

## **Submission to the Competition Commission**

### **Private Motor Insurance**

**From ABP Club; 9 Jan 2012**

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### **ABP Club – background**

ABP Club (Auto Body Professionals Club) was founded in September 2004 as a Club for all sides of the UK body repair industry – bodyshops, insurers, paint and parts suppliers..

We now have 1,970 members including all of the top 30 bodyshop groups, 16 of the top 20 motor insurers and 16 of the top 20 paint distributors.

Our key role is to provide accurate unbiased factual information to the industry. We send out a Daily Newsletter to all 1,970 Club members with the industry news of the previous 24 hours. The Club website has a very active message board/forum with over 11,000 messages posted last year.

We are regarded by many as “the home of the body repair industry” and as an indication of how far our influence has spread, in 2012 our website had 970,000 visits from 250,000 unique visitors.

We produce an annual Industry Yearbook and copies were supplied to the Competition Commission in November 2012 at your request.

This Yearbook has league tables of the largest motor insurers, bodyshops, paint companies, paint distributors, estimating system providers etc.

### **ABP Club and the House of Commons Transport Committee**

In October 2010 the Transport Committee of the House of Commons agreed to hold a short inquiry into the cost of motor insurance

Evidence from the ABP Club was accepted by the Committee and forms part of their report published in March 2011

## **ABP Club and the OFT**

In September 2011 the OFT issued their “call for evidence” into the UK private motor insurance market.

Following a meeting with the OFT, ABP Club helped spread this “call” especially to the repair industry. We also provided the OFT with a large amount of written evidence.

In February 2012 we organised a roundtable discussion for the OFT with a carefully selected cross-representation of repairers. The OFT said they found the discussion was “extremely useful” as part of their investigations.

In May 2012 the OFT published their Market Study on the Private Motor Insurance Market which included reference to ABP Club on page 30.

At our conference in October 2012, Tanya Wilkins, the project team leader at the OFT was one of our guest speakers.

## **Offer of Assistance**

ABP Club wishes to offer their help, guidance and assistance with their investigation.

- We would be happy to meet with you to explain / discuss matters in more depth.
- We would be happy to co-ordinate a “roundtable” discussion with a group of repairers if that would be helpful
- We would be happy to try to obtain evidence for you if that would be helpful.

## **Theories of Harm identified in the Competition Commission Statement of Issues**

ABP Club would like to provide the Competition Commission with “their reasoned views” on two of the Theories of Harm

- ToH 2: post-accident services
- ToH 5: vertical integration

### **ToH2: post-accident services**

**Paragraph 40:** we would agree with you that the claimant is often not able to verify the quality of the repair or the repair approach chosen

Similarly we would agree that there can often be a difference in approach between the way in which a fault and a non-fault claim are handled

**Paragraph 41:** the majority of customers are not made aware of their right to choose their own repairer and this is an area which needs investigation.

**Paragraph 42:** An area for investigation here is the practise of imposing a higher excess for the policyholder if they choose to go outside the insurers own approved network.

Approved repairer networks are NOT a bad thing and can often bring benefits to insurers, consumers and repairers. . In principle, we support the concept of approved repair arrangements, if equitable to all parties.

A further area for investigation is the increasing size of excess that consumers are taking though the PCWs, which make it easy to see how much the cost of a policy can be reduced by increasing the excess. However often a customer can end with a policy on which they are unlikely to be able to claim eg an excess of £700 on a policy covering vehicle worth only £600. This can make a purchased policy un-enforceable. Greater transparency is required – almost a health warning to the consumer when purchasing via a PCW.

A further area of investigation here is where the insurer makes a cash-in-lieu payment to the customer rather than going through with a repair, thus leaving the customer to arrange the repair themselves.

**Paragraph 43:** The system works whereby the “work provider” (insurer / CMC) dictates the hourly labour rate.

Often these rates are unsustainably low and as a result we have seen a huge fall in the number of bodyshop businesses that operate in the UK.

A further area for investigation is the “fixed price” repair contract between some work providers and repairers, whereby the repairer is paid a fixed cost of say £900 for every repair whether it costs £400 to repair or £4000 to repair. This model relies heavily on volume of repairs delivered to a bodyshop business and it could be suggested that it leads to wrong behaviours being applied, which do not benefit the consumer.

## **ToH 5: vertical integration**

**Paragraphs 100 - 102:** we think that the whole area of contractual relationships between repairers and insurers is worthy of investigation.

Many have likened it to the relationship between the farmers and the supermarkets. The body repair industry comprises of many SMEs; it is often referred to as a ‘cottage industry’.

Several insurers have ownership of their own repair networks. This is a further area for investigation as it often isn’t made clear to the customer that they own the repairer the customer is being sent to. There is also the question of how the work is allocated between the insurer’s owned bodyshops and their network of independent repairers. This can drive bad behaviours which are not in the best interest of the market or the consumer.

A further area for investigation is the role of CMCs in the vehicle repair. They usually act as “the middleman”, sending the work to the repairer, then invoicing the insurer for the work. The repairer is usually only paid when the CMC has been paid by the insurer.

In recent years we have seen the failure of 6 large CMS which have left the repair industry out of pocket to the tune of over £20 million – the CMC had been paid by the insurer, but hadn’t paid the repairer. In December 2012 we saw the most recent CMC enter administration - Drive Assist, a £107 million turnover company whose failure has left a debt of c£11 million owed to many of the top 40 bodyshop groups. It also left consumers in an unsatisfactory position due to vehicles in mid repair and liability issues they probably didn’t understand.

**Paragraphs 103 – 108:** we would agree that the whole area of “mandated” products (paint / parts) is worthy of investigation. In many cases it would appear to give rise to increased costs due to inefficiencies of having to operate different systems for different “work providers”.

**Other areas:**

There are two other areas we believe are worthy of your investigations:

- subrogation; where one insurer has to recover the repair costs from another insurer
- salvage; where the insurer makes a vehicle a total-loss (write-off). The insurer pays out to the customer and then the insurer owns the damaged vehicle. This is then sold through a salvage agent, only to be repaired and put back on the roads.

ABP Club has good knowledge of the repair industry and would be delighted to help the Competition Commission in their investigations.

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