

PRIVATE MOTOR INSURANCE MARKET INVESTIGATION

Summary of hearing with CIS General Insurance Limited held on 19 July 2013

Background

1. CIS General Insurance Limited (CISGIL) told us that it was part of the Co-operative Group. The Group is a consumer-owned cooperative society—the largest in the world of its type. It sees itself as ethical, socially responsible and deeply committed to customer service. It is a conglomerate, operating in a variety of business areas including funeral care and food retail, as well as insurance. The Co-operative Group is contemplating the sale of its general insurance business.
2. CISGIL considered that the moral hazard arising from the separation of cost liability and cost control should remain the principal area of focus for the investigation and thought that the effect of this was to inflate the cost of repairs, replacement vehicles and vehicle write-offs. CISGIL saw the two main reasons for this market failure as (a) the presence of credit in the provision of replacement vehicles and repairs; and (b) the failure of the courts to provide proper control of the subrogation of non-fault claims costs.
3. This situation was exacerbated by the information asymmetry identified in the Competition Commission's (CC's) theory of harm 2: insured motorists who were not at fault were largely indifferent to over-costing and over-provisioning. CISGIL thought that much of the excessive profit in the industry was generated by non-insurers (such as claims management companies (CMCs), credit hire companies (CHCs) and other third parties) which meant that price reductions for customers were unlikely to arise.
4. CISGIL did not pay referral fees or place customers directly into credit hire. It did not use credit repair and did not draw any distinction between the treatment of fault and non-fault customers in terms of repair. CISGIL said that it would welcome a ban on referral fees.
5. CISGIL believed that excessive costs imposed on insurers had been underestimated in the CC's work to date. In its own business, CISGIL estimated an extra £[redacted] per claim for credit hire and £[redacted] per claim for credit repair. It estimated that this added £[redacted] to £[redacted] to each of the motor insurance policies it underwrote each year. [redacted].
6. Vertical integration was an area CISGIL thought the CC should investigate further. Specifically, its concerns related to situations where repair businesses are owned by insurers, where it was not always clear that the appropriate costs were being subrogated through to the at-fault insurers.

Post-accident repair services

7. CISGIL explained that, upon being contacted by one of its policyholders who had been in an accident and irrespective of fault, CISGIL would offer that person the services of its appointed repairer network. Around [redacted] per cent of policy-holders would take up that offer. The advantage of this for the customer was that the repair works were guaranteed by CISGIL and a courtesy car would always be provided. CISGIL followed the same process in this regard, irrespective of which party was at fault for the accident. The labour rate at the appointed repairer [redacted].

8. Regardless of whether the policyholder was at fault for the accident, CISGIL would seek to obtain the details of the third party, either to launch a claim (if the CISGIL policyholder was not at fault) or to capture control of the third party's claim with a view to managing the costs (if they were at fault).
9. CISGIL explained that CMCs were very careful to take on only those cases where there was an extremely high chance of recovering costs. These companies were less interested in taking on cases that were not clear-cut (eg where the party responsible for the accident could not be easily identified). CISGIL estimated that liability could not be easily established in around [X] of all cases at the time of first notification of loss (FNOL).
10. CISGIL considered that practices such as insurers receiving referral fees from approved repairers and rebates from paint or parts suppliers which were not passed on to customers were widespread in the industry.
11. CISGIL thought that the most prevalent practices employed by insurers to increase repair costs were inflated labour rates, inflated part rates and rebates/discounts. This ensured that inflated costs could be presented as part of the invoice issued by the repairer. CISGIL considered that the position taken by the courts on the reasonableness of labour rates—that rates were based on a consumer 'walk-in' price rather than a wholesale cost that insurers could negotiate down—meant that invoices were quite hard to challenge.
12. Bilateral agreements with other insurers were thought to be an effective short-term measure to curb inflated repair costs. CISGIL thought that it would be difficult to put in place and to maintain the large number of such agreements that would be required in order to make this an effective industry-wide solution.
13. CISGIL said that it did not give instructions to repairers to ignore 'hidden damage' in order to keep costs down. As it offered a lifetime guarantee for the repairs, doing so would be of no benefit to the company. On the issue of whether to repair or replace damaged components, CISGIL said that it had regard to the manufacturer's recommended method for repair and other relevant industry standards, such as PAS125.
14. Where it was safe to do so and where a vehicle was marginally economically repairable, CISGIL [X].

Post-accident temporary replacement vehicle services

15. CISGIL paid an additional fee to the repairers within its appointed network for the provision of a courtesy car. Courtesy cars provided tended to be basic models, rather than being provided on a 'like-for-like' basis.
16. CISGIL policyholders who also took out motor legal expenses insurance (MLEI) could recover the excess paid and the cost of a TRV via the provider of that product, Co-operative Legal Services. Customers without this type of cover sometimes sought to recover the excess from the insurer of the at-fault party, either directly or via a CMC.
17. Around [X] per cent of CISGIL's non-fault claimants had MLEI. Of these customers, [X] per cent received a courtesy car if the repair was handled by CISGIL's approved repairers. Only [X] per cent of these customers got a credit hire vehicle after a non-fault accident, because customers were required to demonstrate a particular need in order to receive a credit hire vehicle.

18. CISGIL did not believe that referral fees paid to insurers by temporary replacement vehicle (TRV) providers were justifiable. The company thought that the insurer or the at-fault insurer could provide a direct hire vehicle at a lower cost.
19. CISGIL believed that, through a credit arrangement with the customer, TRV providers avoided the cost liability of a driver who might ultimately have been found to be at fault. In such a situation, the liability for the cost of the vehicle would rest with the motorist. This was, however, rarely enforced.
20. CISGIL said that claim costs charged by non-GTA subscribers were higher than those for GTA subscribers. However, CHCs did appear to push costs to the limits set out in the GTA. Therefore, while intended to limit cost, the GTA could be said to be increasing costs in comparison with what they could be.
21. Some insurers had bilateral agreements in place, through which non-fault claimants would be put in direct hire vehicles. Costs could then be subrogated at the direct hire rate. This type of agreement was thought to be very complex to set up and maintain.
22. CISGIL said that customers often did not know that they were in credit hire because the insurer could 'warm transfer' the customer's call to the CHC at the FNOL stage. In these circumstances, customers often thought that it was their own insurer providing the car. TRV providers were under an obligation to inform the customer that they would be entering a credit arrangement, though CISGIL believed that customers did not always understand the nature of the arrangement. When the vehicle was delivered to the customer, they would be required to sign a credit agreement as well as a mitigation statement. The mitigation statement would state that the car delivered was the lowest value vehicle that the customer would be prepared to accept and also set out why the customer needed the car.
23. There was no incentive on CMCs to minimize the duration of repairs. The large CHCs had their own network of repairers which gave them complete control over both the repair and the car hire. The fault insurer had very little influence over the length of the repair period and it was very difficult to prove that a repair period had been lengthened unnecessarily. CISGIL believed that, if repairs managed by CMCs were carried out by 'reasonably responsible' repairers, there would be a more even distribution of repair times. CMCs in control of both the repair and the TRV hire had an incentive to lengthen the repair period in order to maximize the hire fee.
24. CISGIL believed that many of its competitors paid differential rates for fault/non-fault repairs. It did not think that repairers had any need to know whether the vehicle that they were working on was a fault or a non-fault vehicle.
25. CISGIL did not believe that non-fault claimants captured by the fault insurer received a lower level of TRV service than a non-captured non-fault claimant. This was because the claimant could leave the capture process at any point—for example, if they were not satisfied with the replacement vehicle offered to them—and seek the assistance of one of the many parties (including CMCs, CHCs and solicitors) that would have contacted them immediately after the accident.

Northern Ireland

26. CISGIL had a very small volume business in Northern Ireland (NI), selling through its call centre. It did not have a large amount of claims experience in NI and this had a bearing on its ability to accurately price risk. This was not an issue restricted to NI,

however, as there were parts of Great Britain where CISGIL also had limited claims experience.

27. CISGIL thought that there was an industry view that claims costs in NI had been higher than those on the mainland but did not have the experience to analyse this differential in a robust way.
28. Commenting on the lack of price comparison websites (PCWs) in NI, CISGIL believed that PCWs were a key enabler to competition but also commented that the insurance market in NI appeared to be a competitive one, with 15 to 20 companies active. It thought that the UK market was competitive prior to the introduction of PCWs.

Add-ons

29. CISGIL underwrote some add-on products and distributed others, all on an opt-in basis with full explanations provided at the point of sale. It supported the work that was being undertaken by the Financial Conduct Authority (FCA) in this area. In view of the FCA's ongoing work, CISGIL did not believe that add-ons should be investigated further by the CC.
30. CISGIL explained that [REDACTED]. CISGIL thought that ineffective allocation of expenses between products affected the level of cross-subsidies in the industry.
31. CISGIL believed that the FCA was right to look into whether customers were receiving adequate explanations of add-on products offered by insurers. The industry was listening closely to what the FCA was saying on the opt-in/opt-out issue. CISGIL was looking to see what lessons could be learned from the fine imposed by the FCA on Swinton for the mis-selling of insurance add-ons. CISGIL believed that there was a clear expectation from the FCA that industry practices would change in the short term.
32. CISGIL said that no-claims bonus (NCB) protection insurance was understood by customers. The way in which the price paid by the customer varied by the number of claims made was through the application of a no-claims discount. [REDACTED].
33. CISGIL believed that NCB protection insurance was not a barrier to switching, though it could act as an incentive not to switch insurers, as it was not portable to other insurers (ie other insurers would base their price on the number of claim-free years, regardless of whether or not the customer had NCB protection insurance with their current insurer) Customers were still free to shop around and have their underlying risk level assessed by other companies.

Price comparison websites

34. The growth of PCWs had made the market for consumer insurance more competitive. It had led to increased levels of customer switching, though there were segments of the market where change was much slower (such as home insurance).
35. The direct marketing expenditure of CISGIL [REDACTED] probably over the preceding five years. Some insurers promoted that fact that they were not on PCWs, but in fact another brand within the same business was often to be found on PCWs.
36. CISGIL [REDACTED].

37. The PCWs had significant bargaining power and [REDACTED] of CISGIL's business came from PCWs. When PCWs first launched, the profile of customers using those sites tended to be higher risk who had difficulty finding competitively-priced insurance. Over time, the customer profile had changed to the point where average risk profile customers were more often than not using a PCW.
38. CISGIL considered 'most favoured nation' (MFN) clauses in contracts between insurers and PCWs to be inefficient and anticompetitive and served to limit price competition, discourage innovation, prevent product differentiation and remove insurers' incentives to invest in their own distribution channels. It believed that all MFN clauses should be prohibited.
39. The restrictions that the MFN clauses placed on CISGIL prevented it from reducing prices sold through its own website relative to those sold through PCWs. CISGIL thought that this constrained the market significantly by reducing the incentive to improve its proposition to customers.
40. Improvements to PCW fraud controls would have given CISGIL greater confidence in the quality of business that came from PCWs and facilitated lower premiums through those platforms that had implemented such controls, but MFNs prevented this.
41. CISGIL [REDACTED].
42. CISGIL wanted to [REDACTED].
43. CISGIL thought that 'poaching clauses' (where an insurer would pay a PCW if a customer had identified it from PCW but had bought the product directly from its own website) would provide a more transparent way to operate in comparison to MFN clauses but noted that there would be a cost associated with the tracking process, in addition to the payments to be made to PCWs.
44. CISGIL did not think that cashback websites were currently having a big impact on the market. [REDACTED].

Supplier relationships

45. CISGIL did not think that the buying power of insurers contributed to any significant efficiencies and said that some larger chains of repairers would have significantly more buying power than insurers such as itself.
46. It was important to focus on the total cost of repairs. The balance between the cost of particular elements of a repair job (parts, paint, labour, etc) was of less significance.

Other

47. The motor insurance industry had not made an underwriting profit for a number of years (that is, the sum of claims and expenses exceeded the sum of premiums received). [REDACTED].