COMPETITION COMMISSION
PRIVATE MOTOR INSURANCE MARKET INVESTIGATION

Notes of a joint hearing with The Credit Hire Organisation, Enterprise Rent-A-Car, Helphire, Accident Exchange Group, Kindertons, ClaimFast, Ai Claims Solutions and CRASH Services
held at Competition Commission, Southampton Row, London
on Wednesday 17 July 2013

PRESENT:

FOR THE COMPETITION COMMISSION

Alasdair Smith	- Chairman
Robin Aaronson	- Member
Stephen Oram	- Member
Anthony Stern	- Member

FOR THE STAFF

Andrew Wright	- Inquiry Director
Graeme Reynolds	- Director of Remedies and Business Analysis
Tony Curzon-Price	- Economist
Kirsty Miller	- Legal Adviser
Sarah McCadden	- Legal Researcher
Ulrich Kaltenbronn	- Business Adviser
Philip Dixon	- Business Adviser
Dipesh Shah	- Business Adviser
James Jamieson	- Economist

FOR THE CMCs AND CHCs

Steve Evans	- Chief Executive, Accident Exchange
Stephen Jones	- Group Counsel & Company Secretary, Accident Exchange
David Dobson	- Commercial Accountant, Ai Claims Solutions Plc
Peter Harrison	- Group Chief Financial Officer, Ai Claims Solutions Plc
Paul Khatri	- Head of Business Transformation, Ai Claims Solutions Plc
David Sandhu	- Chief Executive Officer, Ai Claims Solutions Plc
Stephen Hazzard	- Group Technical Director, ClaimFast
Shahid Mahmood	- Finance Director, ClaimFast
Michael McKeown	- Founder and Managing Director, CRASH Services
Martin Andrews	- Director General, The CHO
Joe Bowen-Thomas	- Financial Controller for National Sales - UK & Ireland, Enterprise Rent-A-Car
Nigel Goodall	- Liability Claims & Risk Manager - Europe, Enterprise Rent-A-Car
Ben Lawson	- Assistant VP Daily Rental, Enterprise Rent-A-Car

Martin Rees	- Partner, DLA Piper (Accident Exchange Group Adviser)
Alan Gilbert	- Group Technical Director, Helphire
Stephen Oakley	- Chief Financial Officer, Helphire
Martin Ward	- Chief Executive Officer, Helphire
Brendan Ellison	- Group Sales Director, Kindertons
Shaun Ellison	- Managing Director, Kindertons
Chris Latham	- Group Operations Director, Kindertons
Bruce Kilpatrick	- Partner, Addleshaw Goddard LLP (ClaimFast Adviser)
Neil Dryden	- Executive VP, Compass Lexecon (CHO Adviser)
James Ashe-Taylor	- Partner, Constantine Cannon LLP (Enterprise Adviser)
Jonathan McKeown	- Director, JMK Solicitors (CRASH Services Adviser)
Miles Trower	- Partner, TLT Solicitors (CHO Adviser)

Digital Transcription by WordWave International Limited
(a Merrill Corporation Company)
8th Floor 165 Fleet Street London EC4A 2DY
Tel No: 020 7421 4043 Fax No: 020 7424 1424
Email: mlsukclient@merrillcorp.com

THE CHAIRMAN: Let me start off by thanking you all very much for coming in for this meeting today and helping us with this market investigation in this way. I want to start with introductions. I am Alasdair Smith. I am a deputy chair of the Competition Commission and I am Chair of the group conducting this investigation. What I suggest we do with introduction is just introduce everyone around the central table and if, later on in the discussion, people, whether our staff team or your staff, are going to join in the discussion, they should introduce themselves then, if only for the sake of the transcript writer.
Q. (Mr Oram) Steve Oram, Panel Member.
Q. (Mr Wright) I am Andrew Wright, the Inquiry Director.
Q. (Mr Stern) I am Anthony Stern. I am a Panel Member.
Q (Mr Aaronson) Robin Aaronson, Panel Member.
A. (Mr Dryden) Neil Dryden, Economist at Compass Lexecon.
A. (Mr Andrews) Martin Andrews of the CHO trade body.
A. (Mr Latham) Good morning, Chris Latham from Kindertons, Group Operations Director.
A. (Mr Ellison) Shaun Ellison from Kindertons, Managing Director.
A. (Mr Mahmood) Shahid Mahmood, ClaimFast’s Finance Director.
A. (Mr Hazzard) Stephen Hazzard, ClaimFast’s Technical Director.
A. (Mr Biddle) Nigel Biddle from Enterprise Rent-a-Car.
A. (Mr Lawson) Ben Lawson, Enterprise Rent-a-Car, European Assistant Vice President, Daily Rental.
A. (Mr Ward) Martin Ward, Helphire, Chief Exec.
A. (Mr Gilbert) Alan Gilbert, Helphire, Technical Director.
A. (Mr Evans) Steve Evans, Accident Exchange, Chief Exec.

A. (Mr Jones) Steve Jones, Group Counsel at Accident Exchange.

A. (Mr J McKeown) Jonathan McKeown, I am a solicitor and adviser to CRASH Services.

A. (Mr M McKeown) Michael McKeown, Director of CRASH Services.

A. (Mr Harrison) Peter Harrison. I am Finance Director of Ai Claims Solutions.

A. (Mr Sandhu) David Sandhu, Chief Executive of Ai Claims Solutions.

THE CHAIRMAN: We are in quite a big room with air conditioning and the microphones are just recording microphones.

A. (Male Speaker) If I could say, that would help some of us as well.

Q As you are aware, this meeting today is structured as a joint hearing. Given the number of parties with interests in the motor insurance industry, it was not practical for us to run this cycle of meetings as individual hearings.

We have been mindful of that in preparing the questions but I want to remind you at the start that it is your responsibility to make sure that you do not talk about issues that it would not be proper to talk about in front of your competitors. If you do have confidential information or views that you wanted to share with us, you are, of course more than welcome to contact us directly with these views.

We are also aware that this is quite a mixed group today; you have different focuses for your businesses and different business models. Hopefully, that is going to make for a good discussion round the table.

I will not take you through our rules and procedures for hearings, as we have written to you setting this out but, as I have already noted, we are taking a transcript of this hearing as a record and we will send a copy of the transcript in about a week. We would ask you to check that and correct any errors in transcription or any minor slips you might have made in things that you have said. If you want to make any substantial changes to anything that you have said or to add to things that you said at this hearing, send us that in a separate note when you send back the transcript.

We usually produce summaries of our hearings for publication on our website. On this occasion, we have decided that the best thing to do to let everyone else in the world or perhaps just in the industry know what we are doing in these hearings is to publish the full transcript. So, we would ask you to check the transcript, not just for accuracy, but in case you have said something confidential, whether it is something confidential that in retrospect would have been better not said at this meeting, or something that you are happy to say at this meeting but would not like publicised outside the confines of this meeting. If there is anything like that you would like excised from the transcript, do let us know when you see the copy of the transcript.

I have to remind you that it is an offence under the Enterprise Act to provide or misleading information to the Competition Commission at any time including at this hearing.

What I am going to do today is I am going to take the lead in taking us through the questions that we have prepared but other members of the panel and members of the Competition Commission staff team may well come in with follow-up questions, supplementaries and so on. On each question, after the first one, I am going to ask one of you to take the lead in responding but then the discussion will open up for the rest of you to make your contribution on that question.

Given the number of people in the room and the length of the agenda today, I would be grateful if you did not spend a lot of time agreeing with each other. If you do agree with what has just been said, five words are enough to say that. If you want to add to what someone has said and you have new information or disagreement, then that is the kind of additional discussion we are keen to have.

As I said earlier, I hope we will have a lively discussion of some of the discussion we are raising. We are well aware that these are not uncontroversial issues that we are discussing in this market investigation.

I hope you are clear where we are at with your inquiry. We are still in the process of collecting information, developing our own understanding and our own thinking about how the private motor insurance market works in this country. We have published an Annotated Issues Statement that summarises where we have come to.

The main purpose of this meeting today is to get a sense from you, get feedback from you, as from other people in the industry, on what you think about the way our agenda is developing. We are in the process of publishing quite a long list of working papers on which we will be hoping to have your comments over the next month. As it says in our administrative timetable, we are aiming to publish our Provisional Findings report at the end of October or possibly the beginning of November. That is the stage at which we will have finding to report and a proposal for how to take our investigation forward. I want to emphasise that at this stage, we have not come to any conclusions, provisional or otherwise, and the purpose of this meeting is for you to help us to continue to develop our thinking and our understanding.

So, that is all fine. If there are no questions about that, let us get underway. I want to start off with a general question which I would like all of you to respond to as briefly as possible and certainly in no more than five minutes each. That question, I suppose, comes from our Annotated Issues Statement. Given what you now know about the issues that we are covering in this investigation and the kind of work that we are doing and the issues that we are not giving much emphasis to, do you think that we have things right, are we addressing the right issues? Do you see us being in danger of going wrong in any areas? If we are going wrong, what is it we are doing wrong or what is it we are missing in our investigation?

Let me start off with the Credit Hire Organisation and then I will go round the table.

A. (Mr Andrews) Can I just start with a statement of fact? I do not speak for all of the credit hire companies in the room. They are not all CHO members and we might all say~~s~~ this but the models in this sector can be quite divergent. If you felt, as a result of that, as I possibly do, that it might be best to start with not me, I would be happy with that. If you want me to start, I am happy to, but there are bigger companies in here with the financial risk involved to the outcome of this whereas the trade body arguably does not. Most of my members are smaller members, so I would concede first~~,~~ stab at the answer if you thought that was appropriate.

Q We are perfectly happy to have the voice of the smaller members heard first. Does anyone have any views about that?

Q. (Mr Oram) We can go the other way round the table.

THE CHAIRMAN: No, no.

A. (Mr Andrews) Are you all happy with that? Okay. I tried to truncate ~~the~~ to three responses to that anticipated question~~. I thought I had~~ and have failed~~,~~ as I ha~~d~~ve five.

Thanks for the invite first of all. It is good to have the opportunity to contribute to the process. I would state that not having access to the detailed working papers makes it hard~~er~~ to understand how you have come~~, not necessarily~~ to what you say are not conclusions, but on a read of the statement to what look like conclusions to me; the first one possibly being that you have concluded that there is a moral hazard. If that is the case, most of what I say will perhaps not have much relevance for you to be able to adjust ~~to~~ that conclusion but I think it should ~~have~~do.

From a timetable perspective, particularly the holidays, sticking to the 16th by the next response date is, if not short or unrealistic, challenging.

There were issues that I wrote in my letter of 9 January that I still feel have not been addressed by the investigation. Those would include observations that the fault insurer does have an element of control in his choice as to whether or not he wants to put energy and cost behind a strategy of putting direct supply higher up his list of objectives; that that fault insurer is protected substantially in law; that that fault insurer is substantially protected by the highly competitive marketplace that exists in consumer availability for car rental through basic hire rates, no higher than which credit hire companies can charge. Insurer behaviour has not been commented on if it has been investigated.

It looks to me like you have some work that is still outstanding in that regard in terms of the data sets but I have pointed out, for example, that bilaterals used to exist, by their own admission, where insurers would agree not to advise their clients - not the opposite non-fault party, their clients - that they would not advise that client of their rights on the basis that the bilateral agreement with another insurer said they would not either, which is a blatant deprivation of consumer rights and misleading tactics to avoid cost, which is the insurer's main objective in all of this.

I am cautious about your use of statistics in the report. I know that people want to create a headline figure and I know that people pick up on headline figures, but the data that has been provided, for example I know that there has been averaging of averages in data that we, as members, have had to correct. A lot of caution needs to go alongside averaging of averages. Weighted averages numbers are far better.

A generic wider point, the credit hire population, I would maintain, is a subset of the population of people who can be entitled to a replacement car. I would argue that the people who go through the hassles of getting access to a credit hire vehicle do so because they are either well-informed or they are cognisant of the fact that they are going to be put to a greater inconvenience and, therefore, go through what is not a small issue of actually getting access to a vehicle in the first place. So, when you start averaging costs and/or periods, it is not directly comparable to the population of either of those numbers.

I think from my perspective, if I have interpreted it right, you attribute credit hire costs being higher due to frictional costs and referral fees. I am reasonably adamant that that is not the reason that credit hire costs are greater. Credit hire costs are a function of two issues only: the rate per day and the length of hire. You do identify that referral fees are a cost borne by credit hire companies but the underlying frictional costs are not the reason that credit hire costs are higher than direct hire costs. It is up to an insurer to step up to the plate, particularly on issues of liability, and to then inform the consumer that he is entitled to a vehicle.

On the basis that you have concluded that there is a moral hazard, the challenge, of course, is to come up with a solution that does not create a worse moral hazard, particularly that puts the consumer in a worse place. As you have identified, they are not led to their legal rights. Heaven knows, to do that would be an extremely time-consuming and challenging task on behalf of anybody. For the consumers in your survey to say that they were made aware of all of their legal rights, I doubt very much that they were.

The counterfactual position that we have encouraged you to consider is that there is no credit hire. If that is the case, our strong argument is that there would, in fact, be less and possibly quite rapidly measured in a couple of years, no direct supply either because of the temptation on the insurers to incur as little cost as possible and the ease with which consumers can be led to the position where they will just give in in pursuing their rights, even if they were made aware of them.

The easiest example I can give you for that is where the insurer, if he has invested in a call centre, to answer the call within a reasonable period of time such that the person who hangs on merely has to say: "I am sorry, sir, but we have not had our claim form yet. We are not in a position to admit liability and, therefore, you are not entitled to a direct supply car yet". They do not have to keep that up very long before the consumer will just give in.

Q Thank you. Kindertons?

A. (Mr Ellison) If I could just do a quick background of Kindertons. We have been involved in the RTA sector for over 18 years now, primarily providing the mobility solutions to clients involved in motor accidents.

In those early days, there was little attempt by either the fault or the non-fault insurer to provide any sort of mobility solution to the client, hence the gap in the market. That is why we are here today.

It is clear, as the industry has evolved since the early 1990s with the introduction of courtesy cars from approved repairers and insurance schemes, there was still a massive need for a set of clients who need a vehicle similar to their own size for their daily routine whether it be large families, tradesmen, businessmen who are travelling hundreds of miles and taxi drivers and that need is actually still here today.

In terms of where we are up to with the latest report, I think clearly everyone realises that when comparing the cost of credit hire to direct hire it appears more expensive but there are clear reasons behind that and it is to do with the clear additional services that credit hire provides. For example throughout this process, we have provided data sets to yourselves over the last six months and a theme of that has been that our records state that less than 50 per cent of the claims, we have an admission of liability by the third party insurer within the first 7 days. So, clearly if there is an admission of liability, insurers can try to capture the claim through direct hire and that will be a cheaper option for the insurer.

But the dilemma is those other 50 per cent of clients, where there is not an admission of liability, what happens to those clients? The work that is involved by the credit hire organisations and CMCs to make sure that the case is dealt with from day one, when there maybe a dispute or just that the third party has not notified the insurer to enable them to make a decision on liability, this is where we assist in providing a mobility solution and fighting the case for that client. The client needs to carry on with their daily routine and be assured that we can then recover the debt from the insurer.

If we went to a fully direct hire model, as Martin touched on, at least half of consumers straightaway would face the issue of being without mobility from day one.

Frictional cost: we agree that there is a whole range of frictional costs that can be removed. We ourselves, as I am sure many of the CHOs have, have tried to take a proactive, co-operative approach with insurers. Over and above the guidelines of the GTA, we have additional agreements with several insurers based through either a self fill-in or authorised self fill-in.

We subscribe to CHOXS which is an online portal where insurers and hire companies upload their information. the concept of CHOXS is to help reduce the frictional costs and certainly reduce the interest charge that can be incurred if the claim is not paid within 30 or 60 days. [✂].

Another great example, which should be noted, is a recent case, a two-year-old claim, a straightforward hit in the rear accident, so it was very clear cut. The insurer, who was a GTA insurer, did not respond. Two years later, seven court hearings, the courts have now awarded £29,000-worth of costs to the solicitor acting on behalf of the claimant for not being able to recover the hire charges and the PI compensation. That insurer still has not paid within the correct timeframe, so it now has to go back to court again for another reassessment of costs.

If that is not an example of wasted costs and something that needs to be reviewed, then I am not sure what is.

From day one, we have embraced the idea of an extension of the ABI GTA in terms of a on-line portal similar to the PI portal solicitors use. We believe that this will decrease the amount of frictional costs for all parties but it has to be a co-operative approach between ourselves, as credit hire organisations, and the insurer industry.

Q Thank you. ClaimFast?

A. (Mr Mahmood) I would like to start off giving a little bit of background on ClaimFast just to put some context around our responses. ClaimFast is part of the company called CHMC—

Q Sorry, can you speak up?

A. (Mr Mahmood) ClaimFast is a trading style of CMHC Limited, which is a company that provides claims management services. We began trading in September 2009 as a CHO. We established the business because we felt that there was a need at that time in the market. The main reason we established ClaimFast was to provide innocent victims of motor accidents with post-accident services. We offer services to our customers only when they are needed. We deliver a level of service to customers of the Acromas Group, which comprises principally Saga and the AA, that lives up to the brand promises and protects our reputation.

The other reason for establishing ClaimFast was that we wanted to insulate our customers from our perception of the instability of the industry from both a financial strength and management perspective. This was an important consideration at the time, because financial stability in the industry was a particular concern at that time, around 2008 and 2009.

ClaimFast complies with the spirit and letter of the GTA and we feel it is an important part of what we do. The GTA, if properly observed, can provide the glue that binds the CHO and the insurer communities. It has the potential to work well to get the parties to work in a consensual way. As you are aware at the moment, the GTA is voluntary and that poses a number of difficulties in making sure that where we are compliant and that the third party insurer also honours the spirit of that agreement.

In terms of some of the issues that have been already covered, I will not reiterate those. I think it is important to understand that there are two different objectives at play here between the at-fault insurer and credit hire companies which have already been articulated by the CHO, so I will not repeat those, in terms of the need to control costs of the at-fault insurer and credit hire companies who are looking to ensure that their customers get the service they have a legal right to. There is a tension there between those two objectives and, therefore, comparison between the two must be considered carefully when comparing raw costs.

A significant issue that I think the panel has not captured within its remit is personal injury claims, the biggest driver of costs to consumers. I would like to have seen it being considered here. Another point to consider is that, if you were to remove the services that we (CHOs) are providing and rely on delivery of those services by the at-fault insurers, we are not sure what underwriter behaviour would be under those circumstances. Similar points were touched on by the CHO and we share that concern. The outcome may not be any better than the situation we have at the moment, and may result in detriment to the consumer.

Also note, in looking at the so-called over-provision or over-costing, that it is not a level playing field between consumers, post-accident service providers and insurers, for example, non-fault claimants are unable to access the pricing of large organisations such as insurers. They clearly have buying power and, therefore, are able to deliver things at lower cost. That is just the system we have in this country and, I think, that is again an important consideration.

We also share the CHOs earlier concerns on use and presentation of data, such as averaging and comparability across firms. We have fed back to the Commission on the points about the use of data.

Q Thanks. Enterprise?

A. (Mr Lawson) Yes, well our experience, which I think mirrors your findings, show that to compete in the credit hire market you do have to bear costs that do not exist from the supply of vehicles directly to customers and to others. Examples would be either referral fees, acquisition fees, multiple frictional costs, costs for finance and payment delays when we do not get paid at all. These additional costs necessitate a higher charge for credit hire provision than we supply a vehicle in a direct scenario. Yet we believe in both scenarios, direct hire and credit hire scenarios; the customer receives the same level of service and Enterprise broadly earns the same net revenue as other examples.

It is the legal right of the not-at-fault party to be brought back in the same position as they were before the accident. We agree with all the comments so far that any statutory change to the credit hire market without the appropriate legal or regulatory input to protect the not-at-fault party risks a step back in consumer protection. We ask the Competition Commission to ensure that any changes to the status quo do not endanger these rights while providing the market with a sustainable renting platform.

We, therefore, welcome any changes that allow us to [✂] temporary replacement vehicles more cheaply and more effectively while meeting the needs of the customers and in a competitive market, where the focus is on providing customer service as a whole.

In terms of missing points, I do not think at this stage we believe you are missing anything in any great depth. We have shared some similar concerns on data but otherwise nothing.

Q Thank you. Helphire?

A. (Mr Ward) Thank you. I have three main observations on the annotated statement of issues. The first one is the error in thinking that the separation of cost liability and cost control gives rise to a moral hazard. I would say there are three points to make against that. The first of that is it is a legal right to have re-instatement in terms of the circumstances after an accident that is not your fault. The law is there to provide that line of defence in terms of what costs are charged to put you back in the position that you ought to be for a reasonable cost. That is the first line of defence on that statement.

The second one is the industry adopted a protocol arrangement, the GTA, to try to put this into a framework by which the first party should have some control of their costs as a second line of defence.

The third line of defence is that the motor industry, ourselves included, entered into bilateral agreements with insurers whereby the costs are agreed in advance. So, therefore, it does put the control of the cost back to them.

We have seen the adoption of these protocols accelerate over the last two years. We are now dealing with the majority of insurers, the main insurers, on that basis. So, I think that the current thinking has to be challenged. The panel should look at that and say, “Well, is that statement actually true?” and I think, as I say, with those three points, it is open to debate.

The second point I would like to make is that I do not think that the issues statement has picked up - we certainly have not seen it, we have not seen the working papers - the true cost of providing the services that our industry bears. Our overheads are in excess of £70 million for providing the services that we do. Collectively, that is a cost that insurers would have to bear themselves absent this industry. When you take that into account, it puts things back in a different perspective in terms of consumers accessing these services and having their rights fulfilled. So, again, as I say, absent the working papers, that is something the panel should make sure is looked at.

My final point is, just coming back to the genesis of why the OFT made the referral to the Competition Commission, it was based on the fact that insurance premiums were rising. The reported figure, as we know, turned out to be something very different. It was more like just over nine per cent of increases to premium. Yet, today in “The Times”, you see Miles Costello’s report, based on Towers Watson’s report that insurance premiums are now down by nearly 15 per cent, 14.9 I think it is.

So, taking that into account, then surely our industry must be independent of when the premium increases or when the premium falls and I think that should be a consideration because if the premium has fallen significantly over the last 12 months by nearly 15 per cent and the whole genesis, as I say, was based on a 9 per cent rise, then surely the panel should be minded to review that to see if this industry is independent, we have been here 21 years, and the insurance cycles continues independent of that. I think that is an important observation and I refer the panel to that concern.

Q Thank you. Accident and Exchange?

A. (Mr Evans) If I could take you back to the question that you asked, which was: "Given what you know about the issues in the investigation from the annotated statement, are we addressing the right issues, are we in danger of going wrong and what are we missing?"

I think from our perspective the biggest concern that we have that we have to put on the table is that both the timing of the sessions, and we are not able to understand exactly what the detailed thinking is within the working papers in order to ensure that we can provide the right guidance about where we think you are going wrong, if you are going wrong.

The second issue is probably the inability to get into the detail abased on the forum that we have here today. We recognise the scale of the investigation that you have, thee challenge in terms of taking views from all of the parties involved. Sitting round this table here today, there is a company with a £400 million turnover pretty much entirely out of supplying direct hire services to the people who provide some services to insurers, that people are completely agnostic of the insurer position to provide services to disenfranchised consumer. The reality behind the market that we sit in is it is probably a not simplified or simplistic as perhaps your current thinking is in respect of the moral hazard.

There is an important issue, I suppose, that must be brought out and take the

Inquiry Director back to the first meeting that we had, when we were asked what data was likely to be available in this space. We said the difficulty is that because our membership - I am also Chairman of the trade body with Martin as the Director General - is a relatively small membership, it would be quite difficult to give you the level and consistency of data for comparative purposes to allow you to build a full picture of what the credit hire industry looks like.

The bit that stuck out from the annotated statement was the fact that you had inquiries of insurers and, while they responded to the queries that you had raised, there were only three insurers from whom you were able to obtain data that would allow you to perform some kind of economic analysis. That, I would say, for insurers, the majority of whom are either large listed companies, part of larger organisations, is marginally disingenuous and possibly capable of misinforming you as to where profitability and costs sit.

The point that Martin has just made is absolutely right. We made this point to the OFT at the time at which they were considering whether to make the recommendations to the Commission Competition that the key issue about insurer profitability tracked against motor insurance premium prices and not tracked against renewal prices, because I think the FCA is currently investigating whether or not there is a dark market between whether you are charged more for an insurance renewal than you would if you were a new competitor, needs to be performed by the Commission to identify whether the hazard that I think you think you have identified, that may well have a negative effect on insurance prices, is in fact borne out by reality.

We cannot get access to that data. We have asked the ABI whether they can give us the detailed analysis on it. We cannot get it, even as subscribers to their data flows.

I think in terms of the annotated statement, we find it hard to recognise and agree with the definitions of over-costing and over-supply. Over-costing seems to rely fairly heavily on whether or not there is frictional cost. We, in our business, are involved in settling claims and negotiating claims for people. If you look at the majority of accidents that take place on British roads, it is never anybody's fault. It is certainly not my fault. That is one of the consistencies that has endured over the 32 years that I have been in this sector; that there is always friction associated with whether or not a claim is provable and whether or not the individual for whom you act is able to support the claim to be able to recover their losses.

The losses do not just extend to mobility which I know is the subject of your inquiry. Most consumers buy insurance and are visited with a no claims bonus. The no claims bonus will be invalidated and fall away if they are involved in an accident where they are not capable of proving that the accident, the blame for which lay with somebody else. The whole process of settling claims and dealing with this friction is aimed at protecting the overall interests of the consumer and making sure his next year's premium does not inflate by 15 per cent because a sweetheart deal has been done as part of a bilateral between two insurers whereby they are able to say liability was not decided but we have paid out a 50 per cent apportionment of the losses.

I think it is important that you focus on the issues around what are really significant here, which is the management of somebody's claim rather than just mobility.

We do not think the focus upon direct hire as an absolute comparator to credit hire costs is appropriate. I think Martin's point about £70 million-worth of overpaid costing in the business is one side to it. There is another side to it that if insurers do provide direct hire, in a non-fault situation, they will seek to recover those costs back from the fault party. Your analysis currently, I do not believe, includes anything beyond the direct cost of the hire. You need to recognise that, in arranging that vehicle, in taking the circumstances of the accident, in establishing the hypothesis about who was at fault and then proceeding with a recovery, when two parties may well disagree, the fault insurer or not-at-fault insurer, even if the direct hire costs is what they are recovering, is still going to have the cost of recovery associated with it. I think you need to recognise that that cost does exist.

The way in which many insurers have managed that situation is to engage third party companies to actually act in an intervention capacity. It may well be that the costs you are identifying with indirect costs borne by insurers are not the full extent of the costs that exists in this.

You also, I think, identified - it has been said before - that there is a moral hazard about the control of costs in all of this. You should be under a clear belief that insurers have absolute control over their cost base. I have been in this place for 31 years now and I understand, as I am sure Mr Ellison from Kindertons and Martin said, in respect of the protocols that have been agreed, insurers are very savvy, very commercial negotiators. If they do not like the extent of the bill, they will not pay it. They will use their force, size and weight to ensure that you come to heel. That is a function of the fact that there are not super profits that exist in our business.

Insurers buy into the GTA, just to explain the significance of the GTA. 11 or

12 years ago - and I sit on the Technical Committee of the GTA with insurers - the GTA evolved because the appellate courts were miffed with the amount of litigation and friction, like the case involving spending over £1,000- worth of costs that was being perpetrated to recover simple hire charges and excess.

Insurers took the decision that it was better to have a protocol which recognised the saving in the management of multiple claims where litigation was inevitable to avoid that litigation, the cost of the litigation. That was how the GTA was born. I think the ABI had made that intimation both in submissions to the OFT previously and the previous OFT inquiry before the last one, and also intimated within their paper to the Competition Commission that they acknowledge that the GTA rate is lower. Again, the issue that is important in this is not the rate itself but the fact that it also involves an economic saving for insurers in avoiding to have to engage people and solicitors and other costs, where the defendant will recover a client's individual losses.

Then the thing that is probably the elephant that is not quite in the room, and it is not quite in the room because I do not think the Competition Commission understood what went on relatively recently. That is that the Government introduced legislation that allowed insurers and others to acquire interests in solicitors through the existence of alternative business structures. If you look at the insurer marketplace within which you are examining currently, most of them either have or are in the process of acquiring solicitor businesses. They are doing that because they know, and I think your figure suggested 68 per cent of consumers will report their accident, fault or non-fault to the insurer, and they therefore have the measure not only to move to controlling, and that is if they do not already, the costs in a far more severe way. There is both a costs savings for them in being able to do that and also an inequality in respect of the customer's access to justice as currently defined by the way in which the civil litigation system operates.

So, important probably to think about focusing on whether or not there are any changes, whether they were planned, intended or currently in train in the way in which insurers are dealing with this issue of cost recoverability.

Then I think the final thing I would say in terms of all of this is that from a trade body perspective, we try to put ourselves in the position of the consumer. I think it is important that you need to do the same as well. The consumer has two roles to play in this. The first is he wants, we all want lower insurance premiums and according to the "The Times" and Tower Watson, we are actually getting them without any statutory or regulatory intervention.

The second thing is when it all goes wrong, we want to know that at the very least, we are entitled to what are our legal rights; our rights of mobility and our rights of being able to carry on with our life without necessarily performing some part of some kind of economic P&L line in the insurer's model that determines or dictates how it competes.

My first exposure to an accident was 32 years ago. 32 years ago there was no credit hire industry. There was no direct hire industry unless you went to a major town or airport and rented a car from Avis. Solicitors could not handle and would not handle a claim on your behalf unless you paid them in advance. I was working as a police officer with typically seven days a month a need to be in a police station at 5.30am. The first day I walked, the second day I managed to get a lift and the third day I went sick. I went sick because I was 14 miles away from the police station and there is no public transport needs in there.

What happened from the evolution of credit hire is that people have been given access to have performed for them a service that gives them an ability to recover what they are entitled to. No more, the controls are set there by the court. No less, the insurance companies make sure that we get paid a reasonable price based on what they have negotiated with the GTA. Just remember, there is a consumer who will suffer in this.

Q Thank you. CRASH Services.

A. (Mr M McKeown) I take your advice. I agree with Martin and I agree with Steve and especially with Steve because, not to be competitive, I have been in the industry 37 years, in the motor insurance market. I have to say to you also that I am an emotional person as opposed to an unemotional professional, which when you listen to very well put together professional presentations, based on statistics, et cetera. Unfortunately, I am quite an emotional character and I feel since this investigation has started that I have been watching "The Apprentice" and that the failed leader, called the private motor insurance market, has brought two weak candidates into the boardroom to place the blame with them. The free market of the competitive websites, of which I was also involved in for many years, and then credit hire organisations were unjustly accused.

I am not here to talk about the websites but I was a broker at that time and I created systems to help people understand what insurers were about. In a later part of my career, after having been, in the middle part of that, an underwriter for a number of years, a marketeer, I sold out of the business I was in and I was left by covenant in the last area of insurance, claims. I had experience with everything else and I find that being in the claims market has been the most personally fulfilling side of my career because I am daily faced with people who are downtrodden by the size of the opposition they have to their rights. Helping them, I can provide not only mobility solutions but we are also involved, because I think it is the nature of my own emotional situation, we have lots of people who are at first struggling with insurance to obtain proper valuation for write-offs, struggling to have liabilities agreed and settled so they can carry on with their lives and I have many anecdotes which I do not wish to bore you with but the worst of all is that we had a lady with two disabled children and because the insurers insisted she should take a Ford Ka as replacement vehicle, she said she could not fit the second wheelchair in the vehicle. Of course, they opposed that but we continued to supply a suitable replacement.

The things that I would like to say is that, to reinforce what was said for professional integrity is that when there is an analysis about the cost, obviously it is a different cost because insurers' costing has not taken into account their administrative overhead of dealing with the clients when they are reporting and seeking the help. That is where our costs go.

That longer duration, I actually think it is a compliment, I do not think it is a detriment. To have only three days extra for the delays that are brought about by insurers in accepting liability means only three days longer inour process, I think, it is a compliment to it. It is difficult to get that across unless we encourage another statistical exercise to explain how long it takes from the time we supply until the time we get liability accepted. In our business, we do not wait. We manage our own investigations. We employ our own investigators. We supply vehicles as soon as we have made a decision for which we set ourselves a target of 48 hours maximum. We provide vehicles and we do not concern ourselves with the delaying of the insurers in making their decisions.

Our clients have always been very well-served and they give us great credit for that.

The other thing that we would be interested in saying is that we are here from Northern Ireland, and we are also probably the smallest business in the room because we contain ourselves to that geographical area. We do not have many of the issues that are here. We do not have claims management companies. I know we call ourselves a claims manager but we actually manage a person's circumstances. Our understanding is that claims managers in your jurisdiction are involved in supplying leads and so on. We do not have anyone in our jurisdiction doing that. We deal with all aspects of the claims, fault, non-fault. Everyone who comes to our business, we deal with them. Some of them are what might be called pro bono but nothing is ever wasted because we live in a very tight community where word of mouth is everything. When we assist someone in any particular aspect of a concern they have about insurance, it rebounds into word of mouth and it leads to other people to bring us cases that do provide revenue. So, our model is quite different.

What does interest us very much in what you have said in your most recent paper is that you were looking into aspects of dysfunctionalism in the Northern Ireland motor market and you have provided information which is completely new to anyone in the Northern Ireland market and that is that you say you have got information about the profitability and the frequency. Now, because we are a province, we have no access to generalised information on insurance. Over the last ten years I have made approaches to the Department of Statistics in the Northern Ireland Government asking them to create a statistical basis so that we can discover what the underwriting results are in Northern Ireland. They were unable to do so. The current Minister of the Environment has summoned the ABI because he thinks he has the power to compel them but he does not yet. He invited them to meetings and he believes that he is being provided with information about the experience in Northern Ireland.

While I was in my previous existences, I worked for many of these insurers in marketing and underwriting. They do not have separate statistics in Northern Ireland but it would be quite interesting to find out if you have separate statistics for Northern Ireland and if so I must see a sample of them.

The one thing you have done in your latest report is you have said that there is more profit in Northern Ireland. Let me say this emotionally again - I said to you I am not a professional, I am an emotional person here - we are ones who are kept in the dark most of the time. Our years have been spent listening to how our markets are unprofitable. Yet, your report says that it is more profitable than the UK mainland.

So, we come here enthusiastically to engage with you to find out what you know that the rest of Northern Ireland has not been able to find out. We have had the ‘Troubles’ blamed on it, what used to be known as the ‘Motor Tariff’ disappeared. I do not know if you younger people would know about it but there was a time when all motor insurers had to charge the same price. When it disappeared in the early part of our Troubles, that was blamed on all the loading. Insurers were not paying for the Troubles. The Government was paying for the effect of the Troubles.

Then we had 'a jury system' which was disbanded. That did not change things. Then we had 'open rural roads' because there was more scope for severe impacts and higher repair costs. All that has now been independently proven not to be correct from other agencies. We had 'greater frequency'; I think your report says we do not. We had 'higher value cars' due to lower house prices. We had 'larger families making more mileage per vehicle'. All of these things are what are debated day by day, hour by hour on our radio stations. Now, you tell us it is more profitable than other areas. So, we are very interested in helping.

From our own point of view, we have struggled for somewhere around seven years to try to set up a local insurance company. That is where your figures are going to help us greatly if we can get to them. Our barrier has been that all underwriters believe that it is a very unprofitable place to operate. So, we are excited by that aspect of it and we are more than willing to commence underwriting and to run a model which incorporates both sides of this which should have happened many years ago instead of both sides fighting. When I went into this first from the insurance world, I thought it would only be a couple of years until the insurers would buy up this part of the market.

I started off nervously but I am getting excited as I get on to my pet subject, Chairman, and I endorse everything my colleague on the right has said.

Q Thank you. I have been indulgent in letting you go on for a little bit more than the five minutes I suggested at the beginning, I think, but thank you very much. A1 Claims?

A. (Mr Sandhu) It is Ai Claims.

Q Ai Claims, sorry. My eyesight.

A. (Mr Sandhu) Ai Claims is wholly owned by Quindell Portfolio plc. It was an acquisition that occurred in the last 12 months. We provide a management of claims services in the UK and internationally, software and consultant.

The first thing I would like to point out I am probably the only one of the people in the room who has spent half as a career as a defendant insurer and half his career as an outsource provider for the claiming party, almost equally 12 years on one and 15 years on the other.

I find motor insurance quite fascinating because it is a distress purchase we all have to buy into. There are not many products you buy that you do not want to use and motor insurance is one of those. There are not many products that you get sold that the company that sells it to you do not want you to use the product but motor insurance is that product.

I think it is absolutely right that there is a separation between cost liability and the procurement services for those reasons because there is a definite conflict between the provision of service and those payment areas.

I am unclear as to why £10 per policyholder per year, which is the figure the OFT came up with, which works at 2.7 pence per day, is a challenge that needs to be considered by the Competition Commission. Personal injury claims are the biggest factor in terms of premiums in the UK and they are already being tackled by a number of legislatory agendas.

Investigation into the private motor insurance market is the thing but we seem to be focusing on claims handling, which is not a market in itself. The vast majority of customers who benefit from replacement hire vehicles do so via a referral from insurers and brokers. Where commission is paid, that money re-enters the market and leads to discounted premiums.

Insurers being able to provide service to their customers at the time of the accident is the only opportunity they have to demonstrate their commitment to their policyholders. If customers were left even without representation and/or forced to contact the at-fault insurer, I consider there will be some severe theories of harm for the consumer. There will be an inconsistency of service provided, so whoever you choose to buy your insurance product from will no longer be the people that provided that service at the time of the accident in the time of need.

It would be a denigration in terms of the level of service that the consumer receives after an accident and the point I made right at the outset: the insurer, the at-fault insurer is the one who is incurring the liability, the cost, and that is where their focus will be (cost), not on the service.

Who will look after the customer where there is a dispute on liability? I think Kindertons have 50 per cent. From our own data set, 30 days after an accident, more than a third of claims still are unresolved by the insurer in terms of liability.

Yes, there is frictional cost. Greater than 90 per cent of all these claims are managed through the GTA process. The GTA, since its inception, and I was an insurer when it was first launched is a process that is evolving over time. it is recognised that reducing frictional costs will lead to greater efficiency and help to reduce premiums and we are making investments with the GTA protocol. I also sit on the Technical Committee that Steve Evans mentioned and we are going to introduce a portal, hopefully in the coming year.

The OFT and Competition Commission comments about over-charging and over-supply, I think they are simply not true and misrepresentative. If the CHO over-charges or fails to manage the claim efficiently, it risks delays in settlement and having write-offs. So, the hit for the P&L is high.

Credit hire organisations are sophisticated in process management. We make early liability decisions and we have to in order to protect our business interest. We assess need and mitigation for the customer and his use of a vehicle and we manage downtime in terms of the key-to-key time. None of those skills sit within an insurance company today.

Insurers, being the carrier of risk, have a direct conflict with the motorist's service needs post accident. CHOs are wholly aligned to the motorist's needs. If the CHO credit hire service were removed, there would be no incentive for the third party insurer to offer such services. It was only introduced when I was still an insurer as a means to control cost. It was not a desire by an insurer to provide service. If a customer is left without a choice of where to go at the time of an accident, I doubt very much those insurers would step forward and provide that service.

The additional benefit that our market generates is that prior to the credit hire growth in the 1980s and 1990s, insurers were very slow to react, very slow to admit indemnity and liability. Now, insurers are incentivised to quickly respond, both in terms of ensuring that they are the ones that provide the service to their customer but also, where possible, to intervene and provide the service direct to the third party. If we took away this market, there would be no incentive to manage those claims efficiently.

Insurers are incentivised to get claims reported quickly, to assess indemnity and liability. It is part of the reason why the MoJ Portal for Personal Injury Claims was introduced to encourage insurers to make swifter decisions. Those insurers who have made this work have an advantage over those who have not.

Turning to cost comparison, it appears to be broadly accepted that customers who were not at fault should receive a replacement vehicle very much similar to their own has been decided in court many times.

Comparing what a claimant may recover per day, through credit hire, with direct hire cost is inherently wrong. Direct hire rates encompass a different population of claims and the mix is different. Where any insurer provides a direct hire service, it is where they would have already admitted liability, where they already had a claim reported. Credit hire also captures the claims where a claim is slow to be reported, perhaps against the commercial or fleet customer or where there is a liability dispute. As Michael mentioned earlier on, three days for excess hire duration is actually probably quite reasonable in the circumstances.

Insurers are able to artificially gain a discount in terms of direct hire rates by bulk buying. That is not available to the consumer. Rates for credit hire are only recoverable if they are reasonable. The Court of Appeal has provided direction on this for all of us. Insurers have tested this through the courts and generally, typically, credit hire rates that are recoverable in court are 35 per cent to 40 per cent higher than GTA rates. Credit hire duration should be short-term. In fact, where insurers have collaborated with Ai, and engaged

with us, we have been able to reduce hire periods by about 50 per cent.
In summary, credit hire provides a valuable service to the consumer. We complement services provided by insurers. We are a force for good in this market. The GTA, while imperfect, does provide a framework on which to build upon. While some of the aspects of the market remain inefficient, there is a great risk for consumers and customers for dissatisfaction and inefficiency if the market was changed without careful consideration.

Q Thank you. Thank you all very much for a series of very clear statements with some very strong messages in there. I would like, first, to ask a question about post-accident services and ask about the process of becoming the preferred provider for an insurer or broker whether it is to handle repairs or the provision of temporary replacement vehicles. How competitive is that process of becoming a preferred supplier to an insurer or broker? Can I go to Ai?

A. (<u>Mr Sandhu</u>) I think it is extremely competitive. I think if we break this down into segments, there are only a small number of suppliers that could satisfy the needs for the largest brokers and the largest insurers in the market. So, there may be five or six that will be big enough to deal with that volume.
You have to go in through a number of tender processes on a regular basis. They are the professional procurement teams that work with insurance companies and brokers that point score all the way through that process. Service provision and the referral fee that is paid in receipt of credit referrals are the key drivers in the competition. Certainly, it is true that contracts do not stay with the same provider for ever and that demonstrates the needs that there is competition and there is a thorough process that insurers and brokers follow.

Q Any other comments on that process?

A. (<u>Mr Ward</u>) I would say that it is very competitive and it does extract the mix of quality of service that you will provide to that insurer partner. Our experience is that insurance partners are becoming very concerned, rightly, about the sort of service levels that their policyholders receive. It is important to them to have the right quality of service. So, maybe five years ago, and a bit beyond that, there was a land grab for the market share which was driven purely by the referral fee that was paid. I would say that there is a shift. I would not say it is extremely noticeable, among some of the top insurers, but there is a shift to get that quality aspect into the service delivery. That service delivery does come at a cost. Therefore, you price that in terms of how you compete for your bids. It is disappointing when some of the market operates purely on the referral fee that will be paid. I think that is to the detriment of the consumer and ultimately to the detriment of their brand. As I said, there is a shift, or we are beginning to see a shift towards more quality in the services provided.

Q What does "quality" mean? What are the dimensions of quality that the insurers or brokers are looking for?

A. (<u>Mr Ward</u>) They will be looking to see how their policy or their service does, for example how quickly are you contacting the policyholder, how quickly are you dealing with their needs? What is the range of services that you now offer? What sort of touch-points will you have in that in terms of limiting the number of hand-offs that the policyholder can recall through your services, trying to provide the whole claims wrapper, so that the policyholder is very clear who they are dealing with, what services they are getting, who is providing them and when they are providing them.

We do that at our own risk. That depends on our achievables if we take that service proposition on. The insurer will ensure that you are meeting service commitments in terms of that service delivery. They will carry out their own independent testing of that through promoter scores, customer survey feedbacks and so forth. So, there is a very strong desire to make sure that the service provided to those consumers is very, very high. At the same time, yes they are expecting profits, I guess. As was pointed out by Steve, there are not a lot of profits in this room. Those profits feed back into the insurance market. So, we provide what we see as a very good service, a high quality service to the consumer for a very moderate return. Those returns are two per cent or three per cent.

Q (Mr Aaronson) If there has been the sort of shift that you describe, one would expect to see referral fees on a downward trend. If companies that you are putting more effort into the service offering to the insurer, the insurer is putting less weight on the referral fee that the referral fees are actually coming down. Is that happening?

A. (Mr Ward) The referral model for us, certainly, has changed where you take that on a fixed basis to a more variable basis so that the economics of the transaction are more aligned, so therefore it depends on what sort of vehicle a consumer ends up with, the length of the hire and other variables that go into that mix. I think there is still, at the moment, pressure from certain insurers to obtain a higher level of referral fee. I think, in our experience at least, we have seen some of that actually moderate amongst our existing base where quality has become a more important aspect over the actual amount of fee. I cannot speak for the wider market in terms of how that plays out but that is our experience.

Q (Mr Aaronson) Is that a general experience?

A. (Mr S Ellison) I would agree with Martin. We only deal with two or three smaller insurers. We have definitely seen a shift -- the key to an insurer and certainly to a broker is the retention of that client. The one touch point throughout the year, effectively for that client, is if you have an accident. So, dependent how that is dealt with and how it is managed would really make the client decide whether to renew or change that broker/insurer. If it is a commercial client, certainly to an independent broker, that commercial client could be a £20,000 or £30,000 premium. So, it is of utmost importance. We have seen and we have been in the tendering process to continue our relationship with insurers, the focus on service level is inevitably more predominant than the actual referral fee. I can only speak though in respect of the smaller insurer whose reliance on retaining their client base maybe more important than for example the larger insurer – ultimately though you can offer the best service in the world and the best backroom office but you may still lose it because you do not pay as much as someone else. .

A. (Mr Evans) Some of it as well, I think, has been driver by insurers over the last five or ten years, to look at their own P&L, their balance sheet. Insurers will not admit this to you but they did to us. They are not very good at answering the phone and definitely not very good at dealing with claims and not very good at wanting to pay them out. Their model is we want to get the £100 premium and not pay anything out because that becomes a profit eventually.

What we have seen, I guess the first of the tenders that we did not participate in was in about 2006 and that was when insurers seemed to want to recognise that they could improve the viability of their own business by outsourcing some of the services and driving out a better level of customer interaction that they were capable of delivering themselves.

I do not think there is a necessary trade-off between them preparing to take less for you doing more. I think insurers control this market and are capable of ensuring that the level of tension between people bidding for contracts is of a sufficiently high level, high threshold that it is very hard to balance off the amount that they want relative to the level of service they have to give.

A. (Mr Gilbert) I think Steve has made an important point there which is that the economic benefit to the insurer is not just the referral fee. He does not have to deal with 25 per cent of his claims to outsource to somebody else. The benefit going back into the insurance market is much greater than just pure referral fee.

A. (Mr Andrews) Insurers are clearly extremely skilled at procuring and when people in the room have been talking here, it is quite important to understand whether that comment was directed at the competitiveness of winning a credit hire opportunity or whether it was directed at winning a direct supply chain. What has become more common, perhaps, is both because clearly if you have an arrangement with an insurer, one second of one day he is the fault insurer and exactly the same second, in an alternative accident, he is a non-fault insurer. They are skilled at playing that tension off against the procurement process and that is something that you should, perhaps, explore and understand. The referral fee is clearly an income opportunity for the referrer. On the direct hire side, they want the rates that have been quoted by the potential supplier for direct supply to be as cheap as possible. David has made the comment that there are only a handful of companies in the UK that purchase sufficient cars in sufficient volumes to get sufficient manufacturer discounts to able to compete in that referral supply. Most of the credit hire members do not purchase enough cars to buy them cheaply enough to offer those discounted rates. That is another market dynamic that I do not think you have explored.

They are very skilled and it is extremely competitive to the point where even online auctioning is something that happens in terms of the rates being quoted.

A. (Mr Harrison) I think the competition on referral fees as well has forced the sector to become far more efficient, which I think has been to the benefit of the service that is provided. Key drivers are, for example, the ability to convert somebody quickly into the service, provide that service because ultimately that will be beneficial to both the insurer and the credit hire organisation, as well as being efficient in process as well. So, actually having an administrative cost model, which is advantageous, gives a relative competitive advantage within our CHO sector. Our own industry has become far more sophisticated as a result of some of these pricing issues that we have seen over the last few years.

THE CHAIRMAN: I want to move on to post-accident repair services. In looking at repairs, it appears to us that there are various ways in which non-fault insurers or CMCs can increase the repair costs that they charge to fault insurers, for example by getting rebates from painter part manufacturers or getting referral fees from approved repairs that are not then reflected in the bill that is passed on to the at-fault insurer.

How prevalent is that, the inflation of the bills passed to at-fault insurers? Can I start with Kindertons?

A. (Mr S Ellison) We operate credit repair facilities and we always have done. Within your statement it is suggested a potential £300 increase as opposed to the fault insurer if they deal with it.

I think we go back to not having access to the detailed working papers in terms of how we are comparing a credit repair to a fault insurer who is driving volume for a certain repairer and who is probably operating through a rebate scheme.

Let us look at it from the consumer's point of view, the benefit to the consumer from credit hire is that it is a very quick process. He could have a claim on the Tuesday, by the Wednesday he would be booked into the local repairer and his car could be back to him by the following week. He does not have any excess to pay and, most importantly, his no claims bonus is protected. So, from a consumer point of view, there is a clear advantage.

In terms of the actual cost of the repair, there is a list of several things to look at there. Each repair is engineered by an independent engineer. The labour rate is an agreed labour retail rate. [✄].

Q Anyone else like to comment on this?

A. (Mr J McKeown) In fact, I think Shaun has answered the wrong question. Your question was about insurers not passing on discounts. I think it is difficult for anyone here to answer as we have no ability to do what we now know insurers do.

Anecdotally, and I know we have to be careful of anecdotes, an insurance engineer in Northern Ireland, explained to me the workings of insurance companies internally on the repair fees - I am not sure if you are aware of it - they operate the RIPE scheme, the Reduction In Paper Exchange where they do not send documents to each other; they just simply send a one-page summary. He believed that there were insurers operating in the Northern Ireland market who were doing exactly that, where they were buying in repair services at one price and then billing the at-fault insurer at a different price. He formed that opinion based on his knowledge of the charges involved and the personalities. But he said just no one ever talked about it. It was very much kept quiet. Nobody wanted to admit it, nobody wanted to challenge it and his thought was that his own company was perhaps doing the same thing but he never saw the documents that left his desk. I think the thing is, when you were asking the question, anecdotally it is believed to be a more wide spread practice than we would be aware of.

A. (Mr Sandhu) The point I would like to add on that, if you compare the labour cost, for warranty, of the car (servicing), if you have a problem with your new engine, and you bear that, what the consumer would be paying in the market higher amounts to what the average labour is on body repairs, you will see that actually cost of repairing cars is artificially low mainly because the vast majority of those cars were repaired directly by insurers who again through their procurement arms, which were very professional, have been able to control that cost. There is certainly not a lot: of profit within the repair market.

Q Are you saying that fault insurers are pretty effective at controlling the costs?

A. (Mr Sandhu) Yes, absolutely.

A. (Mr Gilbert) I think there is a non sequitur in your opening statement in this respect. You said because there are rebates, then costs must be increased. It is a common non sequitur. It happened also with the credit hire model. Because there are rebates does not mean the cost goes up the rate is set independently by an independent engineer. So, all that is taken out is the margin from the repairer. As David says, the actual part labour rates in body repairs, speaking for them now, is scandalous. A plumber comes to your house, you will pay him £45 an hour, £50 an hour. What is the average labour rate for a body shop, David?

A. (Mr Sandhu) About £38.

A. (Mr Gilbert) That includes the absorption of all that body shop's costs; not just the cost to the person. It is the cost of the ovens, it is the cost of the equipment, it is the cost of getting PAS 125 approved. Now, it is a huge cost to them. So, the body shop industry, most of them are better off putting that money into a bank, even now, than running a body shop because they are so penalised.

Many of the rebates that you get are not increasing costs. They are not increasing costs at all and, in fact, sometimes they are mechanisms by which the repairer can get sufficient volume, so now it serves as a counter-balance because you cannot function on these tiny margins unless you have got big volumes. Secondly, for other people, like distributors, to get access to markets, that is an acquisition cost for them that comes out of their margin and it does not add to the cost of the insurer.

Q My question was not about rebates, per se, adding to costs but rebates which were received and then not reflected in invoices which were passed on.

A. (Mr Gilbert) The thing was rebates and discounts were adding to costs, inflating bills. Bills are set, bills are set by independent engineers who do not work for us, who do not work for the insurance companies. They are separate and independent.

A. (Mr J McKeown) I think I am the only person getting the point, which maybe I am wrong. But you are talking about the situation where an insurer buys in the service and it is suggested, at the bulk rate, may be £20 an hour, £22 an hour, and bills it out at £38 an hour. That is the case and none of us are involved in that as far as I am aware.

A. (Mr Evans) I think the proper answer, certainly from our perspective, is we are not involved in the financial modelling that CMCs and repair shops are and how they deal with discounts and repairs. Credit repairs are a completely different issue. We are certainly not confident in that.

A. (Mr Ward) Perhaps to paraphrase the point, the question is whether there is prevalence that either insurers or CMCs gain an income stream through referrals from repairers or rebates from inputs to repairs, which are not then reflected as those bills are passed on to fault insurers. So, the non-fault insurer may be able to gain an income stream from its rebates and referral fee structure which essentially is a discount on the cost of repair. That discount is not passed on when the bill is passed on and the CMCs might do the same.

A. (Mr Gilbert) Fault insurers do that as well. Fault insurers also do the same thing.

A. (Mr Ward) Absolutely. It is not going round in circles but the question is, is that prevalent among CMCs.

A. (Mr Evans) I think it is a complex algorithm where people's business models are defined by a whole host of pluses and minuses. I certainly do not whether

CMC X or Insurer Y works on the same basis.

A. (Mr Ward) You have to look at the cohort of the line of work. In certain circumstances, we would pay out for a repair from our own balance sheet. We may not make a recovery in which case the deal has been satisfied, as far as the consumer is concerned, but we may not make a recovery for whatever reason. These are not inflated rates, as the point was made, when a repair is carried out it is carried out under an independent engineer's assessment of the rate as the man walking off the street to have his car fixed. The fact that there are rebates in that, there is a multitude of services that are provided and it is a risk reward mechanism. As I said before, there are no super profits in the room.

A. (Mr Sandhu) I suppose the relevant fact is whether it is as we described. If the repairer was independently marketing his services to the consumer, it would incur marketing costs. If it is on a panel, it does not have that cost but it would be expected to pay something; whether that is shown as an individual discount on a repair or whether it is wrapped up as an annual marketing fee is different on each model.

Q Let me start first with ClaimFast. How do you ensure quality control among your approved repairers?

A. (Mr Hazzard) We outsource the management of the repair network to a firm who specialises in this business. Day by day control is vested in that particular firm. We then have to understand that we are one step removed and we have to, therefore, layer in a number of other quality control measures. So, we telephone our customers regularly. An independent firm which we use, will undertake what we describe as moment of truth surveys.

Those moment of truth surveys have proved very valuable to us in all of our business areas over a number of years. We absolutely believe what they are telling us. We feed back those scores to each of the repairers and any repairer who fails the tests or fails to achieve a benchmark receives a visit from the outsource firm that we use and any problems that exist in that firm are discussed and remedies are agreed.

To support that, we also carry out detailed analysis of claims. We have a very detailed monthly process of claims analysis and claims trends, which we call root cause analysis. Similarly, we feed back customer service trends to the network management firm who visit those particular repairers who are causing the distress and a remedy for that is agreed. If the remedy for that does not work in either case, those repairers are removed from our network.

We have very good MI on the individual performance of repairers. We set tests, four or five different tests, around the things that we expect repairers to achieve for us. If they do not, again they are visited by the network management team. If a remedy plan cannot be agreed or a remedy plan is not met, those people are simply removed from the network.

Q It is understood you are pretty confident at those processes work well for you?

A. (Mr Hazzard) We absolutely believe in them.

Q Anyone else? Is this relevant for anyone else?

A. (Mr J McKeown) We do not have approved panels. Every customer is contacted at the end of the repair and a repair manager would contact them or the repairer to resolve the issue, if the client discloses at that stage if there is any disappointment with the quality of the repairs.

A. (Mr Gilbert) We make an initial assessment o the firm before it goes on to the panel. Somebody goes out and makes sure, to find out what kind of repairs he is capable of doing, what equipment it has. We support PAS 125, which is the standard within body shops. Then we have the second line of defence which is the engineers themselves. As the engineers are going out, they see repairers, they deal with complaints. They are looking at the methodology of a particular body shop being used to make the repair. Then we operate a complaints service. If there are any problems with repairs, any issues with the body shop, they are fed back through at a very high level within our business, will investigate those complaints. If necessary, get remedial done to the vehicle and, if necessary, move the repairer out of the panel.

Q Can I move on to the write-off decision? Again, I will stick with ClaimFast first. If you have a non-fault claim and it is somewhere around the margin between being economical to repair and a write-off, do you have a preference to tip towards repair or tip towards write-off?

A. (Mr Mahmood) I think what you are alluding to, total losses, we do not handle those --

Q (Mr Aaronson) I am awfully sorry, can you speak up a bit?

A. (Mr Mahmood) On total losses, they are passed back to the insurer, so we do not have vested interest in the decision. We will follow the guidelines.

A. (Mr Hazzard) You might say we should be repairing everything; frankly, it would be in our interest to do so. In fact, we just say total losses are a difficult thing; we just hand those off to the insurer.

Q (Mr Aaronson) It does not quite answer the question. How do you decide whether it is one that is a total loss to be passed back to the insurer or one for you to try to repair?

A. (Mr Hazzard) The engineering process is the same.

THE CHAIRMAN: But there must be some criteria.

Q (Mr Aaronson) But the decision is an economic decision, is it not?

A. (Mr Hazzard) I understand. The GTA lays down a two-thirds, the 66 per cent pre-accident value test, that is it. Really simple.

A. (Mr Jones) I do not think the decision to write off a vehicle rests with anyone round this table.

A. (Mr Evans) An assessor will generally assess the damage to the vehicle and the likely cost of the repair relative to the current market value of the vehicle. The 60 per cent test that was mentioned there is usually a threshold point which an engineer, who usually will be issuing a report in his capacity as an independent expert and will give evidence to a court if needs be in that respect, will determine that he thinks it is either absolutely a total loss or, alternatively, it is borderline total loss.

If it is borderline total loss, tensions then emerge. In our circumstances, we will generally be steered by where the customer sits often because it is the customer who is going to have to replace the car with whatever the value that is apportioned to the vehicle in current market circumstances is. That might be a difficult to do. It is a used car.

Insurers' offers in respect of total loss: so insurers have a desire to write out a cheque as quickly as possible in general terms because by writing out a cheque quickly, they will get the customer to the right answer as far as they are concerned quite quickly and they will minimise the likely hire period if the customer needs to get the thing through.

So, when we see an engineer's report that says it is a total loss, we share it with the customer. The customer will determine whether or not, based upon the likely valuation, he would like us to go and seek to try to negotiate that figure with the insurer and we send him off to go and get supporting information if he thinks that the likely valuation is being determined, usually just by looking at Glass' guide is sufficient for him to be able to replace the car; the real test being the insurer and the fault driver have to put him back in the position he was at before the accident took place.

I do not think it is a value decision based on what suits us. It is usually a value decision based on a legal set of circumstances defined by an algorithm which may well go into a grey area, determinant upon whether the customer he has been badly done to or whether he thinks he is getting a reasonable deal and he would like to walk away from the mess and get himself a new car with the money that is made available.

A. (<u>Mr Sandhu</u>) There are actually two reasons why cars get written off. One was not economics, it is about taking the car. The support categories of salvage - I am not an expert engineer but I have worked in motor claims for a number of years -- I think it is category A, the chassis is broken and the car being put back on the road will be a danger to the driver and other road users.

The second one is an economic reason and it is partly driven by the fact that the market as a whole and the insurance market, I am talking about, as a whole would choose to put new parts back on to a damaged vehicle, to a car that is seven or ten years old, and you have to purchase new parts to be put into that damaged vehicle, the cost of those new parts would be rather too high. Whereas the consumer would probably look at it and think that if they could take it to their local repairer, they could probably bash a few parts together and get it back on the road. But it is an economic driver. I do not know exactly what form it is but there is a form that the engineers use in that market to calculate whether it is beyond economic repair.

THE CHAIRMAN: But the views of the consumer do come into the marginal decisions?

A. (Mr Sandhu) I think the marginal one, the consumer is able to push and I think some insurers still offer, effectively, cash in lieu settlement, so presumably take the cash away and then go repair his car. but that tends to be quite rare.

A. (Mr Ward) We join the consumer up with the at-fault insurer as well, so the marginal decisions we will take to the at-fault insurer and consider the actual fact whether or not the car should be repaired or not. So, therefore, it is a tripartite decision in terms of saying that should be written off or it should be repaired.

A. (Mr Sandhu) The other element of that is the salvage value of the metal which obviously ebbs and flows in terms of the value of the metal at any one time. But the insurer will look at the net effect of the income you get from salvage against the written-off value compared to the repair cost. Obviously with the repair cost, you have VAT on the bill, in a total loss, settled directly with the consumer, there is no VAT. There are some economic challenges in the two processes.

Q (Mr Oram) Just to be clear, I have not come across this 66 per cent. If the repair cost exceeds 66 per cent of the value of the car --?

A. (Mr Hazzard) Prior to the --

Q (Mr Oram) -- that is when it triggers you putting it back to the insurer, yes?

A. (<u>Mr Hazzard</u>) There will be an assessment of the pre-accident value and that is undertaken by an independent engineer and then the cost of repairs will be assessed against that pre-accident value.

The GTA says if the cost of repairs exceeds 66, it may be 60, per cent, then the vehicle is written off. There is a clear beyond and a clear below, so those which are easily above 66 and are easily below 66, there is no issue. What we are discussing here is that potential friction that arises where it is around about 66. As David says, there are many other factors which then need to be taken into consideration, particularly the salvage value. The customer's desire - many customers want to keep their cars, they do not want their cars written off, particularly in some of the markets that we serve. They like to keep their cars. So, then it becomes a cash in lieu settlement too, all of those things need to be resolved by dialogue.

Q (<u>Mr Oram</u>) So, in that case, where you have referred it to the insurer, you do not take into account at all the likely TVR cost to the insurer? You have an interest not to.

A. (<u>Mr Hazzard</u>) But the insurer should take that into account because the insurer has an economic benefit of getting that total loss, settling that total loss very quickly in order to reduce the length of the credit hire.

Q (<u>Mr Oram</u>) But I think what I am getting at is that if you did take into account the TVR cost, and I can understand entirely why you do not, but if you did then you would be referring cars where the repair cost is below 60 per cent because there will be certain cars that you will have repaired and not referred to the insurer where if the insurer had known about it, he would have taken a different decision because he would have taken into account the TVR costs as well.

A. (<u>Mr Jones</u>) The insurer would not have any replacement vehicle costs because the GTA are notified of this, so their behaviour, you have to take that into account and then continue with the position. I am not sure that is the --

A. (<u>Mr Sandhu</u>) The point is that the insurer that would be making the decision on the total loss in the case that Steve was talking about is the insurer for the parties that are not at fault. The party, the insurer that is at fault will pay the TVR. I do not think there is any assessment in the party by any claims management company nor by insurers to take account of the cost of TVR. But it is not straightforward either because invariably the total loss hire period and durations, and you will see that from your data capture, is significantly higher than the average duration when a car is being repaired.

THE CHAIRMAN: Michael, you have been wanting to come in.

A. (<u>Mr M McKeown</u>) Yes, the majority of people are attached to their vehicles and are not willing to have them written off. Our business works on the principle of trying different routes to save it including taking into account the hire purchase and leasing commitments on the vehicles. So, the outcome should not be entirely based upon metal and if you replace a car, that client may have been left with a shortfall on hire purchase of thousands of pounds. Under the rule, the rule of 78, whatever it is called in hire purchase, in addition to measuring loss, the value of replacing a car might have to mean a hire purchase commitment.

We look after a client and ensure he is not incurring another £1,000 of hire purchase liability, it can be economical to repair vehicles which engineers might count as beyond economic repair and which an insurer would count as beyond economic repair.

It is also a factor unknown to us precisely, but it may be in the interests of an insurer on occasions to write off because of their salvage contract, the value they will receive under these contracts that they have with the salvage merchants, ensures that the difference between the salvage and the price of repair is less than the actual price of repair, so they can make decisions which then catapult the client into a position that he has to meet this liability call to his hire purchase .

So, looking at it from my car, "what I want for my car" is the way we deal with our clients and they do not want to incur avoidable costs, so I would perhaps have the vehicle repaired at a higher than 60 per cent ratio to vehicle value. It is the figure that works out the right economics for me not the person who is defending the claim.

A. (Mr Evans) There are some strange moving parts in all of this as well. Michael has mentioned the hire purchase issue. One of the things we have found is whenever the client's vehicle is a total loss, the thing that extends out the hire period is getting the finance company to get what the number is and also to get the insurance company to pay the finance company to discharge the liability and then to give the client, if he is entitled to get the car written off, so he can go and enter another finance agreement to go and buy a car. There is some complexity that sits around that part.

The issue around total loss as well, just to be clear where these decisions are made: the first issue is that it may be the client's insurer often or not. It might be the client's own insurer who says, "Based on our contract of insurance with you, our engineer tells us that the repair cost of this is X and we, therefore, feel it is uneconomical to category A or B. it has to be written off". So, the decision might not be made in a sense that impacts in any way any decision about the motor vehicle charges or it might be a fault insurer that is making that decision, it is not related to the client.

The other issue to just to be very clear about is the law of tort. If I am involved in an accident and the accident is so bad that my car is damaged to more than 66 per cent of the value, then the tort of fees is responsible for putting me back in the right position, that is replacing my car. If the cheque they want to send me is then varied by the amount they save by me not having access to mobility which I am entitled to, and I am expected to respect that as being some kind of bonus, having the help of a benevolent insurer, but then find out it will take four weeks to get the finance company to clear off the finance and I am on the bus or walking to work or staying off, then an inequality in all of this sits in.

It is not just the people sitting around this table or the insurers or a consumer who -- just to go back to your data, was it 55 per cent, 54 per cent of the consumers in your survey who, when questioned, said they were not aware or had explained to them their legal rights. There is a lot of complexity in this that does not just sit with the insurance contract. It may well sit with the exposure to the finance company.

Q Can I go back to one thing which you mentioned, Stephen, I think? You said you do not deal with write-offs and generally it appears to be the case that claims management companies do not handle write-offs. Why is that?

A. (Mr Hazzard) We do not see it as part of the remit.

Q Sorry, I cannot hear you.

A. (Mr Hazzard) We do not see it as part of our remit. But there is an engineering process, which is an independent engineering process. We are simply the recipient of the independent engineer's view. If we get to the point where the car is to be written off according to that, and they are marginal decisions we are talking about, it is not for us to try to persuade the customer. With respect to him, we cannot possibly know his circumstances. Nor is it really for us to try to persuade the at-fault insurer what is the best route for them to take. We have no idea what their salvage deal is. Nor is it our purpose to talk to the not-at-fault insurer. It is for the independent engineers to say: "Here is a case that is in that grey area" for us then to ask the customer if he would like that case to be referred back to his own insurer or if he would like us to negotiate on his behalf, if that is what he chooses to do, with the at-fault insurer, if he decides that he wants to have the car repaired. We are agnostic.

Q (Mr Wright) I do not think the question was so much about the position you might take. It is more of a matter of as a claims management company, you have an interest in managing the repair when it is a vehicle write-off. Why do you not have the relationship with the salvage company and manage salvage, manage the total loss?

A. (Mr Hazzard) Others may do. That is not our model. To us, that means we would have to pay the customer the value of the total loss which is not what we do.

A. (Mr Sandhu) We provide the full service. So, if we are happy the damage for the customer's vehicle, whether it is being repaired, and he can go to his own garage, and if his car is beyond economic repair, we would have an independent engineer who values that, agrees with the customer the value and then passes it to the at-fault insurer for them to release a cheque.

We also share data with all top 30 insurers with the average hire period for their total losses, so they can be more proactive because it is where our longest hire periods occur and we give them data on a daily basis of the live hires that we have got where there are total losses to allow them to be more proactive. But we see it, different to the model that Steve follows, as part of our service to represent the customer in getting the value at the right level.

Q (Mr Kaltenbronn) The question is you manage the repair, you pay for the repairer, you invoice, you manage the write-off, you do not pay the write-off and you do not invoice the insurer. Why is that different?

A. (Mr Sandhu) If we were providing a repair service, the way it is legally structured is the repairer has a contract with the consumer who will repair his car. We effectively assign the debt over to ourselves which allows us to provide a credit repair service. If we were paying for the total loss, we would be providing the consumer with finance. It is a different part of the Consumer Credit Act that we are not able to provide that service. So, we have to give it to a third party insurer to pay the cheque directly to them.

Interestingly enough, however, we talked in some of our papers about our collaboration model with insurers, where we work collectively with them to keep costs down by driving durations down. Where we have that facility with the insurer, we have been able to half the hire period of the total losses.

In those cases, we do pay for the total loss and then we recover it from the insurer afterwards, but we do that under a delegated authority. We cannot do that where we do not have a delegated authority with a third party insurer.

A. (Mr M McKeown) Mr Chairman, I began business in that model because I came from underwriting when I started and I thought that in the first year or two, I would rather be in conjunction with insurers. But I cannot find a nicer word than “shafted”. We were shafted continuously over write-offs, and we could not recover them. On some occasions insurers had information that I did not have, so I did not make any recovery on a valuable payment.

When we look at repair, we have repairs running at around £1,300, £1,400 on which we operate on a factoring margin of 7 per cent. When we were doing write-offs, we were paying out write-offs at a claim of £3,000 to £4,000 on average with no margin, for the reasons that David has said. We did not ask the client for it. There is no way of charging the finance and I would have found it a resentment if it had been me personally put in that situation and asked to pay a subsidy or a payment out of my total loss.

So, the method of trying to overcome those issues to benefit the insurers broke down in the sense that they are not able to respond with the same approach that was required to reimburse us quickly or to accept that what we were doing was valid. I often thought - and again I am a bit emotional about this - we are a fly that has been flying round their living room for many years and they have tried to swat us and they have missed us every time they have tried to swat us. Instead, they should do what my wife does and say: “Welcome into our house little fly. Would you stay over that side of the room or can we co-operate with you?”

I thought I would be out of this business within three to four years, that they would realise that this is an integral part of the industry and they should have absorbed us into it. It seems impossible for them to do so because their own business models are so monolithic, et cetera, that they are not able to have the fleetness of foot that we demonstrate. That is why we have survived.

A. (Mr Ward) Can we ask a question of the panel? My question is, is there a headline concern over losses?

Q (Mr Wright) I think our questions here are just to develop our understanding. That is the nature of the questions we are asking. We have put in our annotated issues statement our current thinking and we want to test those with you.

A. (Mr J McKeown) We are all very much consumer-minded. We want the consumer needs sorted out as quickly as possible and with repairs we can do that, can manage that and get that sorted quickly. With a total loss, as has been mentioned, with the greater figures, that is not something that we are able to fund. We just cannot do that. It is a fabulous incentive for an at-fault insurer to pay quickly to avoid a hire claim. On average, the total loss claims are much higher because insurers delay but when they know that there is a credit hire claim coming along down the track then they pay as quickly as they can, to find ways of paying when they would not have before. I do believe that there are insurers who are paying out when they know there is a credit hire claim. They are paying out even when liability is very much in dispute because they realise it is actually cheaper in the long run to do that and so the consumer is sorted out reasonably quickly and back on the road.

A. (Mr Sandhu) It is also probably worthy of note that those who have total losses tend to be cars of lower value and they are people that tend to have third party or third party fire and theft cover. When you look at the data sets as a whole, you probably need to segment the comprehensive insurer with third party fire and theft. That is when a customer with a third party fire and theft policy and you look at the average duration, they are being influenced by where they started from, so I think there will be a difference.

THE CHAIRMAN: I want to move on next to post-accident TVR services but I suggest that since we have been going for almost two hours that we have a five-minute break and then get into the last part of our piece.

(short break)

THE CHAIRMAN: Let us move onto post-accident TRV services. We found we all know that referral fees are particularly high for TRV services and indeed, Martin, I think you referred to the fact that the people around this table are not making high profits and referral fees drain away any possibility of making high profits. Would the market operate better if we did not have referral fees? Can I go to you?

A. (Mr Ward) Yes. I think the market would operate in a way that, I think, you have got to remember that insurers and brokers outsource these services to the likes of the companies around the table in the main and therefore, if they are outsourcing that work and there is a value to be obtained from that work then they will find a mechanism for creating that entity to obtain the value.

In simple terms, if there was a recommendation for an agreement to remove referral fees, my own view would be that the insurers would then set up some form of joint entity/joint ventures and provide the services from those joint ventures, such that we may participate in that but the net margin that we operate with today would actually probably be squeezed a little bit more.

So, there is no economic benefit by removing the referral fee, in my view, from the equation if that is the modus operandi. I do not think finding legislative ways or ways of preventing some form of value happening in a transaction is going to be beneficial because I think the markets will find its way.

Would our services then be on a different basis? Well, I think we would still provide the services that we provide and there will not be any detriment to quality and all the rest of it but as I said, I do not think we would earn some more money as a result of the referral fee falling away. That is my view.

A. (<u>Mr Evans</u>) Reference point is possibly what has gone on in the personal injury marketplace where there was an outrage at the amount of commission that was being paid to introducers of work to solicitors to handle person injury claims and it was seen to be an escalator of the amount of claims generated in the market. Through legislation that stopped on 1 April this year but coincided with the number of insurers then acquiring solicitors firms so they could generate the revenue stream associated with managing those personal injury claims that the legislation that was sought for was meant to stop.

In any market that is such a big market, there is likely to be a redistribution somewhere of where the value point sits and I guess the hard point from our point of view and I probably should have asked this one earlier. So, if I could ask the panel the question as well please, if I could?

One of the difficulties that I am struggling with in understanding the annotation statement is if there is an adverse effect on competition, in which market do you think that adverse effect on competition is represented? We do not deal with any business related to the insurance marketplace. Disenfranchised consumers generally or the motor channel is where we are most actively involved and so whilst we are having, I guess, a philosophical debate about where all the pressure points might be in the industry, I am just a bit confused reading the annotated issues statement where theory of harm 1 tracks back to which market. Is it the claims settlement market that we are involved in, which is not a market or is it the sale of personal insurance or the movement of monies between two insurers? Where does it sit?

Q. The simple answer to your question, maybe Andrew wants to say something else, is that at this stage we have not found an adverse effect of competition so I do not know how to answer your question. You are asking me in which market is the adverse effect of competition. Well, if we find one then it will have to be in some market and then I will answer your question.

A. (Mr Evans) It is quite relevant though to answer the question about commission, you see, because commission does not just pass to insurers. So, the issue about commissions and if commissions went away, does that change things, well it may well change things for some of the people sitting around this room who have got different models.

If commission was outlawed for myself, for example, it would change it quite dramatically because it would take a competitor out of the market probably.

The complexities in all of this about understanding what the case is that we are trying to answer, which might be clearer when the working papers become available, some of the questions are almost slightly premature in terms of where our thinking can be and understanding how to properly answer the concerns that you might want to identify.

Q. (Mr Stern) You can correct me if I am wrong but is it not the purpose of this meeting is different? The purpose of this meeting is to help us understand exactly how the market works. Once we have got a reasonable understanding, we produce our provisional findings and at that point you know exactly what we are thinking and you can come back and you can say to us, “You got this right” or “You got this wrong” and that will be the point to answer the question.

Although you are asking a perfectly reasonable question, if I may say so, you are asking it at the wrong time.

A. (Mr Evans) Probably because the working papers are not ready yet. I mean, initially administrative timetable and the working papers May/June, this meeting mid-July and then the further submissions end of July. Your timetable has moved back to the end of August, the working papers have not arrived but this meeting has stayed as a fixture.

So, with respect to that answer, it is probably correct that we are asking at the wrong time but we might have been asking it at the right time had the whole of the timetable stretched slightly and we had seen the working papers.

THE CHAIRMAN: The working papers will give you a more elaborated account of our current state of thinking but our current stage of working, working papers available or not, is still an investigative stage where we do not have a provisional finding on whether there is or is not an adverse effect on competition.

A. (Mr Evans) I think we accept that Mr Chairman. We do accept that. I think the problem is that we are as an industry here sitting in a room together, aware of the fact that we have also got different commercial tensions in our own environment, just trying to make sure that these relatively simple high level questions do not colour your thinking at this stage.

Martin's answer is one thing but Martin's business is completely different to mine and so the complexities, the moving parts in this, are a bit more complex perhaps than first flush.

A. (Mr Gilbert) I will try and put the question slightly more simply: if there is a theory of harm, where is the harm?

A. (Mr J McKeown) We are not the insurers. My reading of your statement is that it is the insurance companies' behaviour that you are looking at but I think what concerns us here is that we get sucked into that as if it is our behaviour that is a concern, whereas really you are looking at a market where you presumably are concerned with what seems to be insurers securing 85 per cent of the repair market. Well, how could you start off thinking that 85 per cent of the repair work is a good thing for the insurers to control because that means that they have got a dominant position, as others speakers have alluded to, independent repairers are put under extreme financial pressures as a result of that competitive power that insurers have.

In other jurisdictions, as far back as 1960 in America, the activities of insurers in this area have been closely watched. They have been very concerned about insurers exploiting their position. And you still will not have looked in terms of repair costs, what it actually costs. Volume repair shops, who maybe have margins of something like £35 per job, it is fine if they are dealing with thousands of jobs a year but a garage who is dealing with a couple of jobs a week cannot survive on £35 a job.

So, as I say, that is where we think there are concerns. You think that the insurers should not be allowed to get referral fees. They will get referral fees in another way and that might be in relation to taking our market from us and I think there are others who would say when they banned referral fees in PI claims, insurers rushed in to buying law firms -- they have now created a very healthy competitive market between themselves in entering the legal world. These things which are supposed to help the market actually just help insurers.

Q. Can I just say, we are well aware that referral fees per se are only one part of a system that is very complex and that if we were looking to change the way that the market operated, because if we came to the view that this market was not operating in the interests of consumers, then given how complex a market is, we recognise we would need to look very carefully at what kind of restructuring of the market would produce a better outcome for consumers.

I say this without any prejudice at all to what you are doing but I would just say, in a very complex situation if something needs to change, changing one thing, a single simple action like banning referral fees on its own, is unlikely to be the whole answer. That is all but this whole discussion is a little bit premature.

I suggest at the end of this session it might be useful to have a discussion about the timing of the programme going forward over the next few months.

Can we come to this at the end of the session and go back for now to the simpler questions about TRVs?

A. (<u>Mr Sandhu</u>) Can I make a point about referral fees then?

Q. Yes.

A. (<u>Mr Sandhu</u>) Again, because of my background, I was on the defendant insurer's side around 2000, just prior to the GTA being launched. The data must be available within the market and mainly within insurance. What the commission is being paid per converted hire were back in 2000 and all the way through to 2012/2013 and the data must also be available in terms of what the average cost of credit hire is.

What I would suggest, from my experience, I do not have the data because I am not in the insurance company, is that commissions have gone up significantly in that time but the average cost per credit hire, not the overall cost because more people enjoy the benefit of the service, but per credit hire, it has not gone up and if anything, it has gone down in the last ten years.

So, there is additional credit hire costs hitting the market but that is because maybe back in 2000 only one in ten consumers benefited from it, whereas today 60 per cent to 70 per cent of the consumers will benefit from it and that has been driven not by anything that happens in our market, it has been driven by the procurement teams of insurance companies and large brokers but that has also allowed them to reclaim some of that cost by way of referral fees. That, I think, must be three times higher today than it would have been back in 2000.

Q. (Mr Wright) The implication of that would be why you do not have the data from the insurer but the implication for your business would be that you would have to climb the margins over that time presumably.

A. (Mr Sandhu) And that is absolutely the case for everybody in this room over the last decade.

What we have had, however, is much greater volume. So, our business model was built on the fact that we would accept that we were on a lower margin but we were based on a return on investment. So, as Peter said earlier on, the efficiency of the process and the reclaiming of the cash were critical to making the business an acceptable return on investment.

Q. (Mr Wright) Just to go back to the question that was asked: what would happen in the market if there were no referral fees? The reason for asking it is not because we are complicating remedies at this stage. We do not have a finding on whether there is an adverse effect on competition but the more hypothetical question which helps us to understand who the market dynamics work: if there were to be referral fees, how would the interaction between insurers and credit hire companies work and the competition between credit hire companies work?

A. (Mr J McKeown) They would just buy out the credit hire companies.

A. (Mr Goodall) Yes. I think there is a missing part of the analogy with the personal injury reforms because the personal injury reforms, the banning of referral fees, was always kind of accepted to get rid of them but I think everybody realised they were a symptom a problem, they were not the real cause of the problem. However, what they did is when they banned the referral fee they also squeezed the fixed costs that were available for legal fees to be paid by an equivalent amount.

So, if you do one without the other, I think the obvious thing is that there is more margin available for somebody and the thoughts probably around this room is the insurers will find some way to get that margin back for themselves, through things like alternative business solutions, joint ventures, those types of things. I do not think anybody here thinks that suddenly it is going to be a windfall for the credit hire industry.

A. (Mr Andrews) May I say a few things on it? I have put some of these in writing to you and first of all, I did express that you exhibit caution because the insurers, with their significant lobbying power, if I may say that just once, are trying to jump on the bandwagon to get the PI referral fee ban extended and it is easy for the Government to do it, should the case for so doing be made. So, it would only take a minor prompt from you to potentially give a political decision to extend the ban on referral fees, which is kind of dangerous but we are there.

The ABI, on behalf of their insurer clients, who are the recipients of this income stream, which they can use to offset costs, are calling for these things to be banned. That is their public stance on referral fees. That defies any logic, does it not?

So, if you say to the ABI, “How are you going to offset the costs base to compensate for the loss of the income?” their answer is, “Well, we will give lesser cars for shorter periods”.

So, the consumer benefit here, and the word volume has been mentioned, less referral fees would be good for us if we could maintain the same volumes and yet we are not here saying we would like referral fees banned because it is very, very complicated.

The volume of claims on credit hire, the volume, which has increased the total cost of credit hire claims, is because of referral fees but the consumer arguably has benefited from that because he gets mobility. Now, this dynamic needs to be very carefully considered and the position of the ABI questioned because they want the referral fees banned so that less consumers are put into cars, which reduces cost; consumer detriment.

A. (Mr Evans) It is the incidental point as well that although this may well be an additional benefit to the consumer that somebody is protecting his interest, is managing his claim, is dealing with the liability issue, is recovering his excess, is making sure his no claims bonus gets reinstated, is providing legal advice consistently like the Financial Conduct Authority says that we should in treating customers fairly, to make sure that in overall terms he is protected; my view is if referral fees disappeared today, water flows downhill, everybody will reach for a way to compete differently.

Insurers will probably do something in the way in which they have done something with regard to the personal injury ban and we would probably have to try and compete by spending that cost good business acquisition elsewhere. So, whether it be advertising, whether it be some kind of different facilitation of accessing the marketplace in a different way, it would not necessarily remove a P&L line out of the industry's profit and loss that would necessarily move back into a lower cost for everyone.

Currently we cannot pass on, as David said, in terms of the relative value of the claim, the relative demands of referrals, we cannot pass on fees over and above anything that (a) the law determines but in 80 per cent-ish of cases the rate that is set within the GTA which is where the majority of these claims get settled.

A. (Mr Gilbert) There is also a big difference between a personal injury and a road traffic accident damage. Whiplash cannot be objectively determined. Damage to a car is absolutely objectively determined. You cannot create more damage than there is in the accident. You can encourage more claims with whiplash. So, the only way to reduce the total credit hire spend is to stop people having cars when they have been deprived of a car that they have been using. So, you have got to prejudice their rights. That is the only way to do it.

THE CHAIRMAN: Can we move on? I would like to ask about how effective the constraints are and sticking with help hire if I may for the moment. How effective are the constraints that stop you providing a vehicle that is bigger and better than the customer is entitled to or prolonging the period of hire longer than is needed or overcharging?

A. (Mr Ward) As we say, we operate under the GTA and in submission of our payment packs to insurers, these are the ones that are not under protocol, we have to set out very clearly what actions we have conducted during the handling of that claim.

They are entitled to ask questions around the submission of that pack and I think we demonstrate quite clearly that we go through that mitigation with the client. So, we would ask the policyholder in terms of what is their need for a vehicle, what is their need for having a vehicle similar to what they have? So, all these mitigation points we will go through to be able to determine what vehicle we would offer to the policyholder, to the client.

There are instances where we would offer something better than they have but we would not charge the insurer for that. It may be just economics of our business in some instances but the insurer will not pay the cost of anything that is better. There are instances where the consumer will say, “Yes, I will have something. I can make do with something different.”

We try to get that right. We do not always get it right every single time. We are dealing with tens of thousands of claims, hundreds of thousands of claim every year but in the main, we will get that right and ultimately when it comes to settling that claim the insurer will argue, if there is something to be argued, that the client did not need this vehicle perhaps or you gave him a better vehicle than we thought they would accept. All those arguments would be at the point of settlement and we have been doing it for 21 years and you reach a point of settlement but the idea is to get it right at the front end.

We are not trying to better what the policyholder has, we are trying to make sure that they know what their options are.

Q. So, are you saying that the GTA is an effective constraint?

A. (Mr Ward) It is for those that absolutely play a proper part in it. As I say, there are mechanisms in there that determine how you provide your services. Absent the GTA, we would still go through those motions of asking the policyholder what is their need for the vehicle and so on, because all said and done, if the claim fails at GTA level - the majority obviously do get settled - we might find ourselves up in the court, if we are trying to achieve settlement where the insurer is disputing that claim.

We would have to still demonstrate to the judge that we have taken all those reasonable steps, the client has taken mitigation necessary to prove that it was going to put them back in the position where they were and we are not seeking betterment and in the main, that works well.

We have very few challenges around the vehicles that we provide and how we provide them. Where those challenges are made, we can find resolution in them and because we have moved to a protocol basis with the larger insurers, those mechanisms are already picked up in that protocol agreement. So, therefore, there is already a mechanism that says that is dealt with. We do not have to revisit the claim, we do not have to introduce [✂] costs, those mechanisms are now picked up and dealt with.

Q. (Mr Stern) Yet the view that people express to us, especially from the insurance industry, is that when they provide a car they provide it on the basis of need and when you provide a car, as an industry, you are more likely to provide what the customer wants, which may not be the same thing and may be more expensive. Is that a fair comment?

A. (Mr Ward) I think it could be a fair comment. I mean, we will ask the question. If on a like-for-like basis there is a need for a vehicle, first of all, and on a like-for-like basis we can demonstrate that that need is valid, then we will provide the right vehicle.

Michael made the point earlier about this with the two wheelchair family and a Ford Ka. Is that appropriate? The insurer's intentions when providing a vehicle, and I do not want to be too general here, but the start off point when insurers provided these intervention services was not to provide the consumer with a like-for-like and make sure that they absolutely got what they were entitled to, the starting point was "Well, what can you make do with?" Now, I ask the question, is that in the consumer's interest.

A. (Mr Sandhu) Yes, that is the point that I would add to. I think there has been, over a number of years now, a misinterpretation of the legal principles of mitigation. Mitigation is not about keeping the costs to the absolute minimum, mitigation is about controlling the costs to avoid them being excessive and insurers have trained their staff to really attack the mitigation point based upon need from an objective point of view, as opposed to the subjective position of need.

So, if someone drives a prestige vehicle, do they need to? The reality is they do not but it is a decision they have made and they carry that cost in their day-to-day life for maintaining that prestige vehicle or a 4x4 or something else and if they were involved in an accident that was not their fault, why should they make do with something less?

Of course, if you are a liability carrier, if you are the insurer, you can have a conversation with a customer and say, "Well, what do you think you could get away with hiring?" but you do not need the nth degree. You can make someone walk or ride a bike but the reality is why should the consumer be left in that position after an accident.

A. (Mr Andrews) Can I mention a few points? I am not sure if you have got a separate GTA comment, in which case they can wait but if insurers want to join the GTA, we welcome them in. If credit hire operators want to join the GTA, well they have to go through an audit and they cannot do the audit until they have invested in people and infrastructure and technology to be able to comply with the terms of the GTA and it is not easy. The audit is expensive. It is a process audit.

Two years/eighteen months ago, we did a test audit of the CHO GTA menders to check their compliance with the GTA. The objective being that if it was not satisfactory every single credit hire company would have got re-audited. It very quickly became apparent that the compliance of the GTA amongst the credit hire companies was so high, and there was a joint press release made with the ABI, that there was no point extending the audit any further. We do not hear insurers saying that the GTA is the solution and yet clearly I think a lot of us round here suggest that it works very well and balances, as a protocol anyway, it balances consumer access to justice and mobility.

Just this morning, I got an email from a CHO member who had had a letter from a GTA insurer, this is a GTA claim I believe, where the credit hire company was asked, in amongst other things, to prove that the client could not, in fact, have borrowed a vehicle from a friend to avoid a temporary replacement vehicle cost.

Q. (Mr Oram) Could I just be clear because Martin made two points. One was the questioning of the driver on a basis of need and the second point was if a better car than the one in the accident for the not at-fault driver then the charge would be the equivalent of the car that crashed, rather than the higher price. I just wanted to be clear around the table; do all the CHCs do that.

A. (All answer) Yes. We would not be paid otherwise.

A. (Mr J McKeown) There would be little point in doing anything otherwise because you would not be able to recover it.

Q. (Mr Oram) So no exceptions? Although Martin did talk about need and David, you said, "Well, should it just be what they need? Should it be what they want?" and so is there a difference between the two of you?

A. (Mr Sandhu) I think it is reasonably accepted in law that if someone has a particular type of vehicle they are entitled to have that particular type of vehicle. The GTA requires us to go through a mitigation statement with the customer and there are specific words within the GTA, and Martin might know them in particular, which say that where it is a prestige vehicle and it is very old we should be downsizing the customer but by default, it is accepted and I do not think any insurer, even though they are not here today, would accept that there is no provision in law to say that someone should take a lower category vehicle after an accident.

THE CHAIRMAN: Martin, can I go back to you saying that the GTA is a demanding process for credit hire companies. Is that why some credit hire companies do not subscribe to the GTA?

A. (Mr Andrews) There will be a wide variety of reasons and ditto insurers. Up until very recently, you had to have national coverage capabilities to join the GTA and most of the smaller members just do not have that but that has been removed.

There was a notional tier two list maintained on the ABI GTA website of companies that had bilateral arrangements with one or more insurer but really, in my view, that was seen as something that they were then aspiring to get full tier one membership. Tier two has now been withdrawn and a significant number of tier twos are applying at the moment to get tier one.

I think roughly about 80 per cent of the credit hire members are GTA members but it is an onerous thing to achieve. You have got to invest in it and you are under no certainty of getting the audit tick.

Q. Are bilaterals an effective substitute for being in the GTA?

A. (Mr Andrews) I think different people around the table would have different answers for that. Arguably, the main objective of a credit hire company is to put a customer who needs a car - debate “need” - into a car for a reasonable period of time, such that they are going to get paid and particularly since the credit crunch, the working capital periods for us to get paid are huge.

If you become over dependent on an insurer, whether it is through bilaterals or through referral volumes, you are extremely vulnerable, as the demise of Drive Assist, who would have been one of the biggest players around this table, has shown you. They would have been here but they are not because they lost insurer contracts.

Getting paid is one of the key priorities and if a bilateral assists companies getting paid, then they choose to do bilaterals rather than GTA. Most insurers and most credit hire companies are in the GTA.

A. (Mr Sandhu) I think it is fair to say most of the bilaterals and obviously I cannot speak for other companies, I do not know what their bilaterals are, but most with bilaterals still have GTA spirit at its core. So, in terms of the process, and certainly the ones that we have, all the contracts that we have are bilaterals and in direct relationship with the at-fault insurer refer back to the GTA process and we are auditable to ensure that we are still following the GTA process for mitigation and hire duration monitoring.

A. (Mr Evans) One of the other things, just in respect to the GTA and the rate and your issue about whether or not to get a better car for a longer period and Martin did not cover it off but having gone through the mitigation issues in need, the onus passes on the credit hire company to ensure that the repair is monitored, progressed, expedited and any delays that are attributed either to the insurer, who might not be the paying insurer, so it is a fault insurer who is repairing the client's car and he has got delays getting his engineer out or ordering parts or doing anything else, any of those delays are minimised and any that are not resolved within a certain time process are communicated back to the at-fault insurer so that he can exercise his procurement people to try and find the bonnet or a body shell or whatever else it might be to repair that car.

Q. Our survey results suggested the average repair duration is higher for when claims are being managed by a non-fault insurer or a CMC than when they are being managed by the at-fault insurer. Why do you think that might be the case?

A. (<u>Mr Evans</u>) I think it is an apples and pears issue. I think when we understand the data -- we were critical at the start of this, a couple of us, that when we saw the data that you are intent on publishing in the working papers, we saw a lot of averages of averages and so we did not recognise some of the numbers that were in there for our own repair durations. We did not recognise them and we gave them to you.

We think that you are under a false premise in certain respects but even if the average of average is a relevant part of it, the other issue is that there are claims that just do not find their way into our population. There are claims for a very short duration where somebody might have, I do not know, a car door opened in a car park and it is going to be a small blemish, but the insurer will record that. The insurer may well repair that, the insurer may repair it on the client's drive and the hire day may be one day and we will not see that, we will not be involved in that.

So, dependent upon where the population of claims is split against fault/non-fault, insurer controlled/hire controlled or any other mechanism and also depending upon the type of vehicle; so whether it a motor cycle, whether it is a high value car, whether it is a run of the mill car, will all influence where the repair length seems to sit.

From what I have seen thus far, I do not, certainly in our data …

A. (<u>Mr Sandhu</u>) Can I ask that from a data assessor end? So, you are going to be looking at the population of claims for direct hire for an insurer where the insurer is proactive to settle the claim. They probably come from insurers that are personal lines insurers who get the claim awarded very quickly by the policyholder and go out and capture the third party.

Where an insurer is a commercial insurer or fleet insurer, they probably have a very long reporting time and those claims then will have a longer duration in our population but they will not appear in your direct hire population.

You need to segment the two sets and compare a more sanitised version of the direct hire with the credit hire because, as Steve said, you are looking at apples and pears. They are not direct comparisons. They are not similar data sets.

A. (Mr Gilbert) Within that direct hire data set you will have situations where the customer has a policy of insurance that gives him a replacement vehicle for 7 or 14 days. That is all. So, that is going to draw down the average.

I think the fairest comparison is where we, for instance, have a credit repair product and we have claims where we have given a temporary replacement vehicle but the hire is managed by the client's own insurer. We are significantly shorter in credit repair cases than we are when the client's own insurer manages the repair. We are actually more efficient not less efficient.

A. (Mr Ellison) I would echo that. Certainly as part of the data assessment, we have said from the statement you released and the average hire days being longer on the repair being managed by a CHO, our credit repairer hire periods are significantly lower compared to either the client's own insurer or the at-fault insurer managing that period. So, they do not seem to tie in.

A. (Mr Jones) It is surprising that it has not been produced in terms that everyone produced similar results in that and yet that does not appear at all in the annotated issues statement, that distinction. You can draw on the distinction between direct hire and credit hire but not who is managing the repair and particularly where credit --

Q. We will look forward to your comments on the relevant working papers in this.

A. (Mr J McKeown) Are you saying that the repair period is for all repairs for cars that are undriveable and cars that are driveable? Are you saying it is for all repairs or just --

A. (Mr Jones) It would have to be full repairs.

A. (Mr J McKeown) Most insurers impose a limit, some insurers only give 7 or 10 or 15 days hire. The other thing a lot of insurers do, they only give you a car when your own car is in the garage being repaired. They do not give it to you for the entire period.

Q. (Mr Wright) The question we were talking about was not actually anything to do with TRV duration, although that is related to the repair duration. It was actually looking just at the repair durations so that in the survey that we found, the results --

A. (Mr J McKeown) How do you know the repair durations?

Q. (Mr Wright) This is from our consumer survey, these results.

A. (Mr Evans) There is a similar test that is applied when we are coming to get settlement of the claim as there was to need and mitigation. If the insurer looks at the repair account and looks at the steps that have been taken in the management of that claim and there is anything that appears not to be correct, so the easiest one to understand is the consumer signs his collection note on a Friday afternoon and the hire period continues to the Monday because the repairer did not tell us that the client had collected his car on the Friday, we cannot bill for the Monday. We cannot.

There is a need for us to make sure that we manage an efficient business by doing the things the GTA requires us to do, and some, and equally there is a total protection that if we do not do that, we will not get paid for the period that we have breached or not behaved appropriately.

THE CHAIRMAN: What influence do credit hire companies have on repair duration?

A. (Mr Sandhu) Very little but we amended the GTA in, I think, it was 2005 which required us to proactively monitor repair cycles and to formally notify an insurer where there was a delay and this was really a process to (1) keep us honest and (2) give the opportunity to the at-fault insurer to proactively intervene if there was an inordinate delay on a repair. For instance, if there was a part waiting to come from Japan or something, the insurer may be able to procure that part from elsewhere.

We certainly employ an army of people doing that monitoring. We are certain what it does to keep the repairer honest in terms of making certain they are repairing it at a reasonable rate and if your own car was in the garage and you were hiring a car, you would probably phone the garage yourself every few days to see how it was going but it probably makes no real material difference.

Even though we do update the insurer every time there is delay, there is no proactive intervention from the insurer to try and reduce that duration, not on any occasion.

Q. You are saying the at-fault insurer does not really have much leverage on the duration of the repair of the non-fault?

A. (Mr Sandhu) They could do and an example, we were talking about total losses, write-offs, earlier on. If you have got a car that is sat in a body shop waiting for parts to be imported, the insurer could make an economic decision to settle that claim for a cash in lieu or a total loss settlement rather than waiting but they would never do so. They are not really geared process-wise to do so.

A. (Mr Evans) There is some macro influence in all of this in that insurers drive the repair industry on key to key times. So, if you are an insurance company, you have an approved repairer network, they will be determined to make sure that the customer experience is as short as possible and the measurement is the moment the customer hands the keys over to the moment he gets them back.

That has created a lot of technological support and management in most of the body repair shops which we all work with. So, there is an over-arching normal principle that when a car goes in it will usually go in to work down a particular process tree that I do not think that we are able to negatively influence and we certainly do all we can to positively influence the speed with which things happen.

A. (Mr M McKeown) Mr Chairman, we positively influence it because all our clients want their vehicles back pronto. So, our hire days, according to your statistics, are maybe two or three days below everybody else's averages, et cetera, which proves that it can be done if you are acting always in the interest of the client who wants their own vehicle back.

Q. Turning to the issue of what happens with TRV service when you compare the kind of service that a captured non-fault claimant will get compared with the non-fault claimant who is coming through a credit hire company. Do you think there is a significant difference in the service that they get?

A. (<u>Mr Evans</u>) I think there is a difference. I am not sure whether or how significant it is without I guess understanding fully some of the data behind your questionnaire. We saw the statistic that 54 per cent of consumers were either not aware of or not advised of their legal rights when they were being assisted in this process. Most of us or all of us are authorised and regulated by the Financial Conduct Authority and we are authorised by the Ministry of Justice and the processes and procedures that we go through to ensure that there is a compliance and a process to treat the customer fairly is quite high.
I think absent that regulatory safety net, and 54 per cent of people said that they were not aware of their legal rights, there must be some kind of differentiation between the provision of just straight mobility, you have had an accident, a car will be there tomorrow, and an explanation of what your legal rights are and what other losses you may have sustained and how best to put yourself back into the position that you were at before the accident.
We do a small amount of work for a single insurer who does intervention themselves and we are aware that when we deliver a car to their customer, and it is just a drop the keys off and go, that the customer is often dissatisfied with the car that turns up because it is not perhaps the car that he was expecting it to be. We do not provide any other services associated with that and that is different to the service that we provide but our service puts the customer at the centre of all of this because without the customer we are not able to properly represent the best way to resolve the whole issue with the insurer.
A. (<u>Mr Sandhu</u>) There is probably another pot of claims that you need to look at to build up a full picture, however, because obviously if you are looking at the

claims which were converted by an insurer trying to be proactive, that insurer obviously got to a “yes” position. You probably should also look at the claims where an insurer attempted to intervene, where they end up as a “no” and what happened to that claim because it may well be the consumers that say, “Yes, I was looked after” were quite happy to take something less than what they were legally entitled to because some consumers are willing to accept that but there might have been a great proportion of people that rejected the insurer’s intervention service and went back to the credit hire market.

A. (Mr Kilpatrick) We provide services to both sides, as a good many people round the table do. We will provide vehicles to captured third parties and direct to a non-fault scenario and I can only comment on the pieces that we do equivalent which is providing the vehicle and monitoring the hire length and measuring the customer satisfaction. We do not see a difference between the two.

However, that does not take into account anything that other people may be doing in a non-fault scenario and whether the third party insurer is doing the same as those people but from a straight vehicle provision we do not see any difference.

A. (Mr Gilbert) Your consumer survey suggests there is a difference. It says that there are significantly more people who have had their car provided by a fault insurer and are dissatisfied with the vehicle. Even when you ask, what is, in all fairness, an emotionally loaded question for a customer: "if you knew the cost of the vehicle would you have been prepared to accept a lesser one, most", most people would still want the vehicle that they were in.

You did not say in that question: "if the cost was reasonable, if the cost was what you would bear in the marketplace". I think the number would have been much higher.

A. (<u>Mr Ward</u>) I think it just demonstrates the journey the industry has been on because I would answer the question in provided services on both sides, is that intervention services when they started maybe ten years ago, I think that is the right sort of date, people were being put into box cars, what we call group A/group B cars, when they may have had something very much more substantial.

I would say, looking at it dispassionately, there has been a gradual move to sort of increase the mix of cars that the intervention insurer will offer. It is nowhere near what the consumer would be entitled to, what they with the right line of questioning and the right approach in terms of letting them understand what their entitlements are, that they would have left in the same position.

I think it is another example of the insurance industry coming on this journey to try and close certain of the gaps that existed and why this industry was born in the first place.

A. (<u>Mr Gilbert</u>) We also note from your survey that the at-fault insurer is less likely to explain the legal entitlement to the customer than any other participant in the industry and there is a reason for that because by not explaining the legal entitlement, they can get them into a lesser vehicle.

A. (<u>Mr J McKeown</u>) There is also another issue on that point: whenever someone's car is damaged, over and above the cost of repair there is also diminution in value of that vehicle. I doubt very much whether an at-fault insurer advises any client about their entitlement to make a claim for that diminution in value.

I think the insurers have the knowledge and experience of the market to know that those clients that they can get swiftly through the repair process will not claim a loss which can be very, very substantial because they do not have access to independent advice. I think it would be interesting to question the people who did deal with an at-fault insurer about whether or not they were advised about that entitlement and whether or not they got anything and whether or not when it was a CMC claim, whether or not there was a different level of compensation claimed.

Q. I want to move back to an issue that was briefly referred to earlier which is the steps that you take to ensure that no-fault claimants do not over claim in relation to a TRV. Can you describe the inquiries that you make to ensure that the claimant is not getting a car that they do not need or a car that is in excess of what they need?

A. (Mr Evans) Let us start with something that we have not talked about thus far. The insurance industry is subject to a fair amount of fraud, attempts to make claims that are not valid or viable claims. So the first step that we go through is we do a fraud check against the customer. We are interested to know the circumstances of the accident, whether or not it matches the damage, we are interested to know whether he is a repeat claimant, whether or not he appears on any of the databases that might indicate that he is a repeat claimant, whether or not any other parties associated with the accident match any of the data entries that we have got over the last ten or twelve years, some of which we share as an industry.

The first bit we are interested in is trying to make sure that the industry and the claim population stays as clean as it is possible to be. Once we have gone through that process, we are then engaged with the consumer to understand what his specific needs are and they can vary. Martin said the customer who has got a need for a box car because he drives a 1.2 litre Vauxhall Corsa, so it is quite hard to work out how you could persuade him that he did not need a Vauxhall 1.2 Corsa because you cannot really get much smaller than that, to a housewife who has got a number of children, who might have a 4x4 simply because the number of children dictate that that is how she is providing transport, where her particular needs may go beyond just the need for a box in a replacement vehicle.

Conversations will take place with the customer about what they use the vehicle for and where their need is and what they can make do with. That is the over claim with regard to the first component of the equation, which is the car that they are going to get.

The second element to the over claim is the period of hire. This industry is relatively simple in hire terms, it is rate times period. The processes that we have got in place, which are defined by the GTA and probably slightly better than the GTA, just ensure that in each phase of the claim, which varies depending on whether the claim is handled by their insurer to repair their car, the at-fault insurer to repair the car, by a credit repair that we have arranged or by somebody else that is providing the repair or whether it is a total loss and who they want to pursue the total loss from, depending on which of those five or six threads that we have got, the claim will move into a different process operationally and there will be a bunch of people there who will be asking different questions and taking different actions to ensure that the claim sits within a certain profile and actions are dealt with and managed.

The biggest issue that we have in that process is engaging with the insurer, usually the at-fault insurer. Wait times on the telephone of up to four hours are not unusual. So, although there is a general bleat from an insurer that we have not done the things that we could do, we often have people sitting engaged for severe lengths of time trying to find out why they have not sent an engineer out, why they have not sent a total loss valuer out, whether they are going to arrange repairs, which repair shop they have allocated. All of that is managed internally by us and the point at which the repair comes to an end is controlled by us.

There are various sets of events that could cause that hire to escalate into an expensive hire. So, it might be the point that I raised and David picked up on, that it is a relatively new car, there are not sufficient parts in the UK to make available to go and fix it, so we will involve the insurer and it may well be that at some point we think that the consumer is not managing his expectations in the right way. Usually the process that people go through is, "I am not claiming on my insurer. I have got a £750 excess. It will impact my no claims bonus. It was not my fault. I want the other guy to pick up the phone and deal with it" and we find that the other insurer is quite lackadaisical about the speed with which they react.

In those circumstances we will put a finite limit, even though the client is entitled to, on the amount of time we allow him to stay mobile whilst waiting for the third party, the at-fault party to react and we will compel him to go to his own insurer, notwithstanding the fact that it impacts his excess and his no claims bonus.

So, we think we do all of those operational things to make sure we are controlling the actual cost. In terms of the cost of settlement then, like everybody here, we try and work with insurers to maximise the pace with which we can get claims settled with the minimum of involvement of each of us. We do have some bilaterals. We do have some block arrangements where we negotiate with people and we want to avoid litigation. All of those things keep costs down.

Q. Can I go back to the first dimension? Do you think your rigour is enough about asking whether the customer actually needs a replacement vehicle at all?

A. (Mr Evans) Based upon the test at law. So, the constraint that we have got is we are regulated by the FCA; we have to treat the customer fairly. We are not here to engage in an attempt to reduce the insurer's costs in a way that puts the client in a position where he is not aware of, advised of and able to exercise his legal entitlement. We have to tell it the way it is and the law defines that.

Are we harsh enough? Yes we question it. In terms of statistics, David had mentioned the issue about vehicles that are over a certain age. We know that about 80 per cent of the vehicles that are over that particular age and fall within a certain class, we down group the customer. That is our statistic.

We know that in the balance the customer has said, "No, I cannot do without". We have had instances where we have turned up at a customer with a competitor, so an insurer has intervened, we have not been aware that the insurer has intervened and coincidentally two cars have arrived at the same time and we have got there with the customer and we are just about to go through the documentation and an intervention car will come up.

We had one case recently where a guy was 32 stone and he was driving a Mercedes Benz S Class and we turned up with an S Class and an interventions driver turned up with a Vauxhall Corsa because the intervention provider had not told the consumer what his entitlement was and he was oblivious to the fact that what he was being delivered was something different. There are some very grey areas that we need to ensure do not cause us to fall out with our obligations to a regulator and doing things properly.

A. (Mr Ward) There is reinforcement of that in the sense of you do not get your claim paid and I think everybody around the table has said at some point in their remarks that we are seeking to deal with the claim effectively and to have the claim paid.

The insurer will not pay claims that they do not feel are validated and that is the reinforcement of good behaviour in getting the process right at the front end, asking the right questions and not sort of just ploughing on regardless and trying to take a claim to a place where it is not going to settle. That is a waste of shareholder funds, it is a waste of time, resource and energy, so I think there are checks and balances in place to prevent that.

Q. (Mr Aaronson) Do you use a formal questionnaire which you get the claimant to sign or is it all done by …?

A. (Mr Gilbert) Yes. We ask them to say that they have got no other vehicle they can use and they need that vehicle and that particular style of vehicle because … and there are a few steps in there to say why they need that particular vehicle. It is headlined “Statement of Truth”.

Q. (Mr Aaronson) They then have to sign that?

A. (Mr Jones) Yes. As part of the GTA process. It is a very clear, very simple, very readily understandable document that the claimant signs.

THE CHAIRMAN: Okay. I am conscious of the time. There are a couple of other issue that I would like, if we have got to time, to address quickly before we are done. One is about supplier relationships and I am looking at AI to respond first on this one.

We are aware that many insurers and some claims management companies have contracts with suppliers, for example, suppliers of paint or suppliers of parts and that generates rebates for them. Do you think that these arrangements achieve efficiency? In other words, is the buying power of CMCs or insurers achieving lower prices for repairers than repairers could achieve for themselves in the marketplace?

A. (Mr Sandhu) I think it achieves two things. What I do think is it allows for controlling the overall paint and sundry cost for a repair but I think the main benefit is bulk buying rather than leaving each individual repair shop to acquire its own paint and sundries. However, the additional benefit is the consistency of that supply which through bulk buying we will be able to exert pressure on those paint companies if their service was not to the standard that was required, which an individual body shop may struggle with themselves.

Q. Okay. Any other comments on this? If not, can I ask a question about Northern Ireland?

We are interested in the fact that the management of claims and the provision of post-accident services seems to be different in Northern Ireland from the rest of the UK and we would like to understand why is it that claims management companies and claim hire companies have not taken off in the

Northern Ireland market in the same way as they have done in the rest of the UK?

A. (Mr M McKeown) One might say it has taken off , but we do not have many players, the same as the other issue reported by you. I would say in the main it has taken off in the fact that we have quite a proportion of the non-fault business, something like the 15 per cent that your survey shows.

From the outset it was all service based. We, in Northern Ireland, did not have anyone paying referral fees and it is only in the last couple of years that we have been influenced by your referral fees, by cross-channel suppliers coming in to buy business in their recession, so it has influenced the market to a degree but it is a small parochial place. Families double the size they are in the mainland and everyone knows everyone. So, business is placed as much as possible with people that they know. Therefore, the insurers think that it has not taken off because we have been there consistently over many years.

We do not have referrals from insurers. We do deal with some smaller brokers but --

Q. But the impression we have is that brokers in Northern Ireland do not refer to credit hire companies in the same way they do in the rest of the UK.

A. (Mr M McKeown) The first thing you have to do is look at what the market is like in Northern Ireland. I have been an underwriter and I am trying to get back into underwriting, so I have some knowledge of that.

Where you might have 60 per cent or 70 per cent, going into direct market and telephone market, we are still back in the 60 per cent or 70 per cent with the brokers because people like to deal face-to-face and they do not like to other places where people do not understand their language and their words.

So, we have a larger proportion still with the brokers.

Then when you look at the broker market, you discover there are actually three brokers who have somewhere like 60 per cent or 70 per cent of that market and those brokers have made their own solutions.

One of them is a do-it-yourself business which gives no one outside any business and has created its own accident management business within that. So, it is a market for these services within that business.

The other two brokers are with a local accident management company who do not appear to be in this market but they very definitely are and they do not appear to be because their alliance and alignment with those two brokers, who believe that they are keeping their insurer base happy by not being involved but, in fact, they are a much, much larger business than we are in the credit hire market. Where we might have contiguous hires of about 200 vehicles, they could have about 400 to 600 vehicles but it is under a sort of a radar in that they pose their business as a legal expenses business, it is separate, but they have a large part of the business and it is coming to them from those brokers.

Now, what relationships they exactly have with them, financial or otherwise, is difficult for us to determine but the market is not badly served for our type of services.

I did not speak earlier when you asked about the GTA. The GTA, as it is, is inoperable in Northern Ireland because the GTA presupposes that the daily rate that you charge includes insurance. Now, this is going to be very circular and bring ourselves back to the bottom again, as that cannot happen because we have got a dysfunctional motor market where you cannot get daily hire if you are an indigenous business. You cannot get daily hire for a hire vehicle, so we could not adhere to the GTA on that basis because we were being asked to pay £15 a day for a small car on insurance on a vehicle that was being billed out at £30 a day. So, we could not adhere to it.

Some of the insurers who are on the ground there were pragmatic enough to make arrangements with us that said, “Okay. Then we will find a way of insuring those vehicles for you” and others do not. So, we are left with our own devices and we have provided insurance for the other hire vehicles by adding those vehicles onto the existing policies of the clients, where that insurer wishes to co-operate, but some insurers decide, for what we can only think is bloody-mindedness to say, “We will not insure a car that is out on credit hire”.

So, it is a circular charge back to themselves and it is very difficult to get co-operation because we are at the tail end of a UK-wide system which disregards Northern Ireland.

That is what the other part of your information is, that you have found out new things about the Northern Ireland market.

What we have got is a concentrated market of which about 50 per cent of that is represented by UK based insurers and the rest by Dublin based insurers, neither of them have a direct presence in the province and each of them deal with us in an entirely different way.

At the end of the summary that this is, I do not think that our existence affects the Northern Ireland market rates. It does not make any dysfunctionalism in the Northern Ireland system. What is dysfunctional in the Northern Ireland insurance system is those insurers who claim to have lost money for the last

50 years but are holding their place in the market and now we are surprised to find that you have found that they were profitable and that frequency is less in Northern Ireland, in the two statements you have made in your report. Our journalists will go wild on this whenever you are able to tell us more but we do not think that there is a real issue in respect of credit hire.

The final thing and I repeat it is I would love a banning of referral fees because we are a small business that does not depend on the insurers and if the insurers were in the business, the effect it would have on it is they might reduce our market position by coercion tactics on those people who do supply us with customers. That is the only risk that we would run but without referral fees, we would be in the position we were up to four years ago, working purely on service and word of mouth.

Q. Thank you.

A. (Mr J McKeown) The credit hire market is so small that it is not attractive to anyone to come into the market from the rest of the UK and you have seen frequencies are lower and that adds to that, there is just not the same volume of claims to make it attractive for people to come in, because of the running costs of this business. It is not easy to set up.

Q. Okay, thank you. We have more than run out of time but is there anything that we have not covered that anyone wanted to add to? Is there anything you wanted to say, Andrew, about timing?

Q. (Mr Wright) I can come back but I think in particular Steve raised a point but I think it was raised by a few other people as well. As you are aware and as I think was said earlier on, we are at the stage of still gathering evidence. The purpose of the working papers and the annotated issues statement is to let the world know what our current thinking is, what kind of evidence we have been gathering from parties and what we are making of that and the purpose is to invite people to come back with more information where it is apparent from the working papers that you believe we have got things wrong or where you want to tell us your views in support.

The process is that, after publishing the annotated issues statement, we will publish the detailed working papers but as I think most of you are probably aware, we are going through a put back process on some of those papers, which involves putting back to you the evidence that you have given to us to make sure that it is accurate and can be put into the public domain. That has taken a little bit longer than we anticipated because lots of parties have come back slightly clarifying or slightly changing the things that they have said, which we then need to consider and represent. We also have to go through an internal process of getting papers suitable for publication and that has taken a little bit longer just for internal administrative reasons.

In terms of the deadline, when we actually get the working papers out we will clearly reconsider whether we need to change that deadline. We have no interest in being unreasonable in the deadline that we give you to respond. This is an important part of our process, so we want to give you a reasonable period in which to respond and if it takes us longer than we expected to get the working papers out, then we would reconsider that deadline of 16 August.

At the moment, our expectation is to get most of the working papers out, hopefully almost all of the working papers out, in the next two or three weeks. There are one or two things which we are aware will probably come in after that, just because of where those pieces of work are.

A. (<u>Mr Sandhu</u>) Two to three weeks from now, we are in August.
Q. (<u>Mr Wright</u>) Yes, absolutely.
A. (<u>Mr Sandhu</u>) It is holiday season as well and so we are going to be expected to turn around and respond within less than two weeks?
Q. (<u>Mr Wright</u>) As I said, we have not yet had the discussion of what the revised deadline will be, if we think a revised deadline is necessary, so we cannot really say at the moment what that will be. If it is two or three weeks' time before we get the papers out, because of those pressures that we have got to go through we are still working through most of the papers. We do not yet know which papers we are going to get out next week or how many that will be or which will be the papers that come to us.
A. (<u>Mr Sandhu</u>) To put it a different way, is there a period of time that you think would be reasonable once all the papers are out?
Q. (<u>Mr Wright</u>) I think it is hard to say that on a categorical basis because it depends which papers we get out and at what stages. Some of our papers, we may expect to require less time to comment than others. Some are very substantial and we would expect most parties to want to comment on those.
If we get the substantial ones out earlier and the ones that require less comment later, then obviously that means that the deadline can be slightly earlier. If it is the other way around, the deadline will be later.
A. (<u>Mr Evans</u>) All we ask is that you do recognise that it is holiday season. He has cancelled his holiday to be here today and is now going away and my finance team, I have got three people fundamentally in senior roles, who sometimes between now and 16 August will be away too.
So, it is just the accuracy of what you are going to get is conditional upon that.

Q. (<u>Mr Wright</u>) We will bear that in mind.

THE CHAIRMAN: Thank you, Andrew and once again thank you to all of you for coming along and contributing to what has been for us a very useful session.

I do appreciate the amount of work that goes into dealing with a Competition Commission investigation; coming along to a meeting like this and the preparations required in meetings like this and more generally, the amount of work that has to go on throughout the life of this investigation, which we know is very important to all of you.

Thank you very much for your time.

Key to punctuation used in transcript

--	Double dashes are used at the end of a line to indicate that the person's speech was cut off by someone else speaking
…	Ellipsis is used at the end of a line to indicate that the person tailed off their speech and didn't finish the sentence.
- xx xx xx -	A pair of single dashes are used to separate strong interruptions from the rest of the sentence e.g. An honest politician – if such a creature exists – would never agree to such a plan. These are unlike commas, which only separate off a weak interruption.
-	Single dashes are used when the strong interruption comes at the end of the sentence, e.g. There was no other way – or was there?