



Association of British Insurers

Response to the Competition Commission Working Paper – Vehicle Inspection Study

1. EXECUTIVE SUMMARY

- 1.1 The ABI is the voice of insurance, representing the general insurance, investment and long-term savings industry. It was formed in 1985 to represent the whole of the industry and today has over 300 members, accounting for some 90% of premiums in the UK.
- 1.2 The ABI welcomes the opportunity to respond to the Competition Commission's (CC) working paper on the vehicle inspection study undertaken by MSX International ("the Study"). We support the CC's evidence-based approach to examining Theory of Harm 2 ("ToH 2"). We agree that any conclusions reached by the CC should be based on a thorough evidential examination.
- 1.3 We consider that there are significant deficiencies in the research methodology used in the Study which make any results unreliable. In particular:
 - 1.3.1 the sample size of 104 is too small to produce reliable and representative results;
 - 1.3.2 The sample selection process appears to have been biased towards those vehicles repaired which were more complex and, therefore, more likely to not be returned in pre-accident condition ("PAC"), or claimants who were more likely to be concerned about the repair quality.
- 1.4 In light of these deficiencies, we would urge the CC to consider very carefully whether the Study can be utilised. Our view is that no reliable, representative conclusions can be drawn from the Study. We consider that the high possibility for bias noted above is likely to explain why the findings of the Study contradict the CC's own findings in its previous working paper on the underprovision of repairs, where it found that *"it was unlikely that customers are systematically put at a disadvantage by insurers or CMCs procuring repair services on their behalf"*¹, upon analysis of the extensive survey it commissioned. In the circumstances, evidence in the CC's working paper on the underprovision of repairs must be given greater weight.
- 1.5 Whilst the deficiencies noted above are immediately apparent and suggest that the report findings are unreliable, we consider that further information is required to fully assess the research methodology adopted and the results produced, e.g. further information as to the sample selection process and assessment of how the PAC was determined. Given the apparent deficiencies, publication of the underlying data for the Study is appropriate.

¹ See CC's working paper "Theory of Harm 2: Underprovision of Repairs".

- 1.6 Notwithstanding our view that the research methodology adopted in the Study is deficient and unreliable, any conclusions that the CC considers can reasonably be drawn provide no support for the underlying assumption in ToH 2 relating to customers being disadvantaged due to lack of information or expertise.

2. BACKGROUND INFORMATION

- 2.1 We understand that the Study was commissioned to assist the CC in its consideration of ToH 2, namely harm arising from the beneficiary of post-accident services being different from and possibly less well informed than the procurer of those services. The CC is investigating whether consumers are put at a disadvantage due to information asymmetries, leading to a lack of alignment between their interests and those of the parties which procure post-accident services on their behalf.
- 2.2 ToH 2 is based on the following assumption: *“The claimant may not be able to verify the quality of the repair or may believe himself to be unable to dispute the repair approach chosen (e.g. whether to repair or replace parts and the kind of parts used)”*².
- 2.3 The CC, in its Annotated Issues Statement dated 5 July 2013, concluded that there was no evidence of systematic underprovision of repairs. This was based on: a review of survey evidence (collated by IFF Research); how repairs are monitored; the standards adhered to; and customer feedback on repairs.
- 2.4 Notwithstanding this conclusion, the CC understandably commissioned MSX International to undertake inspections of vehicles involved in accidents and subsequently repaired, on the basis that some submissions provided indicated that the repair quality of *‘insurer-managed repairs is often poor’*³.

3. OBSERVATIONS ON RESEARCH METHODOLOGY

- 3.1 We note that a quantitative methodological approach has been taken in the Study.
- 3.2 We note that only 104 vehicles were inspected in total. In light of the fact that there are between 1 and 2 million cars repaired annually, we do not consider that this sample allows for any reliable conclusions to be drawn as to systematic failings in repair standards in the Private Motor Insurance (PMI) market (including whether there is a difference in standards between at-fault and non-fault repairs).
- 3.3 The vehicles were not selected at random, which is likely to result in bias. We note that:
- 3.3.1 The vehicles inspected were from ‘captured’ claims and depended upon claimants being available to respond (page 41 confirms that the availability of the owner was the key factor in scheduling inspections). We consider that claimants who responded to both the original non-fault survey⁴ and the inspection requests were more likely to be those dissatisfied with the repair works.

² Page 10, Competition Commission, *Private Motor Insurance Market Investigation, Statement of Issues*.

³ Paragraph 3, page 2, CC, *‘Private Motor Insurance Market Investigation: Theory of Harm 2: Underprovision of repairs’*

⁴ e.g. The IFF Survey found that not-at-fault claimants were more likely to say their vehicle was in worse condition, page 72, *‘Private Motor Insurance Market Inquiry, IFF Research, 12 June 2013*. The IFF Survey also found that those who felt their vehicle was in worse condition were more likely to have had their claim handled by the at-fault insurer. See CC Not-at Fault Survey tables, tables 74 and 128.

- 3.3.2 The vehicles were selected based on MSX International's ability to assess PAC, through prioritisation of the vehicles according to the type and scale of repairs and from the documentation provided. While further information on this aspect of the selection is required, we consider that there is a high probability of bias resulting from this process. In particular, those repairs prioritised and requiring more documentation were likely to be more complex and, therefore, statistically more likely to be returned in non-PAC. For this reason, it is not surprising that a high proportion of the vehicles inspected were also found to have required rectification works after initial repair⁵.

In light of these observations and the fact that no consideration has been given to rebalancing the sample after the various steps of the selection process, any findings are likely to be biased, unreliable and unrepresentative.

- 3.4 We consider that more detail is needed as to how the inspectors ascertained the PAC of the vehicles. Without this information, the adequacy of the research results cannot be examined. If the assessment of PAC was not controlled, this introduces subjectivity based on the views of individual inspectors and increases the possibility of inclusion of pre-accident damage in any assessment. Representative conclusions cannot be drawn from such an exercise.
- 3.5 We do not consider that the binary classification of 'PAC' and 'non-PAC' is helpful. It is inevitable that those vehicles deemed to be in non-PAC include vehicles where the difference between the actual repair and the PAC are minimal. Other methods, for instance, classification on the basis of percentage 'deviation', would have been significantly more useful.
- 3.6 No information has been supplied as to the lapse of time between vehicle repair and vehicle inspection. This variable would have an impact on the reliability of the findings, given the increased risk of damage occurring subsequent to repairs undertaken by an insurer.
- 3.7 No error margins have been quoted in the Study, as would be expected from sampling carried out in an appropriately statistical context. Given the potential biases noted above, we would expect error margins to be significant.
- 3.8 No details have been provided as to the proportion of vehicles repaired by: insurer-owned repairers or insurer-approved networks; CMC approved networks; or customer selected repairers. This information would be necessary to fully evaluate how any conclusions reached impact on the competition issues under consideration.
- 3.9 We endorse the CC's statement on page 'C' that statistical significance cannot be placed on the finding that the proportion of non-PAC cases is much lower when the repairer is chosen by the customer than when the repairer is chosen by the insurer. As outlined above, the limited scope of the Study makes drawing representative conclusions problematic.

⁵ 48%, as confirmed on page 21.

- 3.10 The survey acknowledges that inspections were not carried out under scientific or workshop conditions. We consider that the limitations of the research methodology mean that no adequate conclusions can be drawn. In these circumstances, the evidence in the CC's working paper on the underprovision of repairs must be given greater weight.

4. OBSERVATIONS ON RESEARCH OUTCOMES

- 4.1 The results of the Study indicate that:
- 4.1.1 of those vehicles examined, 43% of repairs were in non-PAC⁶.
 - 4.1.2 20% of the respondents selected to have their vehicles inspected considered that their vehicle was returned in a worse condition after the accident⁷.
 - 4.1.3 The main deficiencies in repairs were cosmetic in nature relating to: paint finish; panel alignment; and repair work undertaken that were clearly visible⁸.
- 4.2 The conclusions in the Study contradict the IFF Survey Report of 1,500 not-at-fault claimants which demonstrated that 88% of respondents considered that their vehicles were in the same or better condition after accident repairs were carried out by their insurer. We consider that the IFF Survey has considerably more chance of being reliable or representative, given the limited sample size and bias towards claimants concerned about the repair quality, noted above.
- 4.3 The conclusions also run contrary to the findings in the GIMRA survey of 2,500 PMI claimants, which found that the number of claimants stating that the repair left their vehicle in a better condition is high in comparison with both the IFF survey and the results of surveys carried out by insurers and repairs. Again, we consider that the GIMRA survey is more likely to be being reliable and representative.
- 4.4 Notwithstanding the observations we have made in respect of deficiencies in the research methodology adopted in the Study, we acknowledge that repairs are inevitably not likely to be made to PAC in 100% of cases. This is despite the quality management systems insurers have in place, which have already been acknowledged by the CC in its working paper on the underprovision of repairs (i.e. approved repair networks; accreditation requirements; repair methods/standards; auditing processes; performance targets; warranties; customer satisfaction surveys). This is why our members have complaints procedures in place that enable customers to challenge the standard of repairs and seek remedies. These processes are ultimately in place with the aim of treating customers fairly.

⁶ Page 16 of the Study.

⁷ Page 23 of the Study.

⁸ Page 42 of the Study.

- 4.5 Even if the findings in the Study are considered by the CC to be representative (which, for the avoidance of doubt, we do not accept), given that the majority of defects were of a cosmetic and obvious nature, we consider that the findings in the Study do not support the assumption underlying ToH 2. There is generally no lack of knowledge which would prevent customers highlighting non-PAC repairs through complaint processes and exercising warranties. This conforms with the CC's previous statement that it is '*less concerned in relation to cosmetic aspects of the repair*⁹ for this reason.

5. CONCLUSION

- 5.1 We consider that deficiencies in the research methodology adopted in the Study mean that conclusions cannot reliably be drawn. In particular:
- 5.1.1 the sample size of 104 is significantly too small to produce reliable and representative results;
 - 5.1.2 The sample selection process appears to have been biased towards those vehicles repaired which were more complex and, therefore, more likely to not be returned in PAC, or claimants who were more likely to be concerned about the repair quality.
- 5.2 In light of this, we consider that conclusions cannot be drawn and the evidence in the CC's working paper on the underprovision of repairs must be relied upon in the alternative.
- 5.3 Whilst the deficiencies noted above are immediately apparent, we consider that further information is needed to fully assess the research methodology adopted and the results produced through publication of the underlying data for the Study, e.g. further information as to the sample selection process and assessment of how the PAC was determined.
- 5.4 If, contrary to our view, the CC considers conclusions can reasonably be drawn from the Study, they provide no support for the assumption made in ToH 2 relating to customers being disadvantaged due to lack of information or expertise.

⁹ Page 21, CC, '*Private Motor Insurance Market Investigation: Theory of Harm 2: Underprovision of repairs*'