer than was needed	1	0	2
Other	2	0	2
Base (weighted)	204	51	107

Source: CC survey.

\*Each respondent may give more than one reason.

†Data should be interpreted with caution since bases are low.

‡Difference is statistically significant.

27. As shown in Table 7, there were no discernible patterns in the data. In the absence of a summary measure that combines the different car characteristics, we could not draw any conclusion over which organization was most likely to provide a vehicle that was better overall. Moreover, this data should be interpreted with caution since some of the underlying bases are low.
28. We then considered whether some types of vehicle were less likely to be replaced on a like-for-like basis than others. We found, for example, that 14 per cent of hatchback drivers received a saloon, estate, people carrier or four-by-four TRV; 8 per cent of saloon drivers received an estate, people carrier or four-by-four TRV; 10 per cent of estate drivers received a people carrier or four-by-four TRV; and 6 per cent of people

carrier drivers received a four-by-four TRV.<sup>8</sup> Overall, 10 per cent of respondents who received a TRV were given a vehicle larger than the one they owned.<sup>9</sup>

### ***Length of time respondents had access to their TRV***

29. As a further variable which could be informative about overprovision, we considered the length of time respondents had access to their TRV. Table 8 presents our results.

TABLE 8 Length of time respondent had access to TRV

	<i>per cent</i>		
	<i>All</i>	<i>Captured</i>	<i>NF</i>
longer than needed	4	3	3
the right amount of time	87	87	88
shorter than needed	9	9	8
Don't know	1	1	1
Base (weighted)	1,194	346	644

Source: CC survey.

30. In the vast majority of cases (87 per cent), the length of time respondents had access to their TRV was commensurate with their needs, with only 4 per cent of respondents having their TRV for longer than required. There was no significant difference between NF and captured claims.

31. The main reason given by the small proportion of respondents who had their TRV for longer than required for this perceived overprovision was that they retained the car for some time after the repair to their own vehicle was completed (41 per cent). However, this data should be interpreted with caution since the base size was low.

### ***Involvement of a CMC***

32. We considered whether the involvement of a CMC might affect the provision of a TRV, as shown in Tables 9 and 10.

<sup>8</sup> We have not considered the results for van, convertible and sports/coupe cars as base sizes were low.

<sup>9</sup> This result is based on the assumption that vehicles can be classified according to their size (eg a saloon can be considered bigger than a hatchback, an estate car is bigger than a saloon etc).

TABLE 9 **How well TRV met needs, by involvement of a CMC**

	<i>per cent</i>		
	<i>No CMC</i>	<i>CMC</i>	<i>Total</i>
Exceeded	17	18	17
Met	68	70	68
Below	15	12	14
Base (weighted)	909	276	1,185

Source: CC survey.

TABLE 10 **Length of time respondent had access to TRV, by involvement of a CMC**

	<i>per cent</i>		
	<i>No CMC</i>	<i>CMC</i>	<i>Total</i>
Longer than needed	3	5	3
Right amount of time	88*	83*	87
Shorter than needed	8*	12*	9
Don't know	1	0	1
Base (weighted)	914	276	1,190

Source: CC survey.

\*Difference is statistically significant.

33. These tables suggest that the involvement of a CMC has little effect on the perception of overprovision, both regarding the extent to which the TRV meets the respondents' needs and the length of time respondents have access to their TRV. Any such differences shown in the table are not statistically significant.

### ***Further analysis on TRVs***

34. In our survey, we asked respondents whether they were made aware of the total hire cost of their TRV and whether, given such cost, they would have been content with a lower-quality car or having the car for less time. Overall, of those aware of the total cost (25 per cent of those that received a TRV), 41 per cent said that they would have been content with a less good-quality TRV and 21 per cent said that they would have been content with having the TRV for less time. These proportions are considerably higher than for the population overall, as only 17 per cent overall said that the TRV provided exceeded their needs (see Table 6) and only 4 per cent overall said that they had it for longer than needed (see Table 8). In our view, this suggests that many non-fault TRV users are likely to expect the TRV with which they are

provided to cost the fault insurer less than it actually does; and knowledge of the actual cost might increase their willingness to accept a reduced service.

35. We also conducted further analysis to consider other key variables, such as the extent of personal injury, the country of origin and the severity of accident damage. However, none of these other variables we considered appeared informative with regard to the overprovision of TRV services.