

## PRIVATE MOTOR INSURANCE MARKET INVESTIGATION

### Theory of harm 2: Analysis of the results of the non-fault survey in relation to underprovision

#### Introduction

1. Under theory of harm (ToH) 2, we are considering whether harm arises from the beneficiary of post-accident services being different from and possibly less well informed than the procurer of these services. This separation could result in harm due to the incentives of the different parties not being aligned. In such circumstances, the quality of service to which the customer is entitled under either his/her insurance policy (in particular if at fault) or under tort law (if non-fault) may not be delivered. Some customers may not be aware of their legal rights or be able to verify the quality of the services they receive (eg any repair work undertaken).
2. This paper considers the results of our survey of non-fault claimants in relation to this theory of harm.<sup>1</sup> We also commissioned a survey of PMI policyholders which identified some respondents who had made a fault claim against their insurance policy (see working paper 'Survey report'). However, only 28 such respondents were identified and completed the section of the survey about their claims experience, which was too small a sample for analytical purposes.
3. Figures in this paper have been weighted to correct for oversampling in Wales, Scotland and Northern Ireland (NI). The response rate for our survey of non-fault claimants was 18 per cent. Survey responses are subject to error and some of the key questions asked in this survey depend on the subjective responses of respondents, for example the question asking respondents the condition of their car after the repairs compared with before the accident. Responses are not based on an

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<sup>1</sup>We commissioned the market research agency IFF to conduct a survey of PMI policyholders who had been in a motor vehicle accident where they were found to be not at fault (see working paper 'Survey report').

objective assessment of post-accident services and there may be other factors influencing responses.

## **Summary**

4. Our survey found that four-fifths of vehicles involved in accidents leading to non-fault claims were repaired, with a fifth written off. Of those repaired, 94 per cent had all the damage repaired. The condition of the vehicle post-repair was judged by respondents to be the same or better than before the accident in 88 per cent of cases. It appears to us from these results that there is no compelling evidence overall of underprovision to non-fault claimants of repair services. However, we note that some repair work might be hard for consumers to assess so we interpret these results, which reflect the perceptions of consumers, with some caution.
5. We also found that there was no statistically significant difference (tested at a 95 per cent confidence level) in relation to respondents' perceptions of their repair between those whose claims were handled by their own non-fault insurer and those whose claims were captured and handled by the fault insurer. We note that this is consistent with evidence from insurers which suggests that they manage fault and non-fault repairs in the same way (see working paper 'ToH 2: Underprovision of repairs').
6. The reasons underlying any negative assessment on the vehicle condition, post-repair, were the same regardless of which party handled the claim, mostly relating to not all damage being repaired, or the quality or colour match of paintwork.
7. Our survey found that, of those non-fault claimants who received a temporary replacement vehicle (TRV), 85 per cent said that it met or exceeded their needs. As with repairs, this did not appear to us to be compelling evidence overall of underprovision.

8. However, in relation to TRVs, we did find a statistically significant difference between claims which were handled by the non-fault insurer and captured claims. One in five of those whose claims were 'captured' said that their TRV fell short of their needs, which was a significantly higher proportion than for those whose claim was handled by their insurer.
9. The most common reasons for respondents saying that their TRV did not meet their needs were that it was less spacious, smaller, or a worse make or model than their own vehicle.
10. Our survey found that nine in ten respondents had their TRV as long as they needed it and there was no significant difference in this proportion depending on which party handled the claim.
11. We found that those with more severe accidents, ie where the vehicle incurred a high level of damage or the driver was injured, were more likely to say that the vehicle's condition and worth was reduced post-repair than those who had less severe damage. Also the length of time for which they had a TRV was more likely to be judged inadequate among this group of drivers.
12. We noted some differences when comparing perceptions of vehicle repairs and TRV provision by respondents' awareness of their legal rights. Those who subsequently stated that they were not aware of their legal rights were significantly more likely to have said they had inadequate repairs or TRV provision.

## **Presentation of results**

13. One of the factors which might affect the existence or the extent of any under-provision of post-accident services could be the type of organization which was

mainly responsible for managing the claim and the circumstances in which they are managing it. Therefore, we present the main analyses in this note detailing the organization mostly responsible for managing the respondent's claim. For both repair and TRVs we considered the following situations:

- (a) non-fault insurer and fault insurer the same;
- (b) captured claims;
- (c) bilateral agreement between the non-fault and fault insurer;
- (d) non-fault insurer handled the claim;
- (e) other organization handled the claim (eg the respondent, a solicitor, a claims management company (CMC) appointed by the respondent); and
- (f) don't know.

14. For claims dealt with under bilateral agreements, we considered separately the provision of repairs and the provision of TRVs due to the different types of bilateral agreements in place between insurers.
15. In the table headings we use the following shorthand to refer to these six groups (respectively): NF=AF, AF, Bilateral, NF, Other and Don't Know.<sup>2</sup>
16. Table 1 shows the proportions of claims by who handled the claim. Around half of all claims were handled by the driver's own insurer and in 30 per cent of cases the claim was captured by the fault insurer. In 6 per cent of claims the non-fault driver and fault driver were insured by the same company—many of these cases were in Northern Ireland where AXA has a high PMI market share (see working paper 'ToH 3: Horizontal concentration in PMI providers in Northern Ireland'). 3 per cent of claims were handled under a bilateral agreement for repairs and 5 per cent were handled under a bilateral agreement for TRVs.

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<sup>2</sup> If a respondent's claim was mostly handled by his/her own insurer (NF) but that insurer had a bilateral agreement with the other driver's insurer, the claim would be coded to the bilateral category.

TABLE 1 Analysis variables for main organization handling the claim

	<i>per cent</i>	
	<i>Repairs</i>	<i>TRVs</i>
Non-fault insurer handled the claim	55	53
Claim captured by AF insurer	30	30
Non-fault and fault insurer the same	6	6
Bilateral agreement in place	3	5
Other	4	5
Don't know	2	1
Base (weighted)	1,500	1,500

Source: CC PMI NF Survey, questions A16, A17 and additional information on bilateral agreements.

17. Table 2 shows that the organization which first has contact with the claimant is most likely to handle the claim. Most drivers, 68 per cent, made first contact with their own insurer and, in these cases, the non-fault insurer went on to manage the claim in three-quarters of cases. Of the 11 per cent of cases where first contact was with the fault insurer, this insurer went on to handle 80 per cent of cases.

TABLE 2 First contact analysed by who managed the claim

	<i>per cent</i>		
	<i>First contact:</i>		
	<i>NF insurer</i>	<i>AF insurer</i>	<i>Other*</i>
Main claim handler:			
— non-fault and fault insurer the same	8	4	3
— at fault insurer	22	79	28
— non-fault, bilateral agreement	3	1	5
— non-fault insurer	64	13	45
— other	1	3	15
— don't know	1	0	3
Base (weighted)	1,021	309	1,500

Source: CC PMI NF Survey, questions A10, A10a.

\*Includes claims managed by legal firms, repairers, dealerships and CMCs appointed by the claimant.

18. The number of respondents falling into the 'AF=NF', 'bilateral' and 'other' categories are small. For this reason, we only show in the tables below comparisons between captured claims and claims handled by the non-fault insurer. We benchmark figures against all claimants.

## Provision of repairs

19. The following tables set out the key outcome measures which provide an indication of underprovision in relation to repairs, each analysed by the main claims handler.
20. Table 3 shows that respondents said that all the damage to vehicles was repaired in 72 per cent of cases (ie 94 per cent of all cases where there was a repair) with the car being written off in a further 21 per cent of cases. In the remaining 5 per cent of cases, respondents said that some or most of the damage was repaired (but not all). This proportion is the same for captured claims and claims handled by the non-fault insurer.

TABLE 3 **How much damage was repaired, analysed by who managed the claim**

	<i>per cent</i>		
	<i>All</i>	<i>Captured</i>	<i>NF</i>
All of the damage was repaired	72	77	71
Most of the damage was repaired	4	4	4
Some of the damage was repaired	1	1	1
Vehicle was written off	21	17	22
Other/don't know	2	2	1
Base (weighted)	1,500	445	817

Source: CC PMI NF Survey, question C11.

21. Table 4 shows that the most commonly-stated reason for respondents saying that not all of the damage was repaired was that they did not think the repairs were carried out properly. Other cited reasons, in order of frequency, were: insurer refused to make the repair; minor/cosmetic damage only; and respondents not wanting to pay further costs. The sample sizes for these responses were very small (which is why Table 4 shows the numbers of respondents rather than percentages).

TABLE 4 Reason why not all damage repaired, analysed by who managed the claim\*

	<i>per cent</i>		
	<i>All</i>	<i>Captured</i>	<i>NF</i>
Minor/cosmetic damage only	14	2	8
Respondent did not want to pay further costs	8	2	6
Repairs not carried out properly	29	12	13
Insurer refused to make repairs	16	5	5
Other/not stated	16	4	10
Base (weighted)	82	23	42

Source: CC PMI NF Survey, question C12.

\*Each respondent may give more than one reason.

22. Table 5 shows respondents' assessment of the condition of their vehicle after it had been repaired compared with prior to the accident. Most respondents (88 per cent) said that the condition was the same or better. Among captured claims 13 per cent of respondents said that their car was in a worse condition after repairs compared with before the accident, while the equivalent figure was 8 per cent for claims handled by the non-fault insurer. This result was not statistically significant but was on the margin of being statistically significant.

TABLE 5 Condition of the car after the repairs were made, analysed by who managed the claim

	<i>per cent</i>		
	<i>All</i>	<i>Captured</i>	<i>NF</i>
Compared with before the accident:			
— same or better	88	87	91
— slightly worse	10	12	7
— much worse	1	1	1
— don't know	1	0	1
Base (weighted)	1,163	364	629

Source: CC PMI NF Survey, question C22.

23. The main reason for the vehicle being perceived to be in a worse condition was because not all the repairs were carried out (see Table 6). The second most cited reason was that the paintwork was not of the same colour or quality.

TABLE 6 Reason why condition of the car was worse, analysed by who managed the claim\*

	<i>per cent</i>		
	<i>All</i>	<i>Captured</i>	<i>NF</i>
Reasons cited:			
— paintwork not the same quality/colour	26	10	10
— not all damage repaired	98	34	41
— vehicle does not drive as well	6	4	2
Base (weighted)	128	46	52

Source: CC PMI NF Survey, question C23.

\*Each respondent may give more than one reason.

24. About a fifth of respondents' vehicles had been inspected for the quality of repair by a family member or friend and about one in ten by an independent inspector (see Table 7). The condition of the vehicle was more likely to have been assessed as worse if an inspection took place. However, these figures need to be interpreted carefully as an inspection might only have been conducted because of concerns or a dispute about the repair work.

TABLE 7 Condition of the vehicle by whether the repairs were assessed

	<i>per cent</i>		
	<i>All claims</i>	<i>Inspected by:</i>	
		<i>family/friends</i>	<i>independent</i>
Compared with before the accident:			
— same or better	88	86	79
— slightly worse	10	12	14
— much worse	1	1	7
— don't know	1	1	0
Base (weighted)	1,163	258	101

Source: CC PMI NF Survey, question C21.

25. The survey asked respondents who made the final decision as to which repairer would carry out repairs to their vehicle. Table 8 shows the results on the post-repair condition of vehicle (see Table 5) analysed by responses to this question. The table shows that the proportion of vehicles said to be in a worse condition after repair compared with prior to the accident varies little depending on who chose the repairer.



TABLE 8 Condition of the car after repair by who decided who would carry out the repairs

	<i>per cent</i>					
	<i>All</i>	<i>You</i>	<i>NF</i>	<i>AF</i>	<i>CMC</i>	<i>Other</i>
Compared with before the accident:						
— same or better	88	86	90	88	89	86
— slightly worse	10	13	8	10	8	8
— much worse	1	1	2	1	4	0
— don't know	1	0	1	1	0	6
Base (weighted)	1,162	299	439	306	53	65

Source: CC PMI NF Survey, question C6.

26. The survey went on to ask those respondents who had chosen the repairer themselves to say how they chose who would carry out the repairs. Among these respondents, over half said that they had chosen from repairers they knew or recommendations from family or friends. Among this latter group of respondents, 18 per cent (28 out of a weighted base of 156) said that the condition of their car was worse after repair, compared with 11 per cent who gave this answer across all respondents (see Table 5). This may suggest that insurers are better able to ensure that repairs are carried out to a satisfactory standard through their approved repairer networks.
27. Table 9 shows respondents' perceptions of the value of their vehicle post-repair compared with prior to their accident. The table shows that 14 per cent of respondents said that they thought their vehicle was worth less. Whilst this appears higher among claims that had been captured, this difference is not statistically significant.

TABLE 9 Value of the vehicle after the repairs were made, analysed by who managed the claim

	<i>per cent</i>		
	<i>All</i>	<i>Captured</i>	<i>NF</i>
Compared with before the accident:			
— vehicle was worth the same or more	81	82	83
— vehicle was worth less	14	15	12
— don't know	5	4	5
Base (weighted)	1,164	364	629

Source: CC PMI NF Survey, question C24.

## TRVs

28. The following tables set out the key outcome measures which provide an indication of underprovision in relation to TRVs, each analysed by the main claims handler.
29. About 80 per cent of the respondents to our survey were given access to a TRV as part of their accident claim. Of the remainder, most were either offered a replacement car and did not take up the offer or did not need a replacement car. In only 1 per cent of all non-fault claims (22 cases) did the respondent ask for a replacement car and not be given one.
30. Table 10 shows respondents' views on how well the TRV they received met their needs. 85 per cent of respondents who received a TRV said that it either met or exceeded their needs. The proportion of respondents who felt that the replacement car fell short of their needs was significantly higher among captured claims than claims handled by the non-fault insurer, which could suggest some underprovision by fault insurers. The main stated reason for the TRV falling short of respondents' needs was that it was less spacious or smaller than their own vehicle (see Table 11).

TABLE 10 How well the replacement car met needs, analysed by who managed the claim

	<i>per cent</i>		
	<i>All</i>	<i>Captured</i>	<i>NF</i>
Met or exceeded needs	85	81	87
Fell slightly short of needs	9	14*	8*
Fell well short of needs	5	5	5
Don't know	1	0	0
Base (weighted)	1,191	345	643

Source: CC PMI NF Survey, question D19.

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\*Difference is statistically significant.

TABLE 11 Reason(s)\* why the replacement car did not meet needs, analysed by who managed the claim

	<i>per cent</i>		
	<i>All</i>	<i>Captured</i>	<i>NF</i>
Worse make/model	33	17	15
Method of pick up/delivery	2	0	2
Older than own vehicle	2	2	0
Smaller engine than own vehicle	24	6	18
More bulky/bigger than own vehicle	11	5	4
Less spacious/smaller than own vehicle	97	35	48
Manual/automatic/diesel/petrol wanted	14	3	9
It was not clean	4	2	2
It was faulty	8	3	3
Fuel consumption too high	6	4	0
Unable to transport dog	4	2	2
Difficult/uncomfortable to drive	5	3	2
Not suitable for disabled people	5	3	2
Other	22	12	10
Don't know	2	0	2
Base (weighted)	171	67	84

Source: CC PMI NF Survey, question D21.

\*Each respondent may give more than one reason.

31. Table 12 shows respondents' views on whether they had their TRV for the right length of time. Nine in ten customers said that they had the TRV for at least as long as they needed it. 9 per cent of respondents said that they had the TRV for a shorter time than needed, with no significant difference between captured claims and claims handled by the non-fault insurer. The main reasons given for needing the TRV longer were not having access to another suitable vehicle for part of the time, or needing time to finance the purchase or find another vehicle (see Table 13).

TABLE 12 Length of time had access to TRV, analysed by who managed the claim

	<i>per cent</i>		
	<i>All</i>	<i>Captured</i>	<i>NF</i>
At least as long as needed	91	91	92
A shorter time than needed	9	9	8
Base (weighted)	1,174	342	638

Source: CC PMI NF Survey, question D23.

TABLE 13 Reason(s)\* why didn't have replacement car long enough, analysed by who managed the claim

	<i>per cent</i>		
	<i>All</i>	<i>Captured</i>	<i>NF</i>
Couldn't collect the replacement car straight away	17	3	5
Didn't have access to another vehicle for part of the time	40	7	25
Didn't have access to a suitable vehicle for part of the time	25	9	9
Car written off which caused delays	5	2	1
Needed time to find another car to purchase	28	8	16
Car had to go back for repairs	6	2	2
Needed time to finance purchase of another car	10	5	4
Needed car for commuting	4	2	0
Other	4	2	2
Base (weighted)	105	30	51

Source: CC PMI NF Survey, question D25.

\*Each respondent may give more than one answer.

32. The survey asked respondents who had decided on the provider of the TRV. Table 14 shows the proportion of TRVs that did not meet needs (see Table 10) and the proportion that were provided for a shorter time than needed (see Table 12) analysed by the responses to this question. As with repairs, outcomes appear least satisfactory when the claimant chose who would provide the TRV, but the differences are not statistically significant (due to a low base).

TABLE 14 Underprovision of replacement car by who chose provider

	<i>per cent</i>					
	<i>All</i>	<i>You</i>	<i>NAF</i>	<i>AF</i>	<i>CMC</i>	<i>Other</i>
Fell slightly short of needs	9	16	8	11	6	10
Fell well short of needs	5	7	3	6	6	10
Shorter time than needed	9	18	10	10	6	1
Base (weighted)	1,191	43	462	375	159	92

Source: CC PMI NF Survey, question D14.

## Nature of the accident

33. We considered whether the severity of the accident had any impact on the provision of services. Table 15 presents the four outcome measures, as indicators of underprovision, and analyses them by three characteristics of the accident: the severity of damage to the vehicle; whether the main damage to the vehicle was to the back of the vehicle; and whether the driver of the vehicle sustained an injury.

TABLE 15 **Stated underprovision by nature of accident**

	<i>Severity of accident:</i>			<i>Damage mostly to back of vehicle</i>	<i>per cent</i>	
	<i>Low</i>	<i>Medium</i>	<i>High</i>		<i>Personal injury</i>	<i>All claims</i>
Repairs:						
— condition worse after repair	9	12	15	11	16*	11
— worth less after repair	11†	18†	18	15	21*	15
TRV:						
— fell short of needs	18	14	9	15	12	14
— shorter time than needed	3†	10	17†	10	22*	9
Average base (weighted)	468	487	191	608	296	1,155

Source: CC PMI NF Survey, questions B1, C2, C3.

\*Statistically different to claims where there was no injury incurred.

†Statistically significant differences.

34. The table shows that there appears to be more evidence of perceived underprovision in relation to repairs the more severe the damage to the vehicle (medium and high compared with low damage), although whether or not the main damage was to the back of the vehicle appears to make little difference. Among cases where the driver was injured in the accident, a particularly high proportion of respondents stated that they thought the vehicle was in a worse condition after repair.
35. The table also shows that, when damage to the vehicle was low, a greater proportion of respondents (compared with the base overall) said that the TRV provided did not meet their needs but that they had it for long enough. When damage was more severe the opposite occurred, ie more said that the vehicle met their needs but they needed it for longer than it was supplied. Where the driver had sustained an injury during the accident, a significant minority (22 per cent) said that they did not have the TRV for long enough.

## Legal entitlement

36. There may be potential for more underprovision of goods and services when a claimant is unaware of their legal rights. Table 16 presents the same four outcome measures, as indicators of underprovision, analysed by the extent to which the claimant said they had been made aware of their legal rights. The table shows that

outcomes tended to be better among those who said that they had been informed of their legal rights in relation to their claim. However, it is possible that some of the differences may be accounted for by respondents having a greater tendency to say that they had been made aware of their legal rights if they were generally happy with the services they received.

TABLE 16 Awareness of legal rights by stated underprovision

	<i>Were you made aware of your legal rights?</i>				<i>per cent</i>
	<i>Yes, all</i>	<i>Yes, some</i>	<i>No</i>	<i>Don't know</i>	<i>Total</i>
Repairs:					
— condition worse after repair	8*	8	14*	9	11
— worth less after repair	12	17	17	8	15
TRV:					
— fell short of needs	9*	11	19*	8	14
— shorter time than needed	6	13	10	7	9
Average base (weighted)	276	94	633	152	1,156

Source: CC PMI NF Survey, question D30.

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\*Differences are statistically significant.