COMPETITION COMMISSION

PRIVATE MOTOR INSURANCE MARKET INVESTIGATION

Theory of harm 1: Overcosting and overprovision of repairs

Summary

1. Under theory of harm (ToH) 1, we are investigating whether the separation of cost liability and cost control in the supply of services (excluding personal injury) to non-fault parties involved in motor accidents increases the costs of the services supplied. This working paper addresses the questions: *(a)* whether there is overcosting for post-accident vehicle repair services; and/or *(b)* whether there is overprovision of services in relation to post-accident vehicle repairs as a result of the separation of cost liability and cost control.

Overcosting

2. By 'overcosting' in this paper we refer to the overall difference in the cost to the fault insurer of a vehicle repair provided to a non-fault claimant between when the party paying for the repair procures it and when another party procures it.[1] We recognise that the overall difference in cost may in part reflect underlying differences in the business models of different providers, and we discuss some these differences in this paper. In our analysis of 'overprovision' we consider whether there are differences between the repair service which a non-fault claimant receives and that to which he/she is entitled, which would give rise to an increase in costs for the fault insurer. This paper represents part of our current thinking on the overall effect of the separation of cost liability and cost control.[2]

[1] We do not use the term 'overcosting' pejoratively as any differences in costs may arise for legitimate reasons. The term refers to the costs of a vehicle repair service provided by a non-fault insurer or CMC being 'over and above' the costs of a repair service provided by a fault insurer (ie where there is no separation of cost liability and cost control). The term should be distinguished from 'overcharging'.

[2] Please also see the working papers 'ToH 1: Overcosting and overprovision of TRVs', 'ToH 1: Analysis of the results of the non-fault survey in relation to overprovision', 'ToH 1: Statistical analysis of claims costs' and 'ToH 1/2: Vehicle write-offs'.

3. Most non-fault post-accident repairs are either managed by non-fault insurers or by claims management companies (CMCs) providing credit repairs, or they are managed directly by the fault insurer (as a result either of the fault insurer capturing the non-fault claimant or the fault insurer being the same as the non-fault insurer). ToH 1 addresses overcosting as a result of the party liable for the cost (ie the fault insurer) being different from the party controlling the cost (eg the non-fault insurer or the CMC). We compared the costs of captured non-fault repairs (ie a situation with no separation of cost liability and control) with the costs paid by the fault insurer to a CMC providing credit repair services or to a non-fault insurer managing the repairs.

Credit repairs

4. We found that fault insurers on average pay around 35 per cent (or around £400) more for credit repairs than they pay for captured non-fault repairs (ie non-fault repairs which the fault insurer manages itself, usually through its approved repair network). It appears to us that this difference reflects that:

   (a) Credit repairs are likely to be more expensive because credit repairers are more likely to authorize the replacement rather than the repairing of parts; and because they usually use original equipment manufacturer (OEM) parts (whereas captured non-fault repairs use some non-OEM parts). We were not able to quantify these effects.

   (b) Some credit repairers charge between £200 and £300 more per average repair to fault insurers than the net repair costs they incur, (eg they negotiate substantial discounts with repairers or receive rebates back from repairers which they do not pass on to the fault insurer).

   (c) The cost averages for captured non-fault repairs do not include the cost incurred by the fault insurer in managing the repair (eg the need to record the claim, instruct the repairer, approve the repair cost estimate and deal with customer

complaints), whereas the average cost of a credit repair covers these costs. We estimate that these costs are around £58 to £77 per repair.

(d) The average costs of captured non-fault repairs and credit repairs may not necessarily be on a like-for-like basis, because credit repairs are usually done in conjunction with the provision of temporary replacement vehicles (TRVs) and captured non-fault repairs may therefore include more low-value repairs (where no TRV is needed). We were not able to quantify this effect.

5. Taking into account the costs the fault insurer incurs in managing the repair (as set out in paragraph 4*(c)*), and if we were to assume that the effects set out in paragraph 4*(d)* are zero, we estimate that a fault insurer pays on average £325 to £344 more for a non-fault repair that is managed by a credit repairer than a repair which it manages (ie £402 less £58 to £77).

6. Given that we were not able to estimate the effects set out in paragraph 4*(a)* and 4*(d)*, we focused our analysis on the £200 to £300 difference between the repair costs incurred by the credit repairer and the repair costs invoiced to the fault insurer by the credit repairer (see paragraph 4*(b)*).

7. We found that a credit repairer spends around £100 on managing the repair claim, £15 on unrecoverable repair bills (eg due to liability disputes) and around £65 on referral fees. Table 1 summarizes our finding.

TABLE 1 **Comparison of average repair costs between credit repairs and captured non-fault repairs**

a	Cost of repair itself (for a captured non-fault claim performed by an approved repairer)	£1,174
b	Estimated cost of managing the repair (incurred by the fault insurer)	£58–£77
c=a+b	Total costs incurred by fault insurer for a captured non-fault repair performed by an approved repairer	£1,232–£1,251
d	Cost billed by credit repairer to fault insurer	£1,576
e=d–c	= Estimated excess costs of credit repair	£325–£344
f	which reflects:	
	(i) differences in mix of repair cases	Not quantified
	(ii) differences in the use of OEM parts and repair vs replace	Not quantified
	(iii) credit repair revenues less repair costs incurred	£200–£300
f(iii)	which the credit repairer spends on:	
	(a) managing the claim	£100
	(b) unrecoverable bills	£15
	(c) referral fees	£65

Source: CC.

8. Estimates we have received from insurers and CMCs indicate that the market size for credit repair is around £200 million a year. Based on an average credit repair bill of £1,600, this amounts to around 125,000 credit repairs per year. Assuming overcosting of up to £300 per repair, this would suggest that overcosting by credit repairers could cost fault insurers around £37.5 million a year. However, we treat this estimate with some caution as it is based on some very broad estimates. We also note that some of this amount will flow back to non-fault insurers and brokers through referral fees.

Non-fault insurer repairs

9. We also examined whether there was overcosting when non-fault insurers passed the bills from repairs they managed to the fault insurer. We found that insurers managed their non-fault repairs in many different ways, some of which had the effect of inflating their non-fault repair charges passed to fault insurers above the net costs they incurred (eg by allowing approved or insurer-owned repairers to charge bills which were higher than they otherwise would be in return for the receipt of referral

fees, rebates or dividends which were not passed on to the fault insurer, by making amendments to the repair bill received from the repairer, or by not passing on rebates received from input suppliers to repairers). However, other insurers did not appear to engage in any of these practices and passed across to the fault insurer the repair bill as it is incurred.

10. On average, we estimate that repair bills passed from non-fault insurers to fault insurers are around 15 per cent (or £180) higher than the average cost of own insurer-managed non-fault repairs. Moreover, we estimate that rebates to the insurer from suppliers to its repairers (eg for paint, parts and repair cost estimation systems) could be between £10 and £20 per repair.

11. Overall, it appears to us that, on average, non-fault insurers charge fault insurers around £200 more per repair than the repair cost actually incurred. However, many insurers do not appear to inflate their non-fault bills charged to fault insurers at all and it appears to us that insurers which engage in such practices have the potential to charge up to around £270 to £390 more than the net cost they incur. We note that the cost of managing a repair for a non-fault insurer is around £100 and these costs are not passed to the fault insurer.

Summary of overcosting

12. It appears that the separation of cost liability and cost control enables non-fault insurers and CMCs to increase the average cost to the fault insurer of a non-fault repair by up to around £300 if it is a credit repair and by up to around £270 to £390 if the non-fault insurer manages the repair compared with a scenario in which the fault insurer manages the repair. It appears that the average increase for the fault insurer if the non-fault insurer manages the repair is around £200. Table 2 summarizes these findings.

TABLE 2 **Summary of our findings**

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Repair provider	*Average repair cost paid by fault insurer*	*Bill paid by fault insurer less actual repair costs incurred by repair provider*	*Cost of managing the repair (including unrecoverable bills)*	*Referral fees*
Fault insurer (captured non-fault repairs)	1,174 (see Table 1, row (a))	0	58–77 (see paragraph 4*(c)*)	0
CMCs (credit repair)	1,576 (see Table 1)	200–300 (see paragraph 4*(b)*)	115 (see paragraph 7)	65 (see paragraph 7)
Non-fault insurer	1,347 (see Table 1)	200 (see paragraph 11)	100 (see paragraph 11)	0

Source: CC.

Overprovision

13. Insurers told us consistently that when they manage a repair, the repair process is identical whether it is a fault repair or a non-fault repair.

14. We have also seen no evidence suggesting that credit repairers overprovide repair services to non-fault claimants. It appears to us that the main differences between credit repairs and repairs managed by insurers are *(a)* the more frequent use of OEM parts by credit repairers, and *(b)* a higher ratio of parts being replaced to parts being repaired. However, we found no basis for believing these choices to be unreasonable or excessive. We also note that the fault insurer can challenge inappropriate repair methods (eg the excessive use of replacement parts) through scrutiny from its engineers.

15. Our survey evidence also does not suggest that CMCs or non-fault insurers systematically overprovide in terms of the quality of the repair service. .

16. For these reasons, it appears to us unlikely that there is any overprovision of repair services provided to non-fault claimants as a result of the separation of cost liability and cost control.

Introduction

17. In our update to the issues statement, we said: 'We intend to investigate whether the separation of cost liability and cost control in the supply of services to non-fault parties involved in motor accidents increases the costs of the services supplied (due to a lack of price competition or an unwarranted increase in quality)'.[3]

18. Under ToH 1, we are analysing whether non-fault drivers receive better services than those to which they are entitled (overprovision), and/or whether fault insurers which pay for these services pay higher prices when these services are managed by a third party than when they manage them (overcosting). We are therefore interested in what services are provided to fault and non-fault drivers and the costs of these services.

19. In this paper we focus on differences in the cost of non-fault vehicle repairs depending on which party manages the repair, and differences in the repair service provided. We consider differences between credit repairs (managed by CMCs) and captured non-fault repairs (managed by the fault insurer) and differences between non-fault insurer-managed repairs and captured non-fault repairs.

20. We begin by providing an overview of different approaches to managing vehicle repairs. We then set out:

    (a) the differences in non-fault repair bills for various types of non-fault repairs (ie captured non-fault repairs, credit repairs and own-insurer-managed non-fault repairs), using a number of different estimation methodologies;

    (b) the cost of providing repair services; and

    (c) some differences in the services provided to non-fault drivers.

[3] Updated issues statement, paragraph 5.

21. Our analysis under subparagraphs *(a)* and *(b)* above addresses the issue of overcosting; while *(c)* focuses on overprovision.

Different approaches to managing repairs

22. Post-accident vehicle repairs are managed by a number of different accident management service providers. The most common providers are:

(a) insurers (either as the non-fault or fault insurer); and

(b) CMCs, which provide claims management services mostly to customers who have been referred to them by insurers and brokers. CMCs can operate either as credit repairers or on behalf of an insurer (where the insurer has outsourced some or all of its claims management function). Some CMCs also provide credit repair services directly to non-fault drivers.

23. There are two main categories of repairs: fault repairs and non-fault repairs.[4]

24. In most cases, fault and non-fault drivers have the option either to use a repairer which is in the approved network of their repair services provider (ie an insurer or CMC) or to use a repairer of their own choice.[5]

Fault and non-fault repairs

25. Fault repairs are either managed by the insurer or on an outsourced basis by a CMC.

26. Non-fault repairs are usually managed by the non-fault driver's insurer (the non-fault insurer), by a CMC or by the fault insurer (if the non-fault driver is 'captured'). Where a CMC manages the repairs, this could be on a credit repair basis or on an outsourced basis where the CMC acts as the insurer would.

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[4] In most accidents, fault is determined very quickly, but in some cases it requires further investigation. In some cases, there is split liability.

[5] Insurers and CMCs might encourage customers to use repairers within their networks, eg by not guaranteeing the repair if it is conducted by a non-approved repairer.

27. In some cases, repair services are also provided by a dealership or repairer directly to the customer without being managed by a CMC or insurer.

28. Nine of the ten largest PMI insurers ([✂], AXA GB (AXA), Aviva, Direct Line Group (DLG), esure, RSA, LV, [✂] and Zurich) told us that they made no referrals to credit repairers and managed the repairs of their non-fault customers themselves. Admiral told us that it referred its non-fault customers to a CMC which then offered credit repair services (as part of a broader uninsured loss recovery (ULR) service); and we noted that, until December 2012, esure also offered its non-fault customers the option of being referred to a CMC which then provided credit repair services.

29. We found that PMI brokers usually referred non-fault drivers either to the non-fault insurer or to a CMC which then provided credit repair services. For example, BGL told us that it referred its non-fault customers to a CMC which might then offer credit repair. Swinton said that its customers could have the repair managed by the non-fault insurer or through a credit repairer; while Endsleigh told us that non-fault drivers were offered the option of a credit repair managed by a CMC or claiming on their own policy for the repairs, which would be managed by Endsleigh. Ageas Retail (ie the broking part of Ageas) said that its non-fault customers [✂].

Subrogation of non-fault repairs

30. Under tort law, a non-fault party is entitled to be put back into as good a position as he/she was in before the accident occurred and the fault party is liable to cover the reasonable cost of repair.

31. Under the doctrine of subrogation, an insurer has a right to be subrogated to the rights of its insured (ie its policyholder) when the insurer indemnifies its policyholder pursuant to the policy of insurance. Essentially, this means that, once the non-fault

insurer has put the non-fault party back into the position he/she was in before the accident, the non-fault insurer is able to exercise its policyholder's rights in relation to the underlying tort law claim. The non-fault insurer usually does this by pursuing the fault party's insurer in order to recover the costs that have been incurred. We understand that insurance policies (as well as contracts between CMCs and claimants) typically include a clause entitling the insurer on indemnifying the non-fault driver (or the CMC, on provision of the repair services) to take control of proceedings.

32. The recent case of *Coles v Hetherton* (currently on appeal) considered subrogated claims brought by the non-fault insurer in the name of its policyholders. It was determined that where a vehicle is negligently damaged and reasonably repaired, the measure of the non-fault driver's loss can be taken as the "reasonable cost of repair"; and that "reasonable cost of repair" is merely a way of ascertaining the diminution in the value of the car and therefore is not necessarily the repair cost actually incurred by either the non-fault driver or his insurer. It was noted that recovery is possible regardless of repair or payment for repair; and that the "reasonableness of the repair" charge is to be assessed from the position of the individual non-fault driver (without reference to his insurers or to any benefits he obtains under his insurance policy). This means that it is not relevant whether the cost of the repair could have been lower by virtue of the non-fault insurer's bargaining power.

33. The effect of this judgment, in practice, would appear to be that, where a non-fault insurer repairs the vehicle, that party has the opportunity to charge to the fault insurer more than the repair costs it actually incurred provided the sum claimed does not exceed the reasonable cost of repair to the individual claimant (ie the cost that the non-fault driver would have reasonably incurred had he/she managed the repair).

34. The fault insurer can challenge the value of subrogated claims (eg if the costs are not related to the accident or are unreasonable).

Strategies for gaining value from non-fault repairs with the effect of inflating non-fault repair bills

35. We have identified that insurers and CMCs manage their non-fault repairs in many different ways, some of which have the effect of inflating their non-fault repair charges passed to fault insurers above the net costs they incur. Such practices include:

(a) performing non-fault repairs in repair subsidiaries at retail rates (eg by allowing high labour rates) and extracting the profits as dividends or referral fees ([✂]);[6]

(b) making an upward adjustment to the repair bill to inflate it above the costs incurred ([✂]);

(c) requiring approved repairers to discount the repair bill they charge (or to pay a parallel rebate), but not passing on this discount to the fault insurer ([✂]);

(d) charging an administration fee and an engineering fee, and various other extras, to the fault insurer in addition to the repair bill;[7] and

(e) taking rebates (which are not passed on to the fault insurer) from suppliers to repair subsidiaries or approved repairers (eg of paint, parts and repair cost estimation systems) in return for requiring the use of these inputs, often resulting in higher input costs for repairers (with the likelihood of higher repair bills) ([✂]).

36. Where non-fault brokers or insurers do not manage the repair but act as an intermediary, they can extract referral fees from the party managing the repair (usually a CMC performing a credit repair). Such payments are part of the costs incurred by a

[6] Three of the ten largest insurers have their own repair subsidiaries (DLG, Aviva and RSA). Total PMI-related repairs performed by these subsidiaries generated around £[✂] million in revenues in 2012 (£[✂] million for QRC (RSA), £60 million for Solus (Aviva) and £112 million for UKAARC (DLG)). On the assumption that around [✂] per cent of repairs are non-fault repairs, these three repairers conducted non-fault repairs worth about £[✂] million in 2012.

[7] For example, the General Terms of Agreement (GTA) allows CMCs providing credit repair services to make these additional charges.

CMC in managing the repair and in this paper we consider these costs in our analysis of the costs of providing credit repairs.

Differences in repair costs

37. We have used four different ways to identify overcosting in non-fault repairs managed by third parties (eg CMCs or non-fault insurers). We have examined:

(a) average repair bills paid by insurers;

(b) discounts received by insurers in bilateral agreements;

(c) differences in the repair bill sent to the fault insurer and the actual repair costs incurred by CMCs providing credit repair; and

(d) repair bills from repairers.

We discuss each in turn.

Average repair bills paid by insurers

38. In order to identify and evaluate the extent of any effect on repair costs arising from the separation of cost liability and cost control, we considered various comparators against which to assess non-fault repair costs when managed by non-fault insurers or CMCs. We noted that fault repairs were on average more expensive than non-fault repairs, which insurers told us was because fault damage was more often at the front of the vehicle and non-fault damage was more often at the rear of the vehicle, which was typically cheaper to repair. Also, we were told that there are more low-value claims for non-fault repairs than for fault repairs as non-fault drivers do not typically have to pay their excess, or can claim it back from the fault insurer. For these reasons, we decided that comparing average repair costs between fault and non-fault repairs would not be particularly informative.

39. Nevertheless, we were interested in using costs controlled by the fault insurer (where there was no separation of cost liability and cost control), as the base against which

to compare the cost of other non-fault claims. Therefore, we used captured non-fault claims as our base figure and we estimated the cost of different categories of non-fault repairs against this base. Table 3 sets out our results.

TABLE 3 **Average repair bills for non-fault repairs paid by the fault insurer**

Average repair bills, including VAT (2012)	*Average*	*Low*	*High*	*Number of insurers in sample*	*Versus base %*	*Difference £*
(a) Average captured non-fault repair cost, network repairer	1,174	[✂]	[✂]	7	Base	Base
(b) Average captured non-fault repair cost, non-network repairer	1,325	[✂]	[✂]	8	+13%	151
The repair costs in *(a)* and *(b)* are the average repair bills that the fault insurer receives from repairers that have carried out its captured non-fault repairs, with subcategory *(a)* being those repairs that are done in the fault insurer's network of approved repairers and subcategory *(b)* being those that are done in a repairer of the customer's choice.						
(c) Average credit repair bill received by fault insurer	1,576	[✂]	[✂]	8	+34%	402
The average repair bill in *(c)* covers those bills that the fault insurer has received from CMCs providing credit repair services to the non-fault driver.						
(d) Average own non-fault repair costs incurred by non-fault insurer	1,169	[✂]	[✂]	7	0%	-5
The average repair costs in *(d)* are the costs to the non-fault insurer in managing the repair. We note that if the non-fault insurer inflates the repair bill to market rates or adds a management or administration fee before passing it across to the fault insurer, the cost shown in this row may or may not be prior to this inflation or fee. Similarly, if the non-fault insurer receives a discount off the repair bill, this discount may or may not be reflected in the costs shown in this row						
(e) Average repair bill received by the fault insurer from other insurers (excl bilateral agreements)	1,347	[✂]	[✂]	7	+15%	173
The average repair bill in *(e)* covers those bills received by the fault insurer from non-fault insurers that have managed the non-fault repair. These average bills exclude repair bills that have been settled under bilateral agreements. However, it appears that the overall prevalence of bilateral agreements is low (see paragraphs 52 to 53) so we do not think that including repairs performed under bilateral agreements would significantly change this number.						

Source: CC.

40. As a cross-check to the figures in Table 3, Table 4 shows the average credit repair revenues per repair as provided to us by CMCs that provide credit repair services.

TABLE 4 **Average credit repair revenues**

Average repair revenues per repair, including VAT	*Average*	*Low*	*High*	*Number of replies*
Average credit repair revenue per repair (2012)	1,594	[✂]	[✂]	7
Average credit repair revenue per repair (2011)	1,515	[✂]	[✂]	7
Check: average credit repair bill received by fault insurers (2012) (see Table 3, row *(c)*)	1,576	[✂]	[✂]	8

Source: CC.

41. Table 4 shows that the average credit repair bill reported to us by paying insurers (see row *(c)* in Table 3) is similar to the average credit repair revenue reported to us by CMCs.

42. Table 3 shows that the lowest non-fault repair costs paid by fault insurers are for captured non-fault repairs, ie repairs managed by the fault insurer. This is consistent with the fault insurer having the greatest incentive to keep repair costs low.

Captured non-fault repair costs by repairer

43. Comparing lines *(a)* and *(b)* in Table 3 shows that costs are around 13 per cent higher where the captured non-fault repair is performed outside the fault insurer's network of approved repairers (ie in a repairer of the non-fault driver's choice). This is because repairers in an insurer's network have a contract with the insurer that is usually agreed through a tendering process, and the insurer is in a strong bargaining position in such negotiations due to the large volume of repairs that it can bring to an approved repairer. In contrast, the fault insurer has less bargaining power in repairs undertaken by repairers that are not part of its network of approved repairers. However, even in these cases, it usually retains some control over the repair costs, as the customer needs to provide a repair cost estimate to the insurer before the insurer will agree to meet the costs of the repair. It is also likely that the difference shown in Table 3 between captured non-fault repairs which are performed within the network of approved repairers and those repairs that are performed outside the network is not entirely on a like-for-like basis, as one insurer told us that that drivers with more expensive vehicles are more likely to choose their own repairer (eg in order to use an authorized dealer).

Captured non-fault repair costs and non-fault insurer managed repair bills

44. Comparing lines *(a)* and *(e)* in Table 3 shows that the average repair bill the fault insurer receives from other insurers is 15 per cent (or around £173) higher than captured non-fault repair costs. We considered possible explanations for this difference. Two insurers ([✂] and [✂]) told us that more expensive repairs were less likely to be captured by the fault insurer.[8] However, we have not seen evidence to verify this on average across all PMI providers. We also noted that line *(e)* included repairs performed in a repairer of the non-fault driver's choice (which are not included in line *(a)*). However, insurers told us that 80 to 95 per cent of non-fault claimants opted for an approved repairer rather than choosing their own repairer so any effect of this difference was likely to be limited. Lastly, we considered whether the difference could be explained by the practices of some insurers which had the effect of inflating the repair bill in some way before passing it across to the fault insurer (as set out in paragraph 35). It appears to us that this is the principal cause of the difference. We note that different insurers apply different policies in billing the fault insurer for non-fault claims, as follows:

(a) Most of the ten largest insurers (ie [✂]) told us that they pass on to the fault insurer the repair costs they incur. However, we note that the repair costs incurred by these insurers might already be inflated, eg by performing non-fault repairs in repair subsidiaries at retail costs (see paragraph 35*(a)*), or by repair subsidiaries or approved repairers inflating repair bills to retail rates (see paragraph 35*(b)*).[9] We discuss some of these mechanisms further below. As such, even if most insurers do not add a fee to the bill they receive from their repairer, some of them could still contribute to a difference between the cost of

[8] These insurers told us that captured non-fault repairs related predominantly to lower speed impacts, which required less substantial repairs, as where the damage was more severe the claimant was more inclined to ask his/her own insurer to manage it.

[9] For example, RSA told us that it bills the fault insurer the cost of the repair as it receives it from its wholly-owned subsidiary, RSAAR. This cost is no more than the 'reasonable repair cost', which is approximately [✂]. We note that claims made pursuant to RSA's business model have been challenged in the courts and the relevant decision is currently on appeal (see paragraph 32). We also note that RSA has entered into bilateral agreements with several other insurers under which, when it is the non-fault insurer, it charges the fault insurer the repair cost [✂].

captured non-fault repairs and the cost of repair bills passed to fault insurers from non-fault insurers by inflating the repair bills charged by their repairers. For example, one insurer ([✂]) told us that the average bill it received for both fault and non-fault repairs was £[✂] more than the net cost actually incurred.[10]

(b) Two out of the ten largest insurers told us that they did not pass on discounts they received from repairers so the repair bill passed on was higher than the repair bill received. Esure told us that it retained a discount of around £[✂] per repair; and LV told us that, until October 2012, it retained 10 per cent of the repair bill.[11]

We note that, currently, we do not know to what extent cost data for captured non-fault repairs might also include some of these effects, meaning that these costs might also be inflated above the net costs actually incurred.[12]

Captured non-fault repair costs and non-fault insurer managed repair costs

45. Comparing lines *(a)* and *(d)* in Table 1 shows that the cost of managing a non-fault repair for a non-fault insurer is the same as the cost of managing a captured non-fault repair for a fault insurer. The ten largest insurers all told us that they managed fault, non-fault and captured non-fault repairs in the same way and this data confirms these submissions.

Non-fault insurer managed repair costs and non-fault insurer managed repair bills

46. Comparing lines *(d)* and *(e)* in Table 3 shows that the costs incurred by non-fault insurers for non-fault repairs (£1,169) are £178 (13 per cent) lower than the costs they pass on to fault insurers for these repairs (£1,347). In our view, this difference captures some of the various billing practices set out in paragraph 35*(a)* to *(d)*.

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[10] This amount does not reflect any further rebates received by [✂] from input suppliers to repairers, which are worth around £10 to £20 per repair (see paragraph 47). Adding this amount suggests that [✂] could earn up to £[✂] from non-fault repairs.
[11] [✂].
[12] This is because it is possible that the strategies insurers apply which have the effect of increasing non-fault repair costs also have the effect of increasing the captured non-fault repair costs, for example where captured non-fault repair costs are not shown net of discounts or rebates received by the insurer.

However, it appears to us that this is likely to be a lower bound of the difference between captured fault costs and the costs actually incurred by non-fault insurers as there might be some billing practices giving rise to an uplift to both captured non-fault costs and non-fault bills sent to the fault insurer, for example if the strategy applied by the non-fault insurer increases the bill for all repairs (ie captured non-fault and own-insurer-managed non-fault repairs (see paragraph 44)).

47. We also note that several large insurers receive rebates and commissions from suppliers of inputs to their owned and approved repairers (eg for paint and parts) (see paragraph 35*(e)*). These payments are made in return for the insurer mandating or recommending the use of the input by its repairers, which will in many cases increase those repairers' repair costs. This uplift in costs is likely not to be reflected in the difference of £178 reflected above, as the effect is to increase all repair costs; but, whereas in the case of a captured non-fault claim the fault insurer will receive the rebates, which they can effectively net off from the repair cost, in the case of non-fault insurer-managed claims, the rebates will be retained by the non-fault insurer, meaning that the effective non-fault repair cost is inflated. From the information provided by insurers, such rebates are usually in the range of £[✂] to £[✂] for paint, around £[✂] for the repair cost estimation system and very low for parts. We estimate that, in total, such rebates, on average, amount to around £10 to £20 per repair (recognizing that not all insurers achieve the maximum paint rebate and not all insurers receive rebates from all possible sources).

Captured non-fault repair costs and credit repair bills

48. Comparing lines *(a)* and *(c)* in Table 3 shows that credit repairs are the most expensive type of repairs, costing fault insurers on average around 34 per cent more (around £400) than captured non-fault repairs performed by an approved repairer. Again, we recognize that these average costs may not be on a like-for-like basis, for

example because credit repair is almost always provided as an additional service to credit hire so minor repairs, where a TRV is not required, might not be handled in this way. However, we note that this effect may be offset to some extent by a reluctance of some credit repairers to undertake very expensive repairs due to the credit risks that they involve. For example, [✂] told us that, for certain repairs which were more expensive than average, it would contact the fault insurer directly to see if it wanted to manage the repair. Although we saw merit in both these arguments, we were not able to estimate their net effect.

49. We found that some CMCs received rebates from suppliers of inputs to their approved repairers (eg for paint and parts) in the same way as some large insurers (see paragraph 47), with the likely effect of increasing the cost of repairs billed, with the CMC retaining the rebate. We consider these rebates further in paragraph 60 below.

50. We were also told that the labour costs charged in many captured non-fault repairs included the costs to the repairer of providing a courtesy car (irrespective of whether a courtesy car was actually provided), which increased the effective cost of captured non-fault repairs. This is not the case for credit repair, where a TRV is usually provided under a separate agreement. Aviva told us that it estimated the cost of this service within the captured non-fault repair bill to be on average around £40 to £60.

Summary: effect of separation of cost liability and cost control

51. Overall, on the basis of the average repair bills paid by insurers, we estimate that the average difference in a non-fault repair cost for the fault insurer if the non-fault insurer manages the repair rather than if it manages the repair is around £200 (£178 (see paragraph 46), which is a lower bound, and a further £10 to £20 (see paragraph 47)); and the average cost difference for the fault insurer between if a CMC manages

the repair and if it manages the repair is around £420 (£400 (see paragraph 48) and a further £10 to £20 (see paragraphs 49 and 47)). These cost differences do not take account of the costs saved by the fault insurer in having another party manage the repair. It appears to us that these costs difference arise because of the separation of cost liability and cost control.

Discounts received by insurers in bilateral agreements

52. We found that six of the ten largest insurers had bilateral agreements with at least one other insurer in relation to vehicle repairs. We found that these bilateral agreements usually operated by the parties continuing to pass on repair bills in the same way as prior to their agreement but, in addition, applying a discount. This discount would reflect the actual cost of the repair to the non-fault insurer, taking into account any referral fees, rebates and discounts. One insurer described this as effectively billing the wholesale cost of the repair.

53. Table 5 sets out the discounts off the repair bills insurers with bilateral agreements give to and receive from each other. [✂] and [✂] are not included as they were unable to provide this data. (DLG, Aviva, Admiral and AXA do not have bilateral agreements with other insurers in relation to vehicle repairs.)

TABLE 5 **Discounts to repair bills passed on to fault insurers under bilateral agreements**

per cent

Discount from	*Discount to*				
	[✂]	[✂]	[✂]	[✂]	[✂]
[✂]		[✂]	[✂]	[✂]	[✂]
[✂]	[✂]		[✂]	[✂]	[✂]
[✂]	[✂]	[✂]		[✂]	[✂]
[✂]	[✂]	[✂]			[✂]
[✂]	[✂]	[✂]	[✂]	[✂]	

Source: CC.

*[✂].
Note: N/A = not applicable.

54. Table 5 shows that [✂].

Differences in the repair bill passed to the insurer and the actual credit repair costs incurred

55. We sought to identify the factors which contributed to the £400 difference between the average credit repair bill charged to fault insurers and the cost of a non-fault captured repair. We looked at the additional charges CMCs added to the repair bill they received from their approved repairers before passing it on to the fault insurer, and we reviewed the discounts CMCs received from their approved repairers. We also considered the rebates some CMCs received from suppliers of inputs to their approved repairers (eg paint or parts suppliers).

56. Table 6 shows the additional charges CMCs add to their repair bills, the discounts CMCs receive off repair bills and the rebates they receive from repairers and suppliers to their repairers.

TABLE 6 **Discounts and additional charges for CMCs**[13]

CMC	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Average discount given to CMCs per repair	[✂]			[✂]	[✂]	[✂]	[✂]	[✂][10]
Discount given to CMCs as a % of repair bill	[✂][2]	[✂]	[✂][1]	[✂]	[✂]	[✂]	[✂][3]	[✂][11]
Rebates and commissions (paint etc)	[✂][6]	[✂][7]		[✂][5]		[✂][4]	[✂][9]	[✂]
Admin and engineering fees		[✂][7]	[✂][8]				[✂][9]	[✂]

Source: CC.

1. [✂].
2. [✂].
3. [✂].
4. [✂].
5. [✂].
6. [✂].
7. [✂].
8. [✂].
9. [✂].
10. [✂].
11. [✂].
12. [✂].

57. All the CMCs which responded to our information request told us that they earned discounts from repairers, ranging from [✂] per cent of the repair bill to around [✂]

[13] [✂].

per cent. These discounts allowed the credit repairer to pass on a higher bill to the fault insurer than the net bill incurred (see paragraph 35*(c)*).

58. Three of the eight CMCs in our sample ([✂],[✂] and [✂]) told us that they charged the fault insurer an administration fee in addition to the repair bill, as permitted under the terms of the GTA. However, this fee varied from £ [✂] ([✂]) to £ [✂] ([✂]). One CMC ([✂]) said that it also added an engineering charge, which insurers told us was common practice among CMCs. Two CMCs ([✂] and [✂]) told us that they received a referral fee from [✂] (worth up to [✂] per repair).

59. Five CMCs ([✂]) provided us with an analysis of how an average credit repair bill is made up. This showed that the invoice from the repairer accounted for around 90 to 95 per cent of the total repair bill (net of write-offs and discounts), engineering charges accounted for around 3 to 5 per cent and the remainder was made up mainly of administration charges, storage charges and penalty income.

60. Four CMCs in our sample ([✂]) told us that they received rebates from paint suppliers of between £ [✂] per repair; one CMC ([✂]) told us that it received rebates from parts suppliers ([✂]); and one CMC ([✂]) told us that it received a rebate from Audatex ([✂]).In all these cases, the rebate payment was likely to increase the cost of the repair to the credit repairer, and ultimately to the fault insurer.

61. Overall, taking all sources of income together, we found that the CMC with the highest income from the repair management process (ie through discounts and other rebates and charges) received around £300 per repair in 2012 ([✂]). We found that [✂] earned about £265 per repair, and both [✂] and [✂] earned about £ [✂] per repair. We note that these discounts, rebates and charges explain a large part of the

£400 difference between the average credit repair bill received by fault insurers and the cost of a captured non-fault claim.

62. We found that, if we excluded the £200 to £300 per repair earned by some CMCs from their average credit repair bills, the remaining cost of repair was still around £100 to £200 higher for credit repairs than the average cost of captured non-fault repairs. We considered what might give rise to these higher costs. We noted that, in part, they might be explained by insurers benefitting from larger economies of scale in their negotiations with repairers; however, as most of the CMCs in our sample also managed a large number of repairs, we did not think this effect was likely to be significant. We also considered whether there were differences in how repairs were performed depending on the party managing the repair. We noted that the parts used in some credit repairs could be different from the parts used in equivalent captured non-fault repairs, due to both *(a)* less use of cheaper non-OEM parts and *(b)* a greater proportionate use of replacement parts instead of repair (see paragraph 72). However, we were not able to quantify the impact on average repair costs of these differences.

Referral fees

63. We found that CMCs typically paid referral fees to work providers (ie non-fault insurers or brokers) to gain referrals of non-fault claimants to whom they could then provide credit repair (and in most cases also TRV) services. Table 7 summarizes the evidence we received from CMCs on the amounts paid in relation to credit repair.

TABLE 7 **Referral fees paid by CMCs for credit repair**

CMC	[✂]	[✂]	[✂]	[✂]	[✂]
Referral fee paid per repair	[✂]	[✂]	[✂]	[✂]	[✂]

Source: CC.

* [✂].
Note: [✂] told us either that they did not pay referral fees to work providers in relation to credit repair services or that they did not pay referral fees directly related to credit repair.

64. From this data, it appears to us that the typical referral fee paid by a CMC in order to provide credit repair services is around £33 to £80. This represents a marketing cost for CMCs in order to win business but, as they compete by paying higher referral fees, it is also the means by which non-fault insurers and brokers, which 'control' the claimant at the first notification of loss (FNOL), can extract profits earned by CMCs through the credit repair process.

Repair bills from repairers

65. We looked at how repairers invoiced insurers and CMCs for repair work they performed. In particular, we looked at the agreements that repairers had with different work providers in order to consider how repair bills varied depending on the work provider.

66. Five repairers (three insurer-owned and two independent) provided us with data which enabled us to analyse repair bills by work provider.

67. Overall, we found that, on average, repair bills consisted of approximately 40 per cent labour costs, 40 per cent parts costs and 20 per cent paint costs. We first describe how these elements are negotiated and reflected in contracts before comparing repair bills between work providers.

Labour costs

68. Labour costs are calculated as the time taken for a repair multiplied by the labour rate per hour. Repairers told us that repair times were usually based on industry standards, set by reference to a cost estimation system (eg Audatex or Glassmatix), and were therefore generally the same irrespective of which party managed the repair or whether it was a fault or non-fault repair. Any differences in labour costs in vehicle repairs were principally a function of differences in the labour rate per hour.

Part and paint costs

69. We understand that, for most repairs, the repair cost estimation system will specify which parts are needed and will calculate a repair cost based on a recommended retail price for each part. However, work providers and repairers, in reaching their agreements, will agree a discount off the recommended retail price for parts which is then reflected in the repair bill.

70. Similarly for paint, the repair cost estimation system will usually specify the quantity of paint and materials which are needed in a repair and will calculate an invoice value based on the price of paint in a paint basket. We understand that the paint basket in Audatex (the most commonly used repair cost estimation system) is based on the weighted average retail paint price for a range of brands of paint and, therefore, a work provider specifying the use of a certain paint will not be able to change the base price used in negotiations. Rather, work providers, in their contracts with repairers, will agree discounts off the paint basket (known as the paint index), which will be reflected in their repair bills.

Variables in a repair bill

71. The following elements of a repair bill therefore represent the key variables which create differences in repair bill prices between repair service providers: the labour rate per hour, the discount for parts and the paint index. We have seen no evidence to suggest that the time taken for a repair (ie the number of hours billed) and/or the amount of paint used varies according to which party manages the repair.

72. We have seen some evidence of differences in parts used. We found that some insurers stipulate the use of some non-OEM parts or sometimes require the repairing of a part rather than replacing it; while, in contrast, some CMCs use only OEM parts and, according to some repairers, are more inclined to replace parts. However, these

differences appear small. We found that, across all post-accident repairs, the amount of non-OEM parts used is a small fraction of all parts, representing between 2 and 15 per cent of total parts costs (ie no more than 6 per cent of total repair costs); and we did not receive evidence indicating a significant difference in the choice of replacement or repair between work providers. Therefore, in our analysis in Tables 8, 9 and 10, we have made the simplifying assumption that the parts and paint used for different work providers are the same.

Repairer data

73. [✂] provided us with an explanation of how it charges labour, parts and paint costs, which enabled us to calculate indicative differences in repair bills for fault and non-fault claims for different work providers, as set out in Table 8.

TABLE 8 **Repair costs by category:** [✂]

	Labour rate (£/h) *A*	*Parts discount (%)* *B*	*Paint index* (%)* *C*	*Indicative bill value (£)†* *D*	*Difference to captured costs (%)* *E*
Fault claims					
For repairs as an insurer's approved repairer	28	10	85	94	0
For repairs as a non-approved repairer (ie customer choice)	30	5	90	100	6
Repairs referred by a dealership	28	10	100	97	4
Non-fault claims					
Captured non-fault (as approved repairer)	28	10	85	94	Base
Non-fault insurer managed (as approved repairer)	28	10	85	94	0
CMC managed (as approved repairer)	34	0	100	110	17
Dealership managed	28	10	100	97	4
Non-approved repairer (ie customer choice)	30	5	90	100	6

Source: Columns A to C: based on data from [✂]; columns D and E: CC analysis.

*The paint index can alternatively be expressed as a discount off the paint basket, ie a paint index of 85 per cent is the same as a 15 per cent discount off the paint basket.
†The indicative bill values are notional but represent relative differences, assuming 40 per cent of captured non-fault repair costs are for labour, 40 per cent are for parts and 20 per cent are for paint.

74. [✂] provided similar information, as set out in Table 9.

TABLE 9 **Repair costs by category:** [✂]

	Labour rate £/h A	*Parts discount % B*	*Paint index % C*	*Indicative bill value D*	*Difference to captured fault costs % E*
Fault repairs as an insurer's approved repairer	23.5	10	65	100	
Non-fault insurer managed (as approved repairer)	23.5	10	65	100	
Credit repairs	33	0	0	131	31

Source: Columns A to C: based on data from [✂]; columns D and E: CC analysis.

Note: See notes to Table 8, which apply also to Table 9.

75. [✂] told us that, [✂].

76. We noted that, [✂], as shown in Table 10.

TABLE 10 **Repair costs by category:** [✂]

	Labour rate £/h A	*Parts discount % B*	*Paint index* % C*	*Indicative bill value† D*	*Difference to captured fault costs % E*
Fault claims					
Fault repairs	27	18	75	100	0
Non-fault claims					
Captured non-fault repairs	27	18	75	100	Base
Non-fault repairs	36	0	100	129	29

Source: Columns A to C: based on data from [✂]; columns D and E: CC analysis.

Note: See notes to Table 8, which apply also to Table 10.

77. The data provided by [✂], [✂] and [✂] shows that average repair bills can vary by up to around 30 per cent between a captured non-fault repair and a non-fault insurer or CMC-managed non-fault repair. The data submitted by [✂] suggests that, [✂], this equates to around £390 per repair. However, repairers do not retain all the benefits of a higher repair bill as it appears that repairers pass most of the extra income back to the work provider in the form of a discount or referral fee (see paragraph 57). For example, [✂] told us that it discounted its repair bills [✂],[✂] told us that it discounted its repair bills by around [✂], and [✂] told us that it applied a discount [✂].[✂] said that [✂].

Summary: differences in repair costs

78. Non-fault repair costs are, on average, lowest when the repair is managed either by the fault insurer (ie captured) or by the non-fault insurer. However, when a repair is managed by the non-fault insurer the net cost incurred and the cost passed on to the fault insurer can vary considerably. The average non-fault repair bill passed by a non-fault insurer to the fault insurer is around £200 higher per repair than the net repair cost actually incurred (see paragraph 51), and this difference can be up to around £270 (see paragraph [✂]) to £390 (see paragraph 77) per repair, depending on the strategy adopted by the non-fault insurer in managing its repairs. This finding is supported by the discounts off the repair bill (up to [✂] per cent), which certain insurers are willing to grant other insurers in bilateral agreements (see paragraph 54).

79. We found that some providers of credit repair charge between £200 and £300 more per repair than the costs they incur for the repair itself (see paragraph 61), some of which is then passed back to work providers in referral fees. This finding is based on the level of discounts (up to [✂] per cent) which CMCs are able to earn from repairers, which are retained by them and not passed on to the fault insurer, and by the other income which CMCs can earn in relation to credit repair (eg administration fees, engineering fees, and parts and paint rebates).

The costs of managing a repair

80. The average cost of a captured non-fault repair in Table 3 does not include the cost incurred by the fault insurer in managing the repair (eg the need to record the claim, instruct the repairer, approve the repair cost estimate and deal with customer complaints). In most cases, other than where an administration or engineering fee has been added, these costs are also not recognized for non-fault insurers or credit repairers. In this section, we examine the costs of managing repairs. We consider in

turn the costs for fault insurers in managing captured non-fault repairs, the costs for CMCs in managing credit repairs, and the costs for non-fault insurers in managing own-insurance non-fault repairs.

Captured non-fault repairs

81. CISGIL and esure provided us with their estimates of the costs of managing a captured non-fault repair. Esure estimated these costs at £[✂] per repair and CISGIL estimated them at £[✂] per repair.

82. On the basis of this evidence, we estimated the total cost of a captured non-fault repair to be on average between £1,232 and £1,251 (ie the cost of the repair itself (£1,174) plus the cost of managing the repair (£58 to £77)).

83. Comparing these costs with the average cost of a credit repair as set out in line *(c)* in Table 3 (£1,576), it appears that a fault insurer pays on average between £325 and £344 more for a credit repair than the total cost it would incur if the repair were captured (though we note that the mix of captured non-fault repairs and credit repairs may not be the same (see paragraph 48)). We also note that the fault insurer will incur some costs when receiving a bill from a credit repairer which are not reflected in this comparison.

Credit repairs

84. Operating a credit repair business involves incurring various costs in addition to the cost of the repair, including:

(a) the cost of managing the repair;

(b) the cost of invoicing the repair bill to the fault insurer and recovering the repair costs from the fault insurer;

(c) the cost of unrecoverable repair bills;

(d) referral fees to gain work; and

(e) some other costs.[14]

Managing the repair and invoicing and recovering repair bills

85. Table 11 summarizes the evidence we received from CMCs and insurers on the costs of managing a credit repair and the costs of invoicing and recovering non-fault repair bills.

TABLE 11 **Cost of managing a repair and invoicing and recovering repair bills**

£

	Insurer/CMC						
	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Cost of managing a repair		[✂]	[✂]	[✂]			
Cost of invoicing and recovering repair bills	[✂]*	[✂]	[✂]	[✂]	[✂]		[✂]
Total repair management costs		[✂]	[✂]	[✂]		[✂]	

Source: CC.

*[✂].

86. The costs of managing a credit repair include:

(a) the cost of setting up a claim, paying independent engineers who provide repair cost estimates, monitoring the repair and liaising with the customer;

(b) the cost of administering and setting up a network of repairers, including monitoring quality; and

(c) the business overheads required in operate a credit repair business (rents, rates, utilities, management, etc).

87. On the basis of the evidence we received, we estimate the average cost of managing a credit repair to be in the range of £53 to £71 per repair (see Table 11).

[14] This includes, for example, the cost of capital and overheads not captured in the other cost categories. We have not sought to estimate these other costs as it appears to us that they are unlikely to be significant. However, we invite parties to tell us if they disagree with this view and, if so, to identify and provide information in relation to (i) the additional costs they consider are relevant (ii) the various elements of the service they provide to consumers and how these service elements relate to the costs incurred; and (iii) if and how such costs are reflected in the costs passed on to the fault insurer.

88. The costs of invoicing and recovering credit repair bills from the fault insurer include:

(a) the cost of liaising with the fault insurer about the repair;

(b) the cost of putting together the payment pack (ie the invoice and all supporting documentation); and

(c) the cost of chasing unpaid bills and litigation, and the costs to minimize collection costs (eg the cost of establishing and operating bilateral agreements and the cost of GTA membership).

89. On the basis of the evidence we received (see Table 11), we estimated the cost of invoicing and recovering repair bills. We excluded the estimate of these costs from [✂], because [✂]. Without [✂]'s estimate, the range provided to us by insurers was between £42 and £90. None of the CMCs provided a direct estimate of these costs; however, [✂], and we estimated that [✂] incurred invoicing and recovery costs for credit repair in 2012 of about £[✂] per repair.

90. These invoicing and recovery costs include the frictional costs[15] associated with credit repair. Overall, we found that frictional costs (ie the costs of challenging and defending the repair claim, including related staff costs, legal costs and engineering costs), and the mitigation of these costs,[16] were low in relation to credit repair, for the following reasons:

(a) Six out of the seven CMCs in our sample said that credit repair bills were rarely disputed, except for liability issues. [✂] estimated that frictional costs for credit repair averaged about £[✂] per repair.

(b) Fault insurers provided a wide range for their estimates of the frictional costs they incurred per credit repair; however, it appears that some included the cost of

[15] By frictional costs, we mean the costs that arise from both the monitoring and challenging by the fault insurer of non-fault claims which have been managed by non-fault insurers and CMCs, and the costs of defending and supporting claims by non-fault insurers and CMCs.

[16] Mitigation costs are costs incurred to mitigate frictional costs (eg through third party capture, bilateral agreements and litigation).

establishing liability disputes which was not related to the repair. Five insurers provided estimates of the total frictional costs they incurred in 2012 in relation to credit repair, which ranged from approximately £0.1 million to £1.2 million per insurer.

(c) One insurer ([✂]) provided an analysis of the costs of negotiating and maintaining a bilateral agreement with another insurer (see paragraph 54), which suggested that these costs are very low.

Non-recoverable bills

91. Non-recoverable bills arise most often in cases where the credit repair provider incorrectly assumes that the customer was not at fault (ie the driver turns out to be at fault or the claim is shown to be fraudulent). Fault insurers also sometimes challenge credit repair bills with regard to particular costs incurred (eg if the insurer believes that there are excessive costs for valeting or vehicle collection and delivery), but both insurers and CMCs told us that successful challenges to credit repair bills for such reasons were rare. On the basis of estimates provided to us by CMCs, we estimate that the cost of unrecoverable bills is, on average, around £15 per repair, ie about 1 per cent of the average credit repair bill.

Referral fees

92. We found that referral fees paid by CMCs providing credit repair services were between £[✂] and £[✂] per repair (see Table 7). Endsleigh told us that it received referral fees from CMCs in relation to credit repair services of around £65 per repair, and [✂] told us that, [✂], it received [✂]. Admiral (the only insurer in our sample which told us that it made referrals to credit repairers) said that it received a referral fee of between £30 and £65 per credit repair.

Summary of credit repair costs

93. Table 12 summarizes our assessment of the costs of providing credit repair services.

TABLE 12 **Costs of providing credit repair services**

Cost category	*Estimated cost per credit repair* *£*
Managing the repair	53–71
Invoicing and recovering repair costs	42–90
Non-recoverable bills	15
Referral fees	33–80
Total	143–256

Source: CC.

94. In total, we estimate that the cost of managing a credit repair service is likely to be around £180 per repair. This figure is based, in particular, on evidence from [✂],[✂] and [✂], each of which indicated that the total cost of managing a repair and invoicing and recovering repair bills was around £100 per repair, together with the average cost of unrecoverable bills of £15 (see paragraph 91) and a typical referral fee of £65 (see paragraph 92).

95. However, we note that there are some uncertainties around these estimates, due principally to the wide range of figures provided by insurers and CMCs for some elements of the total cost. We note also that credit repair is usually not offered on a stand-alone basis but rather in conjunction with credit hire, which means that the costs of a stand-alone credit repair business may be higher.

Own-insurer non-fault repairs

96. We considered the costs incurred by a non-fault insurer in managing a non-fault repair. In this scenario, the claimant will have claimed under his own insurance, (possibly with payment of an excess), and the non-fault insurer will seek to recover the costs of the claim from the fault insurer (possibly repaying the excess to the claimant if successful). Table 13 shows our estimate of the costs incurred by a non-fault insurer in providing non-fault repair services.

TABLE 13 **Costs of providing non-fault repair services**

Cost category	*Estimated cost per repair* *£*
Managing the repair (as per Table 11)	53–71
Invoicing and recovering repair costs (as per Table 11)	42–90
Non-recoverable bills	-
Referral fees	-
Total	95–161

Source: CC.

97. The data in Table 13 suggests that, for a non-fault insurer, the total cost of providing a non-fault repair service is around £100. This cost is lower than the cost incurred by a CMC in providing a credit repair as non-fault insurers *(a)* have no risk of unrecoverable bills because, if the fault insurer does not pay, the customer will be deemed to have made a fault claim; and *(b)* do not pay referral fees. Therefore, the non-fault insurer only incurs costs in managing the repair and in invoicing and recovering repair costs, which we estimated to be around £100 (see paragraph 94).

Differences in service provided

98. In this section, we examine whether there are differences in the repair services provided by different providers. We consider whether any such differences or our survey evidence indicate that customers of any particular repair service provider are overprovided in the quality of repair services they receive. (We discuss whether customers of any particular repair service provider are underprovided in the quality of repair services they receive in the working paper 'ToH 2: Underprovision of repairs'.)

99. We found that, overall, insurers did not differentiate significantly in how they managed repairs between fault and non-fault repairs (see paragraph 45).

100. We found that, to a limited extent, credit repairs were less likely to use non-OEM parts than insurer-managed repairs; and credit repairs had a higher proportion of replacement to repair than insurer-managed repairs (see paragraph 62). However,

we were not able to quantify the impact on average repair costs of these differences. Also, we found no evidence to indicate that this additional level of service from credit repair was unreasonable. We noted that the fault insurer can challenge inappropriate repair methods (eg the excessive use of replacement parts) through the scrutiny of its engineers.

101. We observed a few differences between own-insurer managed repair services, captured repair services and credit repair services, as follows:

(a) As repairs handled by non-fault insurers arise from customers claiming on their own insurance, customers are sometimes required to pay their insurance excess, in particular if liability is unclear or if claimants wish to use their own repairer. The claimant must then claim the excess back from the fault insurer, often with little assistance from the non-fault insurer. In contrast, for both credit repairs and captured non-fault repairs, no excesses are payable.

(b) Another consequence of customers claiming on their own insurance is that they might lose their no-claims bonus. As for the excess (see point *(a)*), this should only be a temporary loss until liability is fully established or until the claim is settled but, again, this does not happen in credit repairs or captured non-fault repairs.

(c) A benefit for non-fault-insurer customers claiming on their own insurance is that their insurer takes the risk of not being able to recover the costs of the claim from the fault insurer (other than the customer's excess). In contrast, credit repair customers may be exposed to the risk of being liable for the repair bill should the cost not be fully recovered from the fault insurer. However, in practice, this risk appears small as some credit repairers offer insurance cover for this eventuality and others told us that, although a customer might be legally liable, they would never expect a customer to pay.

(d) Captured non-fault claimants and CMC customers do not have access to the Financial Ombudsman Service (FOS) in case of a dispute with the fault insurer (though CMCs are regulated by the Claims Management Regulator and customers can seek advice from the Claims Management Regulation Unit (part of the Ministry of Justice)).

102. We also noted that, alongside a credit repair service, a CMC often provided non-fault claimants with other services, which might not be provided to a captured non-fault claimant by a fault insurer, as follows:

(a) In addition to claiming for a repair, some CMCs will also claim, if appropriate, for a diminution in value of the vehicle as a result of the accident (ie due to a repaired car being worth less than the same car without an accident history). None of the insurers which responded to our questionnaire offered their non-fault customers help with diminution claims. We found that, when such payments are made, they are typically for between 5 and 15 per cent of the pre-accident value of the vehicle, but that diminution payments are rare (ie they occur in less than 2 per cent of claims).

(b) Some CMCs also assist their non-fault customers in recovering uninsured losses, such as travel expenses, loss of earnings, recovery of insurance excesses and vehicle recovery costs. CMCs provided us with a wide range for the cost of providing these services, from £[✂] to £187 ([✂]) per repair. We found that some insurers only provided these services to their non-fault claimants if they had a motor legal expenses insurance (MLEI) policy.

103. When comparing the services (other than the repair itself) provided to credit repair customers and the services provided to own-insurer non-fault customers, it appears to us that credit repair services (and captured non-fault repair services) are slightly better. In particular, this is because credit repair providers do not require the payment of an excess and the claim does not affect the no-claims bonus of the claimant, albeit

that these comparative benefits might be temporary as non-fault insurer claimants might be restored to their pre-accident condition in respect of these things subsequently. Importantly, though, we do not think that these differences are relevant to the difference in the costs of providing repair services. This is because these differences do not occur in all repairs and because the costs of these differences are borne by the non-fault driver (and therefore do not affect the costs of the repair to the fault insurer).[17]

104. With regard to the additional services provided by some CMCs (see paragraph 102), these would appear to be services provided to assist some claimants in pursuing their entitlements under tort law.

105. We also looked at survey evidence to see if it indicated that non-fault claimants were overprovided in relation to repair services. Our survey of non-fault claimants found the following results (see the working papers 'Survey report' and 'ToH 1: Analysis of the results of the non-fault survey in relation to overprovision'):

(a) 1 per cent of respondents thought that their vehicle was worth more after the accident than before the accident (80 per cent said about the same and 14 per cent said it was worth less). The percentage was higher (at 3 per cent) where a party other than an insurer handled the claim (eg CMC, repairer, dealership).

(b) 5 per cent of respondents said that their vehicle was in a lot better condition after the repair than before the repair and 8 per cent said that it was in a somewhat better condition (75 per cent said the same, 10 per cent said worse and 1 per cent said much worse). The numbers were similar for repairs managed by the fault insurer and repairs managed by the non-fault insurer, which supports our finding that there is no significant difference in how fault and non-fault repairs are handled by insurers (see paragraph 99). Where a party other than an insurer

[17] Unless the non-fault driver subsequently fails to recover the excess from the fault insurer.

managed the claim, 9 per cent of respondents said that the vehicle was in much better condition, and 5 per cent said that it was somewhat better. Adding together the percentage of respondents who said the vehicle was in a much better condition and a somewhat better condition, there was no significant difference in the percentage of customers who thought that their vehicle was in a better condition than before the accident between insurer-managed and other-party-managed repairs.

(c) For those respondents who said that their car was in a better condition post-repair than before the accident, the main reasons given for this were that the damage was repaired, the vehicle was resprayed and that new/better parts were used.

106. In our view, the results of our survey of non-fault claimants do not suggest that CMCs or non-fault insurers systematically overprovide in terms of the quality of their repair service. It appears that the majority of customers believe themselves to receive a repair service which restores their car to its pre-accident condition, with no more and no less.

107. Overall, on the basis of the evidence set out in this section, it appears to us unlikely that there is any overprovision of repair services provided to non-fault claimants as a result of the separation of cost liability and cost control.