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Competition Commission's Private Motor insurance market investigation – Statement of issues

Response of the Association of British Insurers

The ABI

The ABI is the voice of insurance, representing the general insurance, investment and long-term savings industry. It was formed in 1985 to represent the whole of the industry and today has over 300 members, accounting for some 90% of premiums in the UK.

Executive Summary

The ABI welcomes the opportunity to respond to the Competition Commission's (CC) statement of issues (SOI) on its private motor insurance (PMI) market investigation. The ABI welcomes the CC investigation. In our response to the SOI, we make the following key points:

- The PMI market in the UK is one of the most highly competitive in the world, with 93 active underwriters writing business under multiple brands. In such a market, where consumers increasingly make purchasing decisions based on price, insurers will normally pass on cost savings to consumers. However, when costs increase, these increases will also be passed onto consumers.

- The ABI believes that any investigation by the CC into the PMI market should result in:
    - A reduction in the inflationary pressures on the cost of motor insurance
    - An increase in at-fault insurers' control over claims and resulting claims costs;
    - Increased certainty for consumers as to how their claims will be handled and at what cost to them;
    - An improvement in the level of quality and service insurers are able to offer their customers; and
    - Insurers maintaining the incentive to invest in product differentiation and customer service.

- The SOI addresses a wide range of issues. The ABI believes that the CC should focus on those issues which have the greatest impact on costs and ultimately the insurance premium that consumers pay. As such, the ABI believes the CC should concentrate their main focus on Theory of Harm (ToH) 1, where a compelling case is made that there is a risk of harm, particularly in relation to the market for replacement vehicles.

- Market dysfunction, particularly in relation to the separation of cost control and cost liability, has helped to increase the volatility and uncertainty experienced by underwriters. This, particularly in an environment where Solvency II has led to much uncertainty on the horizon, has led to increased capital requirements which ultimately finds their way into higher premiums for customers. As such, when the CC makes a decision as to what it will focus on, reducing volatility and increasing certainty should be a key aim, particularly in relation to TOH1.

- Given the current focus across Whitehall, especially within the Ministry of Justice, on civil litigation reform, the ABI welcomes the CC's decision not to include personal injury claims within the scope of their investigation. However, as personal injury claims are linked to some of the issues identified in TOH1, we consider that the CC needs to be mindful of isolating personal injury issues from certain aspects of their investigation.

- There are a number of areas, mainly in TOH3, TOH4 and TOH5 where the CC has identified that the new Financial Conduct Authority (FCA)[1] has a regulatory role to play. In these areas the CC indicates that the FCA should be the regulator of practices, but nevertheless states that they propose to consider whether harm may arise from certain practices in the PMI market. The SOI does not make clear how the CC intends to liaise with the FCA on these issues and whether it is possible that separate investigations/enquiries may be instigated by the FCA as a result. Separate work undertaken by both the FCA and the CC risks potentially inconsistent outcomes resulting in market disruption and the potential for increased compliance costs for insurers. These are likely to be passed on to consumers by way of increased premiums, contrary to the objectives of the CC, the Government and the insurance industry.

- As the FCA has recently announced a market study of general insurance add-ons, it would be more efficient for the CC to feed into that, rather than running a separate investigation on this aspect of PMI. Having two reviews/investigations by two regulators puts strain on the ability of the industry to co-operate and could also result in conflicting analysis and conclusions which could harm the industry and prevent a focus on making coordinated changes that will benefit consumers. As the CC noted in its SOI that transparency and complexity was within the remit of the FCA, this would seem to clearly fit into the remit of the FCA.

- As the SOI points out, the common practice of price comparison websites (PCWs) requiring insurers to quote the same price on the PCW as for sales through other online distribution channels could have the impact of dampening competition between PCWs and between PCWs and other online sales channels. We therefore urge the CC to reconsider its intention not to consider this issue further in its investigation.

[1] Throughout the response, the use of FCA also refers to the current role of the FSA

1 TOH 1: Harm arising from the separation of cost liability and cost control

1.1 The first TOH considers the impact arising from the separation of cost liability and cost control. The ABI believes that this is the most important of the five theories of harm, both in terms of customer detriment and in adding unnecessary costs. As such, we believe this should represent the main focus of the CC investigation.

Incentives arising in relation to non-fault claims

1.2 The CC rightly recognises that non-fault claims give rise to a separation between cost liability and cost control, and that this separation may give rise to distortions within the market.

1.3 Of particular relevance to the issue of harm arising from the separation of cost liability and cost control is the use of credit hire and credit repair to service customer needs. As the ABI highlighted in our submission to the OFT on their PMI Market study[2], the dysfunctional credit hire market has caused difficulties for the motor market for a number of years. The OFT rightly identified the unnecessary use of credit hire and credit repair as adding additional and unnecessary costs for motor insurers, leading to excess costs in the system and consequently higher premiums for consumers.

1.4 The OFT also correctly identified that there are a diverse range and number of participants operating in the PMI market (including, but not limited to, insurers, accident management companies, insurance brokers and credit hire organisations). These participants incur costs, which an at-fault insurer is ultimately responsible for paying and where there seems to be limited opportunity for meaningful challenge except through expensive legal actions. This results in an environment in which there is little incentive to limit the costs incurred, and indeed can provide incentives to recover higher costs than are necessary.

Measures to mitigate this harm

1.5 The CC recognises that the industry has made various attempts to mitigate the unnecessary costs they face, including bilateral agreements, the General Terms of Agreement (GTA), and third party assistance, all of which have had varying degrees of success.

1.6 Whilst these initiatives have gone some way to help reduce unnecessary costs in the system, they can only go so far to address the 'leakage' of money from the system via the intervention of non-insurers. This is particularly the case for the GTA which is a voluntary and negotiated outcome between subscribing credit hire organisations (CHOs) and subscribing insurers. The

[2] Office of Fair Trading: Private Motor Insurance: Report on the market study and proposed decision to make a market investigation reference: May 2012

agreement sets rates for the settlement of claims for the hire of replacement vehicles at less than the credit hire company would be allowed to recover through the courts, but at a rate far above that which can be achieved between insurers bilaterally, where the potential for cost control is greater. Despite the GTA, the OFT, during their Market study, found that credit hire vehicles tend to be charged at higher daily rates than other options and non-fault drivers appear to receive replacement vehicles for longer periods than necessary[3]. As such, it is clear that the credit hire market is dysfunctional and needs to be investigated. The work of the CC offers a real opportunity to address these core issues.

Practical implications of statutory and regulatory changes

1.7 The ABI welcomes the decision of the CC to exclude personal injury from their investigation. While this is undoubtedly the biggest cost facing the industry, pushing up premiums for consumers, with whiplash claims alone costing over £2 billion last year, the current reforms to the civil litigation system over the next 12 months would mean a focus on personal injury by the CC would soon be out of date.

1.8 Whilst we welcome the decision to exclude personal injury claims, they are closely linked to some of the issues identified in TOH1 and therefore the CC needs to be mindful of isolating personal injury claim issues from certain aspects of their investigation.

Summary

1.9 In examining this TOH, we would look to the Competition Commission to ensure that the consumer benefits that are evident in the current system, and which do exist in spite of the concerns mentioned, are not ultimately lost.

1.10 The ABI supports the CC's intention to investigate whether the separation of cost liability and cost control leads to harm, believing that this is one of the primary causes of the wider issues that the CC intends to investigate, namely those associated with the provision of repairs and replacement vehicles to non-fault drivers.

[3] Office of Fair Trading: Private Motor Insurance: Report on the market study and proposed decision to make a market investigation reference: May 2012: Pg. 6

2 TOH 2: Harm arising from the beneficiary of post-accident services being different from the procurer of these services

2.1 The second TOH considers whether there is potential consumer harm from the fact that the beneficiary of post-accident services can be different from the procurer of those services.

2.2 The CC considered that harm could materialise in two forms. First, a lack of transparency around consumers' rights could potentially lead customers to make poor choices when selecting post-accident services. Second, harm via a restriction on customers' choice, for example by using an insurer's approved repairer rather than the customer's own choice.

2.3 We note that the CC does not provide any evidence of claimants (either fault or non-fault) experiencing detriment in the two forms of harm identified above.

2.4 Where there is evidence that information asymmetries have been identified within any aspect of the PMI market, including the claims process, the industry is committed to working with the FCA in educating and empowering consumers so that they are sufficiently informed and can obtain the best match for their needs. Furthermore, insurers have considerable obligations placed on them by the FSA to ensure that the information/communications with consumers are fair, clear and not misleading, which limits potential consumer harm.

Insurer approved repairers

2.5 The CC questions whether repairers are forced to compete for work from insurers on the basis of whether they offer the lowest possible rates rather than whether they offer high quality repairs. However, the CC does not provide evidence of this taking place and we strongly question the extent to which this actually does take place. An insurer will use the same repairer and the same repair process will generally apply, regardless of whether the work is for a non-fault driver or fault driver. That may not always be the case for credit repair commissioned through a different repairer.

2.6 Motor insurers have to ensure that their customers get the best possible repair to their vehicles following a collision, at a price that is competitive and allows insurers to continue to offer PMI at a reasonable price. To do this, insurers negotiate contracts with approved repairers who guarantee a high level of quality for the consumer, at the right price for the volume of work they need. It is not unreasonable for insurers to manage their costs in this way and it is in the consumers' financial interest that they do so. Policyholders are free to use whichever repairer they want, but in many circumstances this will result in a higher cost and this will be reflected in the excess that they pay.

2.7 The ability to manage costs, supervise quality, control service and deal with complaints is generally better achieved through a carefully selected and efficiently monitored network, and such an arrangement is likely to contribute

towards a better and lower cost customer service. The consequence of insurers not managing their costs in this way would be to put even more upward pressure on premiums, which would be to the detriment of all consumers.

2.8 For over 40 years, members of the ABI have funded Thatcham, The Motor Insurance Repair Research Centre, which is dedicated to meticulous research ensuring the safe repair of accident damaged vehicles. This is a world leading research centre whose core purpose is to ensure all vehicles are reinstated back to their original safety design in the most cost efficient way.

2.9 This is testament to the insurers' commitment to ensuring value for money in tandem with safe, quality repair, whilst containing costs. Thatcham work to provide the body repair industry with a range of repair methods, parts choices and appropriate training, which are fully validated for safety and cost through the centre's research workshop and crash test facilities. The centre also works closely with vehicle manufacturers to ensure that right from the start of the manufacturing process, UK vehicles are of an acceptable standard in terms of safety and reparability.

2.10 In 2007, members of the ABI were pivotal in the establishing a BSI Kitemark standard for vehicle body repair. These independently audited and kitemarked bodyshops have to demonstrate compliance to rigorous standards, which include: the use of repair instructions; minimum equipment levels, employment of industry accredited staff; and use of appropriate parts and materials. The presence of Kitemarked shops within their networks gives insurers' confidence in the repair process for the benefit and safety of their customers.

2.11 Motor Insurers have also, for the last decade, supported Thatcham's Parts Accreditation programme which operates to independently verify the exacting standard and quality of cosmetic, aftermarket parts, thus providing an alternative and reliable source of parts for UK repairers.

2.12 On the wider point of consumer choice, it is important to note that this is closely linked to the issues identified in TOH1, namely, third party representatives being incentivised to persuade non-fault drivers to use services when they may not be truly required. An example of this can be seen in the credit hire market where CHOs generate higher than necessary bills by providing a replacement vehicle which is of similar standard to that damaged (but possibly of higher standard than truly required) whilst a damage but still mobile vehicle is awaiting repair in a garage. While it is unlikely that this is causing harm to the non-fault driver, who is the recipient of these services, the consumer harm arises as such practices lead to an increase in costs for insurers, which ultimately leads to upwards pressure on the price of motor premiums.

3 TOH 3: Harm due to horizontal effects

3.1 The third TOH looks at whether high levels of market concentration in the relevant markets have an adverse effect on competition.

Insurers

3.2 The CC rightly recognises that "*given the relatively large number of insurers providing PMI, there appears to be little scope for harm from horizontal market concentration"*[4]. However, it is important to recognise how exceptionally competitive the market for private motor insurance is. With 93[5] active underwriters writing business under multiple brands, the provision of motor insurance in the UK is one of the most highly competitive markets in the world. Furthermore, given that insurers have made an underwriting loss for 16 consecutive years and recorded a loss of £425 million in 2011, it is clear that motor insurers are not making excessive profits and recent increases in premiums have been driven by escalating costs.

3.3 The ABI has concerns about the CC's views on market segmentation and the impact this could have on price. It is important to make a distinction between a geographical location with a distinct jurisdiction (i.e. Northern Ireland) and a category of customer which has a particularly high risk factor. The CC comments that some geographical markets have only 15 providers. This can hardly be described as a market in which there are considerable opportunities for horizontal restrictions and the CC's resources would best be focussed on areas where there is evidence of both the circumstances for and actual consumer harm. No evidence has been seen that consumer detriment is suffered in particular geographical areas of the PMI market.

3.4 In addition, the reasons why fewer PMI products are offered to customers in Northern Ireland than in the rest of UK are distinct from the reasons why the number of PMI products offered to young drivers may be different to those offered to older drivers.

3.5 Motor issuers face a more challenging operating environment in Northern Ireland and there are a number of factors behind this. The legal costs associated with paying out claims are greater, as are the personal injury compensation awards[6]. In addition, historically a number of insurers did not write business in Northern Ireland during "The Troubles". As such, when an insurer that does not currently write motor policies in Northern Ireland weighs up whether to enter the market, there are a number of factors they will consider. The first factor is the size of the market in Northern Ireland. There are approximately 874,000 registered motor vehicles in Northern Ireland, compared with 30,352,000 in the rest of the UK[7]. This means that when an insurer is pricing a policy in Northern Ireland, they will have a much

[4] Statement of issues: para 59
[5] Motor Insurers' Bureau
[6] This issue is addressed in greater depth in the ABI response to the Office of Fair Trading's call for evidence into the Private motor insurance market
[7] Department for Transport

smaller pool across which to spread the risk. As a result of the limited size of the market, it can be harder for insurers to achieve economies of scale. Although a number of insurers who do currently operate in Northern Ireland are able to use parts of their operations on the mainland to provide services to customers in Northern Ireland, much of the claims side, such as accident repair, will need to be done locally. Finally, given the differences in the market and the regulatory framework insurers that do not currently write business in Northern Ireland will lack the actuarial data to help them accurately price policies should they decide to enter the market.

3.6 These factors are different from those applying to young drivers. The reason young drivers face higher premiums than those of older drivers is not a lack of competition *per se,* but rather the difficulties associated with underwriting young drivers accurately given the volatility of the risk (i.e. young drivers have an increased risk of individual catastrophic loss and fewer distinguishing factors (e.g. less risk history, less driving experience)) which can result in relatively high premiums.

3.7 The ABI published a report last year *Improving the Safety of Young Drivers*[8]*,* which outlines the reasons why young drivers have the highest risk profile of all motorists, examines catastrophic injury data, and explores the reforms that are required to address the young driver problem. We strongly recommend that the CC study this report to understand further the impact of catastrophic injuries on the premiums of young drivers.

Other sectors

3.8 The ABI agrees with the CC's view that there are a large number of providers of services within the PMI market (i.e. brokers, credit hire companies, repairers, etc.) and we do not believe that there is any deficiency in competition for the supply of these services. As such, we agree with the CC's decision not to look to consider them further but stress the importance of looking at these suppliers in relation to TOH1, particularly Credit Hire Organisations and Claims Management Companies.

[8] http://www.abi.org.uk/Publications/64182.pdf

4 TOH 4: Harm arising from providers' strategies to soften competition

4.1 The fourth TOH raises concerns with the potential for a high degree of product differentiation to create additional search and switching costs for consumers, thereby creating additional market power for the insurer.

Strategic product differentiation of PMI

4.2 The ABI welcomes the recognition that product differentiation leads to increased choice for consumers[9], enabling them to find something that is tailored to their requirements**.** However, we disagree with the views of the CC that product differentiation of PMI products represents a strategic measure by insurers to create additional switching costs for consumers. Product differentiation is a normal market response in a market that serves millions of consumers with different preferences and needs. The ability for consumers to choose between different levels of service and product characteristics, and to choose from a range of product qualities, is driven directly by consumer demand.

4.3 The evidence on customer switching rates does not support the CC's suggestion that product differentiation leads to increased market concentration by reducing consumer switching ability. The OFT, in their Call for Evidence into the PMI market, conducted a survey that found 73% of motorists in Great Britain, and 54% in Northern Ireland, shopped around at their last renewal[10]. Furthermore, a consumer survey conducted by the OFT for their Market study into personal current accounts in 2008 found that 61% of respondents had switched motor insurance provider in the last five years, the highest switching rate amongst the products covered by the survey[11].

4.4 Given that the evidence clearly suggests a high level of switching amongst consumers and the fact that product differentiation is driven by consumer demand, the ABI does not believe that strategic product differentiation should be a part of the CC's investigation.

Drip-in pricing (partitioned pricing)/ Transparency and complexity of add-on products and services

4.5 It is unclear how wide a definition the CC is applying to drip-in pricing. However, the ABI does not collect information on whether insurers undertake this practice and as such we are unable to provide an industry wide comment.

4.6 The add-ons used by insurers can be seen as representing genuine choice being offered to the consumers, which helps to increase the flexibility of their motor insurance policy. Add-on products, like product differentiation, are

[9] Statement of issues: para 57
[10] Summary of response to the OFT's Call for Evidence: Private Motor insurance market: Para: 3.7
[11] http://www.oft.gov.uk/shared_oft/reports/financial_products/OFT1005.pdf

driven more widely by consumer demand and new measures which could impact on the ability of an insurer to offer these would only serve to diminish consumer choice. The FSA are in the process of undertaking a review of add on products in general insurance and to avoid the risk of duplication of work, which could potentially produce conflicting outcomes, we believe the CC should feed into the FSA's review rather than focusing on it in their investigation. The ABI is committed to working with the FSA in its review to ensure positive outcomes for the consumer.

4.7 Card payment fees are used as example of drip pricing[12] and it should be noted that this is being addressed through early implementation of the EU Consumer Rights Directive. The OFT has already conducted numerous market studies and reports around transparency of pricing, particularly for online sales, including practices where additional charges are added towards the end of a sales process. Furthermore, the FSA also already has rules around displaying the total price of an insurance product and/or any add-ons.

4.8 Like the work on transparency and complexity of PMI products, any work looking at the process by which insurers sell and communicate the key features of the products they offer to consumers would sit more naturally within the FCA's remit and as such we do not believe the issue should be a focus for the CC. Indeed, the FCA has recently announced its review of general insurance add-ons (including add-ons sold with cars), which will continue until the third quarter of 2013.

Increasing the obstacles to customers switching PMI providers

Automatic renewal

4.9 The ABI does not believe that automatic renewal acts as a barrier to switching. As a compulsory product, it is vital that people are properly insured and auto-renewal is a useful tool to ensure that people have continuous cover. Notice of renewal must be given under the FSA's Conduct of Business (COB) regulations and this serves as a reminder that renewal is due, so the consumer can decide whether to continue with the product that they have or to change provider.

4.10 This is especially important in light of the introduction of Continuous Insurance Enforcement (CIE) in 2011. The industry works hard to give as much notice as possible to enable a consumer to choose, (typically between 21-30 days in advance of renewal), and some insurers provide an opt-out at point-of-sale. The motor insurance market is especially competitive with products that are easy to switch.

4.11 Insurers are already governed by FSA rules and regulations on automatic renewals and the FCA's Unfair Contract Terms Team is currently reviewing automatic renewal practices. As such, we believe the CC should feed into that

[12] Statement of issues: para 59

work rather than replicate the same investigation and risk producing conflicting results.

Cancellation fees

4.12 We note that the CC does not make a distinction between cancellation fees applied at the end of a policy's term and fees which may be applied in the event of a mid-term cancellation.

4.13 The ABI does not collect information on which insurers apply an end of term cancellation fee. However, we are not aware of any insurer which does undertake this practice. Most insurers will apply a mid-term cancellation fee, although the exact fee will vary amongst insurers and these fees reflect the administration cost (cost of setting up the policy, introduction fees to intermediaries, etc.) of the cancellation. If these costs could not be passed on to the cancelling party, there would be upward pressure on premiums for all consumers.

4.14 The OFT should be aware that the fee may differ substantially depending on whether the business is sold direct or by a broker and whether it is new or existing business. Furthermore, the FSA's Treating Customers Fairly guidelines will mean that these charges will need to be justified.

4.15 The fees, where they are charged by an insurer, do not affect the consumer's ability to switch at the point of deciding which policy to take out and which insurer to use. They do not have a demonstrably negative impact on competition.

Protected no-claims discounts

4.16 No-claims discounts (NCDs) are used by insurers to incentivise safer driving by their customers and there are regulations which impact on these. As the Motor Insurance Directive (Article 16) stipulates, insurers provide a statement relating to third party liability claims involving the vehicle(s) covered by the insurance contract. The statement provided can be used by future insurers when providing cover for that driver and / or that vehicle. While the issuing of statements is regulated by the Motor Insurance Directive, the use of these statements by insurers is a commercial matter and insurers may choose if and how they use this statement in their underwriting, marketing and pricing processes in a competitive market.

4.17 While the concept of the NCDs is widespread throughout the industry, its application varies between insurers, between products and even between customers, with some awards only being available to policyholders who meet certain underwriting requirements. As such, it is not possible to provide detailed industry wide comment on the practice.

5 TOH 5: Harm arising from vertical relationships

5.1 The fifth TOH looks at the various vertical relationships between insurers, brokers and the providers of related goods and services and whether these relationships give rise to harm in their own right, distinct from the issue identified in TOH 2**.**

Ownership of PCWs by insurers /brokers

5.2 As the CC notes, of the large number of providers of PMI, only two insurers and one broker are integrated into a PCW, which indicates that this vertical integration is unlikely to represent a barrier to entry into supplying PMI or starting a PCW[13]. We are not aware of any evidence that those who are integrated into a PCW use their position to gain a competitive advantage.

5.3 There is sufficient access to market for PMI providers through the highly competitive PCWs and alternative distribution channels. PCWs have played a role in helping to drive competition in the PMI market and have helped to provide greater price transparency for the consumer.

PCWs requiring insurers and brokers to accept MFN clauses

5.4 The ABI notes that the CC's brief analysis of the use of Most Favoured Nation (MFN) clauses[14] by PCWs recognises that they could dampen competition – both between PCWs and between PCWs and other online sales channels. MFN clauses can be detrimental to the consumer in that they may lead to higher prices than would otherwise exist for policyholders if they restrain competition between PCWs and allow them to charge higher CPAs. Given that there are only four large PCWs offering quotes for PMI, we suggest it is important to properly analyse the consequences of the use of MFN clauses in this market.

5.5 An insurer might wish to quote cheaper rates on their direct website (to reflect the reduced costs of distribution/risk), but cannot because MFN clauses in their agreements with the PCWs require them to charge the same price for the same policy. In order for an PMI provider to maintain a margin it must pass on a fee increase by the PCW to the consumer. Due to MFN this increase in insurance price must be reflected in all traffic sources, so there is no detriment to the PCW, and any fee increase results in an insurers prices increasing across all traffic sources for the consumer. Furthermore, new entrants and small providers will not be able to achieve the same economies of scale as larger providers when negotiating their MFN rate and as such their margins will be smaller. The PMI market is so competitive and margins so tight that even a difference of £10 could seriously impact on an insurers' competitive position.

5.6 A recent OFT commissioned report ('Can 'Fair' Prices Be Unfair? – A Review of Price Relationship Agreements, September 2012, Report prepared for the

[13] Statement of issues: para 88
[14] Statement of issues: para 90-95

OFT by Lear[15]) identified risks to competition arising from price agreements required by online platforms including foreclosure and the softening of competition across platforms. This report reinforces the case for further CC analysis of this issue in the context of PMI and PCWs.

5.7 We are not persuaded that the hypothetical countervailing benefits of MFN clauses briefly outlined in the SOI are sufficient to outweigh the potential harm to competition. This issue merits more in-depth analysis so we urge the CC to consider the issue further in its investigation.

Insurer-broker relationships

5.8 The ABI welcomes the decision not to look at the vertical relationship between insurers and brokers. We agree with the CC's view that vertical relationships between insurers and brokers are unlikely to give rise to competition issues as brokers are a limited distribution channel for the non-commercial market.

Repairer-insurer relationships

5.9 A number of insurers will have relationships with repairers, either by owning them or contracting work for the reasons outlined in 2.5-2.11 of our response. We agree with the CC's view that input foreclosure is highly unlikely given the highly fragmented car repair market, which would limit a repairer's ability to increase their prices. This is also a view shared by the OFT in their Market Study, which found that the accident repair market appears to be diverse and fragmented[16].

Insurer-parts/paints manufacturer/distributor relationships

5.10 The CC acknowledges that the contracts between insurers and parts/paint suppliers do not suggest that these relationships are exclusive and the parts/paint suppliers are likely to supply many other insurers. However, the CC notes that some larger insurers are able to negotiate volume discounts with suppliers based on the volume of goods used in repair work for the insurer. The CC goes on to suggest that such arrangements may give larger insurers a competitive advantage due to their purchasing power by reducing their costs.

5.11 The ABI does not believe that these types of arrangements, where larger insurers are able to negotiate a discount on supplies, constitute an adverse effect on competition. Indeed, the economies of scale which a larger insurer is able to achieve enables them to pass on savings and directly benefits the consumer and competition in general.

Association of British Insurers
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[15] http://www.oft.gov.uk/shared_oft/research/OFT1438.pdf
[16] Office of Fair Trading: Private Motor Insurance: Report on the market study and proposed decision to make a market investigation reference: May 2012