

## **1st Central Insurance Services Ltd – Response to PMI Issues Statement**

Dear Sirs,

Following your request for response concerning the Private Motor Insurance Market investigation, you refer to the issue of MFN clauses within paragraphs 90-95 and their impact on the restriction of competition.

The conclusion is drawn in paragraph 95 that:-

*“Although we recognize that MFN clauses can have detrimental effects on competition and have been considered by competition authorities in many contexts, in light of the benefits of MFN clauses and the offline alternatives available to consumers of PMI, and given the apparent competition in the supply of PMI, we do not intend to consider this issue further in our investigation.”*

Whilst the document articulates the thought processes in arriving at that conclusion, we believe that significant factors have been overlooked and the full impact of MFN clauses (we refer to them as price parity clauses), and how they severely limit price competition have not been properly considered.

Statements relating to the content of paragraphs 90-95 are detailed below:

### ***PCWs requiring insurers and brokers to accept MFN clauses***

Whilst the imposition of best price clauses are common from all PCWs to ensure that the price is no more expensive on the PCW than on the company's own website it is not common to have a MFN clause that dictates the price quoted must be the lowest available from any PCW.

Mapping issues and fraud issues concerning business quoted through the PCW is a commercial issue that the Insurer has to work with the PCW to mitigate or manage through additional checks at their end – the decision to quote is based on the information provided and additional checks undertaken by the insurer.

The document reflects that a mitigator against MFN clauses is the ability for customers to purchase through additional channels at preferential rates. Whilst in theory this is true, in practice the majority of customers will have obtained a quote via a PCW and will then look to contact the insurer via the phone to complete the purchase. In these circumstances PCW sites expect the purchase to be completed at the same rate and will still look to extract the same introductory commission.

In paragraph 92 it states:

*92. MFN clauses might have the effect of dampening competition between PCWs as, if a PCW with an MFN clause increases its CPA, it knows that any consequent increase in the price of PMI put through by an insurer would need to apply to all the insurer's online sales. Therefore, the PCW cannot be disadvantaged relative to its rival PCWs (or other rival sales channels covered by the MFN clause). As a result, PCWs may have a greater incentive to increase their CPAs than in the absence of MFN clauses.*

This is absolutely the case but also puts a case for unfair advantage against the PCW that enforces an overarching best price clause. Any change by one PCW to drive market share through offering better prices to insurers is prevented from doing so as the insurer would have to reduce its price on a second PCW site that has an overarching best price clause thus disadvantaging both the 1st PCW and the insurer. The comment concerning MFN clauses having benefits of ensuring business does not

switch to another online sales channel is reasonable but to another PCW sounds anticompetitive.

Surely it is up to each PCW to attract business to their sites in different ways and to provide customer choice – ensuring that all PCW's charge the same price despite different commission structures fundamentally removes the element of free competition and customer choice for distribution.

The First Central Group was established in 2008 specifically to provide UK motor insurance sourced through PCW's. Other than approximately 4% of our new policy sales that find their way direct to our website, our distribution is wholly through PCWs. When we launched we entered into agreements with all the major PCWs and are now considered to be a 'key business partner' of them all.

Since we launched, and possibly because of our "key business partner" relationships as well as an undertaking that we would operate a 'level playing field', we have been approached by some PCWs to test various price (i.e. their fees or "CPA") propositions. They wanted to understand how much an impact adjusting their CPA price (up or down) relative to other PCWs might impact their competitiveness and overall income. Enforcement by any other individual PCW of a best price clause could make any analysis of such proposed action meaningless and effectively removes the ability of PCWs to use their price, which is a significant component of their marketing mix, in a competitive manner. Our own propensity analyses suggests that, when operating in motor insurance's extremely competitive environment, even relatively small price changes can have a significant effect on sales volumes.

In summary we believe the best price clauses executed by PCW's would force a type of behaviour within the market that is not in the customer interest. We would therefore urge you to reconsider your decision and ensure the subject of MFN's is included in your review. Please advise if there is any more information you require in this regard.

**Andy James**  
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1st Central Insurance Services Ltd