

COMPETITION COMMISSION
PRIVATE MOTOR INSURANCE MARKET INVESTIGATION

**Notes of a hearing with Association of British Insurers, Ageas UK, Allianz,
Zurich, Liverpool Victoria & RSA
held at Competition Commission, Southampton Row, London
on Tuesday, 16 July 2013**

PRESENT:

FOR THE COMPETITION COMMISSION

Alasdair Smith	- Chairman
Robin Aaronson	- Members
Steve Oram	- Members
Anthony Stern	- Members

FOR THE STAFF

Andrew Wright	- Inquiry Director
Leslie Neubecker	- Economist
Dipesh Shah	- Business Adviser
Philip Dixon	- Business Advisor
Kirsty Miller	- Legal Adviser
Sarah McCadden	- Legal Researcher

FOR THE PRIVATE MOTOR INSURANCE COMPANIES

Martin Milliner	- Claims Director, Liverpool Victoria
John O'Roarke	- Managing Director, Liverpool Victoria
Tim Holliday	- UKGI Chief Underwriting Officer, Zurich
Jon Cawley	- Motor Claims Director UK, Head of Personal Lines Claims UK, Zurich
Martin Saunders	- Divisional Claims Manager, Allianz
Graham Gibson	- Director Claims, Allianz
Neville Howe	- General Counsel, UK & Western Europe, RSA
Ian Currie	- UK Motor & Injury Claims Director, RSA
Andy Watson	- Chief Executive Officer, Ageas UK
Rob Smale	- Claims Director, Ageas Insurance
James Dalton	- Head of Motor Insurance, ABI
Rob Cummings	- Policy Advisor: Motor, ABI

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1 THE CHAIRMAN: Well, if we are all here and settled down, let us start. Thank you
2 all very much for coming here today to help us with our work on this market
3 investigation. Let us start with introductions. I would suggest that what we do
4 is we do individual introductions around the central table for the sake of the
5 transcript writer and if in due course, in the process, people sitting in the back
6 row want to join in the discussion at any point, if you could introduce yourself
7 at that point rather than the initial introductions.

8 I am Alasdair Smith. I am a deputy chair of the Competition Commission and
9 I am Chair of the group conducting this investigation.

10 Q. (Mr Oram) I am Steve Oram, panel member.

11 Q. (Mr Wright) I am Andrew Wright, the Inquiry Director.

12 Q. (Mr Stern) I am Anthony Stern. I am one of the panel members.

13 Q. (Mr Aaronson) Robin Aaronson, panel member.

14 A. (Mr Millner) Martin Millner, Claims Director from Liverpool Victoria.

15 A. (Mr O’Roarke) I am John O’Roarke. I am the Managing Director of Liverpool
16 Victoria.

17 A. (Mr Holliday) Tim Holliday, I am the Chief Underwriting Officer for Zurich in
18 the UK.

19 A. (Mr Cawley) Jon Cawley, Motor Claims Director, Zurich.

20 A. (Mr Saunders) Martin Saunders, Head of Technical, Allianz.

21 A. (Mr Gibson) Graham Gibson, Director of Claims, Allianz.

22 A. (Mr Howe) Neville Howe, General Counsel at RSA.

23 A. (Mr Currie) Ian Currie, Motor Claims Director for RSA.

24 A. (Mr Watson) Andy Watson. I am the CEO of Ageas UK.

25 A. (Mr Smale) Rob Smale, Claims Director, Ageas.

1 A. (Mr Dalton) James Dalton, the Head of Motor Insurance at the Association of
2 British Insurers.

3 A. (Mr Cummings) Rob Cummings, Policy Advisor for Motor at the Association
4 of British Insurers.

5 THE CHAIRMAN: Okay. Let me say some things by way of introduction before we
6 get underway. As you are aware, today's meeting is being structured as a
7 joint hearing, just for the practical reason that given the number of parties
8 interested in this investigation, if we conducted individual hearings with all the
9 interested parties it would be unfeasible.

10 We have been mindful of the fact that it is a joint hearing in structuring the
11 questions that we wanted covered but I want to remind you at the beginning
12 that it is your responsibility to make sure that you do not stray into areas
13 where it would be inappropriate to have discussions in front of your
14 competitors.

15 If there are areas where you would like to share confidential information or
16 views with us on things that we raise today, then of course you will very
17 welcome. We encourage you very strongly to get in touch with us directly with
18 that information or those views.

19 I would like to say too that our hope in having the ABI here is not to reiterate
20 what the rest of you have to say but in particular to be the voice of the many
21 smaller insurers who have interests in the industry but whom we are unable to
22 accommodate round the table here.

23 I am not going to take you through our rules and procedures of hearings,
24 since we have sent you information about that but as already noted, I draw
25 your attention to the fact that we are taking a transcript of this hearing. We

1 will give you a draft of the transcript, I hope within the next week, and we
2 would ask you to check the draft and correct any transcription errors or any
3 minor errors that you might have made in response to questions. If, on
4 reviewing the transcript, there are issues where you want to substantially
5 correct what you have said or add to it, then the best way to do that is to write
6 to us in a separate letter about that.

7 We normally in hearings like to publish just a summary of the evidence but we
8 have decided that on this occasion, the best way to keep the outside world
9 informed about what we are doing is to publish on our website the full
10 transcript of this hearing. I trust that you will not find yourself saying anything
11 that is confidential during the course of the hearing but if by chance that does
12 happen, then please check the transcript of the hearing to make sure that
13 there is not any information in it that should not be published because we will
14 excise it before publication if that happens.

15 I do have to remind you that it is a criminal offence under Section 117 of the
16 Enterprise Act knowingly or recklessly to provide false or misleading
17 information to the Competition Commission. Normally I feel slightly
18 embarrassed about telling people that they are under an obligation to tell the
19 truth but since we have all had the experience many times of being reminded
20 by our insurers that we are under an obligation to tell the truth, I do not feel
21 quite so embarrassed about saying it to you as I do to other people.

22 The way we are going to conduct this hearing today is I am going to take the
23 lead in taking us through the questions that we have prepared but other
24 members of the panel and members of the staff team sitting behind me might,
25 I hope will, chip in at various points with supplementary questions and follow-

1 up questions.

2 I am going to ask an introductory opening question and invite each of you to
3 make a, hopefully brief, response and certainly no more than five minutes but
4 on each of the subsequent areas of questioning I am going to ask one of you
5 to lead off with the responses and then encourage the rest of you then to join
6 in if there are things to add, especially, of course, if there are things to
7 disagree with and we would be very happy if questions lead to a lively
8 exchange of views. We regard that as a very successful outcome of this
9 session.

10 Given that we have got quite a lot of ground to cover, we have got six parties
11 round the table, I would encourage you not to spend a lot of time agreeing
12 with each other. If you want to say, "I agree with what has just been said",
13 that is fine but do not make long statements agreeing with each other. That is
14 not a very good use of time.

15 I think the last thing that I want to say at the beginning of this hearing is just to
16 emphasise what you already know about the stage that we are at in this
17 investigation. We have got an extended timetable for this inquiry. Market
18 investigations take time. This is a complicated sector. We have spent
19 months developing our understanding of the issues in this sector and we are
20 now at the stage where we want to test some of our thinking and that is what
21 we are doing today.

22 You have had our Annotated Issues Statement which tells you what stage we
23 have reached in our thinking. We have not reached conclusions about the
24 statutory question we are asked to address and therefore, we have not begun
25 to address the question of what remedies might be appropriate, if there are

1 issues that need to be addressed in this investigation. So, do not read into
2 any of the questions that we might ask today, any inference about decisions
3 that we have made. That would be a mistake. We have not made any
4 decisions and we are here to test various aspects of our thinking.

5 We are aiming to publish our Provisional Findings report in late October or
6 possibly early November.

7 The introductory question I would like to start off with is given what we have
8 told you about where we are in our thinking and the range of issues that are
9 discussed in our Annotated Issues Statement, I would like you to comment on
10 whether you think we are looking at the right issues, have we got anything
11 wrong in the range of things that we are looking at and if we have got anything
12 wrong, what is it that we are missing? So, I would like to start with ABI and
13 then go round the table and have each of you comment effectively on where
14 you think we are at and whether we are in the right place at the moment.

15 A. (Mr Dalton) Well, thank you very much for the opportunity to be here and I
16 think it is fair to say that the industry certainly welcomes the work of the
17 Commission to date and indeed we are strong supporters of the OFT referring
18 the market to the Commission for investigation.

19 Generally, I think what we want to see from the work that the Commission is
20 doing is a reduction in the inflationary pressure put on the price of car
21 insurance, an increase in the control that the at fault insurer has over claims
22 that they are responsible for paying, increased certainty for consumers as to
23 how their claims may be handled, an improvement in the level and quality and
24 service insurers are able to offer their customers, and insurers maintaining the
25 incentive to invest in product differentiation and continuous improvement in

1 customer service.

2 With those points in mind, we are, as I say, very supportive of the work
3 undertaken to date by the Commission as set out in the Annotated Issues
4 Statement. We are in broad agreement with the key issues set out under
5 each of the theories of harm and in terms of the specific areas of those
6 theories of harm upon which there is continued focus.

7 We agree that the focus of your inquiry should remain in TOH1 ('theories of
8 harm 1') in relation to the repair and replacement of vehicles and not in
9 relation to bodily injury. Of the five areas of harm, we believe TOH1 is where
10 the potential for consumer detriment is highest.

11 I think at this point it is worth flagging that it is only possible to comment on
12 the Annotated Issues Statement from 5 July, which as I say we recognise sets
13 out the Commission's thinking and with which we are in broad agreement but
14 any answers, certainly from the ABI, that we provide today are done without
15 the benefit of having considered the material and the working papers. On that
16 point, I think the ABI and certainly others in the insurance industry, do have
17 some concerns about the current timetable for the inquiry and our ability to
18 provide as much assistance to the Commission as we as an industry would
19 like to in terms of the current deadlines - in particular in light of the number of
20 working papers which are likely to be published over the coming weeks.

21 I am not saying that this is an appropriate point to flag this up. Well, I flag this
22 up but maybe not for consideration now but it might be useful to consider
23 whether the administrative timetable might need to be amended in light of the
24 particularly pressing timeframes and the amount of material that you are likely
25 to publish over the coming days.

1 Q. Ageas?

2 A. (Mr Watson) Thank you. Let me confirm that Ageas welcomes the
3 opportunity to attend this hearing. We firmly believe that independent and
4 objective review of industry practices is positive and as a business, and
5 indeed as part of the UK insurance industry, we are all ultimately here to
6 protect customers by providing insurance cover that they need at the correct
7 price for the risk that is presented.

8 By way of introduction to Ageas: Ageas is the second largest car insurer in the
9 UK measured by vehicles insured. We insure over 3.3 million motorists
10 through our underwriting businesses; Ageas Insurance Limited, Groupama
11 Insurance Company Limited and our partnership with Tesco Bank.

12 Again, by way of introduction and flagging the type of company that Ageas
13 aspires to be, we have been recognised by a number of external bodies for
14 how we treat our customers and how we run our business in the best interests
15 of our stakeholders and I would flag that we hold the Gold Standard Award
16 which is awarded to financial services companies that go above and beyond
17 the standard business practices to promote consumer trust in our sector and
18 we have the Institute of Consumer Services who, following their independent
19 assessment of a number of our operations, has awarded Ageas world class
20 status and the accreditation ServiceMark.

21 In terms of what we would like to see out of this investigation, we believe
22 customers have the right to choose what insurance cover they need and the
23 price they are willing to pay for such cover from reputable and transparent
24 insurance providers and when they seek advice to expect that those who
25 provide it should act in the best interests of the customer and reflect their

1 individual needs.

2 To answer your question more specifically Mr Chair, we have reviewed and
3 indeed with interest the Competition Commission's Annotated Issues
4 Statement. Our broad summary is that to a large extent we think that the
5 Competition Commission is on the right track. We do have the important
6 caveat that we look forward to seeing the detailed analysis within all of the
7 working papers, which may impact our thinking. We will welcome the
8 opportunity to respond to that detail in due course.

9 Within the information that has been published so far, we believe that the key
10 issues for us are theory of harm 1 and the use of most favoured nation
11 clauses by price comparison websites.

12 If I may touch on those two areas specifically: theory of harm 1, the separation
13 of cost liability and cost control. We indeed agree with your analysis that
14 separation of cost liability and cost control does create a moral hazard. We
15 noted in your Annotated Issues Statement that there is no difference in the
16 quality of repairs in a fault and non-fault situation and this is consistent with
17 our own experience and, indeed, it is what we try to achieve.

18 However, we also noted in the Annotated Issues Statement that the
19 separation of cost liability and cost control can increase the average cost of a
20 non-fault repair for the fault insurer by up to £300. We do recognise this as a
21 potential issue. Of course, the differential could be for a number of different
22 reasons and robust analysis is required. We look forward to seeing the
23 Competition Commission's analysis when it is published.

24 We also agree with your analysis that the cost of temporary replacement
25 vehicles is higher in a credit hire agreement compared to a direct hire

1 agreement, primarily because vehicles are charged at a higher daily rate.
2 Again, it is important to see the robust analysis before firm conclusions can be
3 reached but, indeed, this is similar to our own experience.

4 Whatever remedies, and I am taking your lead in not anticipating any, but
5 whatever remedies are subsequently found to these issues, we believe they
6 should adhere to the simple principle of control over costs for the insurer
7 coupled with safeguards over quality for the customer.

8 If I may touch on theory of harm 5 which is where most favoured nation
9 clauses are raised. First of all, some context: Ageas welcomes the existence
10 of price comparison websites. For consumers they provide ready access to a
11 wide variety of insurance providers and the ability to compare prices and
12 products and for insurance providers they represent a valuable route to
13 market and account already for a significant proportion of sales. However, we
14 do have some concerns with most favoured nation clauses which we regard
15 as unfair and contrary to a competitive market.

16 As the insurer, we think it is fair that we are able to price for different risks in
17 different circumstances. The channel through which the customer buys their
18 insurance impacts the risk and, therefore, the price. The risk can even be
19 impacted within the same channel, for example, a loss ratio for similar risks
20 can be different within the price comparison website channel.

21 It is well recognised the price comparison websites represent a higher fraud
22 risk than other channels. It is known, for example, that some customers will
23 game by changing their details in an effort to secure lower prices. Most
24 favoured nation clauses can prevent us rewarding other distributors and their
25 customers for their lower risk profile and their efforts to help us detect fraud

1 are more accurately priced for the insurance risk. Even within the price
2 comparison website sector, some price comparison websites have sought to
3 innovate, for example, by providing better information on potential fraud.
4 Again, MFNs prevent us from rewarding their customers for those efforts
5 through better prices.

6 Withdrawing from price comparison websites is not really a viable option for
7 us, recognising the market dominance of the main price comparison websites
8 which generate 97 per cent of aggregated base sales. Insurance providers
9 are, therefore, in a weak bargaining position compared with the main price
10 comparison websites.

11 The more far reaching the MFN, the stronger our objection is and we
12 encourage the Competition Commission to look further at the issue.

13 Just to summarise: Ageas welcomes the opportunity of attending this hearing
14 and the independent review by the Competition Commission. We look
15 forward to discussing the relevant issues with you today. What we are looking
16 to the review to achieve is an outcome that is in the best interest of the
17 customer, the UK motor insurance industry and other parts of the customer
18 value chain.

19 Q. Thank you. RSA?

20 A. (Mr Howe) I guess in common with those that have gone before, we welcome
21 the opportunity to engage with the Competition Commission and we certainly
22 are supporters of the reference to the Competition Commission.

23 We are absolutely in agreement with the focus of the report here, that actually
24 the focus ought to be on theories of harm 1 and we see the key issues to look
25 at being around credit hire and repair also as an issue there. We are really

1 pleased that fraud and bodily injury have been left to one side by the
2 Competition Commission because that is obviously, in terms of scale, a larger
3 issue but there is quite a lot of change in that area being driven through the
4 MoJ and elsewhere.

5 There is no doubt when we look at it that the biggest driver in terms of the
6 costs coming through on theory of harm 1 is coming through from the credit
7 hire side and we would agree broadly with your figures that you produced in
8 relation to that, i.e. we think there is an overprovision. You have come up with
9 3.7 days, I do not think that is a million miles off the mark, certainly from what
10 we have seen and certainly the figures you have come up with on repair, so
11 that is £200 on average, the difference between at fault and not at fault again,
12 we would agree with that and similarly to your credit repair rates. So, broadly
13 in terms of the figures and the size of the problem that you are coming up
14 with, we would agree with that.

15 I guess one thing that we are really pleased to see is that you are seeing that
16 there is no under-provision in relation to repair because again I think that
17 reflects, certainly as RSA but as an industry, we have certainly striven to
18 reduce costs overall and certainly to increase service and standards and
19 quality of repair and I think we have seen that as an industry over the last few
20 years.

21 We would look at the issues that you are looking at under theory of harm 1 as
22 ones that are complex and certainly I think it is an area that as an industry we
23 have scratched our heads over for some years and since reference to the
24 OFT and they have sort of given it to the Competition Commission, clearly we
25 have been focused, I guess, if it is possible, even more firmly on this area and

1 again there was no silver bullet that we see and I guess one of the reasons for
2 that is just the sheer number of parties. It is not just the insurance industry
3 but it is the intermediaries and then the repair networks. So, really
4 encouraged by the number of parties you have clearly got engaged through
5 this process.

6 Just a couple of thoughts in terms of where this goes and I know we are not in
7 solution mode at the moment but I think we have given some thought to
8 outcomes, in terms of what we would be looking for around theories of harm 1
9 and there is no doubt that I think there are four outcomes that we have set
10 out: the first one is to protect the customer's legal rights to full rectification
11 where they are not at fault, absolutely that is to be a central plank; to maintain
12 and enhance quality and service on a claim and that includes speed, that
13 needs to be an outcome; I know it is in common with points that have been
14 raised already but just to give more control to at fault insurers who ultimately
15 are the ones, of course, who pay these claims and then to make sure that we
16 reduce costs overall. So, those are frictional costs. Clearly we have got
17 leakage where effectively monies pass out of the system and come out of the
18 chain and therefore, do not reduce premiums. I guess the last point for me on
19 that is to make sure that we maintain the incentives within the industry to keep
20 costs of repairs down and to keep costs of temporary replacement vehicles
21 down whilst keeping quality up.

22 Those were our key points around theories of harm 1, which I think is the
23 central point for us.

24 In terms of the other points, I think the only other point that I would draw out is
25 there are a number of points and we do not disagree I think with the points

1 that have been pulled out through your report but there is cross over with the
2 FCA and areas that other regulators are looking at. From RSA's perspective
3 we would just like to make sure that there is clear alignment between what the
4 Competition Commission is looking at and what the FCA is looking at and I
5 think around examples such as transparency and add-ons, our view is that
6 those should be left to the FCA.

7 I think those are our overall main points to make but I think overall the focus
8 on theories of harm 1 and a very welcome engagement with the Competition
9 Commission.

10 Q. Thank you. Allianz?

11 A. (Mr Saunders) Good afternoon everybody. Like others before me, Allianz
12 also welcomes this opportunity to participate and comment. I must put a flag
13 down in the sense that Allianz Insurance Plc does not trade in or have
14 knowledge of the Northern Ireland PMI. Allianz Plc is a separate entity and
15 would need to be approached as far as that is concerned.

16 Allianz's general position is that the business of insurers should be insurance.
17 The focus should be on charging a competitive premium and using economies
18 of scale, process efficiencies and expense control to achieve a profit for our
19 shareholder. Balanced with a focus on customer service delivery, these are
20 the proper activities of insurers that drive a responsible and competitive
21 market, which benefits the customer.

22 In recent years, insurers have become more and more focused on achieving
23 legally permitted but hidden income streams. These might include achieving
24 a profit margin on vehicle repairs, receiving referral fees on credit hire and
25 personal injury claims, receiving retrospective rebates in place of properly

1 negotiated discounts, differential pricing of fault and non-fault claims for motor
2 repairs. This has created a moral hazard. The sole purpose is to achieve
3 commercial benefit by increasing competitor's cost and we believe this to be
4 short-sighted. Such benefit is only achieved if one insurer adopts a practice in
5 isolation. The reality is that others will follow and costs will rise.

6 Claims inflation can only be funded from one source; premium increases. We
7 fully agree with the Competition Commission's current thinking based on the
8 evidence seen to date that separation of costs liability and cost control in the
9 provision of post-accident services to non-fault PMI claimants has given rise
10 to this moral hazard problem.

11 We would like to take this opportunity to introduce what we consider to be the
12 key moral hazard practices.

13 Repairs: Allianz has agreed discounts with its repairer network and those
14 same discounts apply irrespective of fault with Allianz passing the discounted
15 price of the actual repairs charged by the garage. The full discount is also
16 passed onto an at fault insurer. We believe all insurers should operate in this
17 way and barriers remain our referral fees, retrospective rebates, differential
18 pricing of vertically integrated repair models openly created to generate this
19 legally permitted margin.

20 Bilateral agreements have been heralded as the solution. Experience proves
21 that is not always the case. The reduction in paper exchange ('RIPE') was a
22 market agreement that operated through the ABI for approximately ten years.
23 It expressly stated that the cost of repair recovered should be net of any
24 discounts. In return for this promise and based on trust, signatories did not
25 require copies of estimates and invoices to evidence the repair claim.

1 In June 2008 the RIPE market agreement was cancelled due to competition
2 concerns. Insurers were and did enter individual RIPE bilaterals adopting the
3 same terms but it was later established that at least one insurer that Allianz
4 had such a bilateral agreement with was not passing on discounts. They
5 were seeking a legally permitted margin on repairs. A leading case *Coles v*
6 *Hetherton* was argued that bilaterals had no legal effect and cannot be relied
7 upon.

8 I must comment on vertical integrated repair models and the panel will be
9 aware of the ongoing litigation in the matter of *Coles v Hetherton*, such as
10 Allianz is concerned, regarding the development of this business model, that it
11 was the sole focus of our response to the statement of issues. His Honour
12 Judge Platt in *Fallows v Harkers* suggested that this repair model may
13 increase repair costs by approximately 25 per cent and we have validated that
14 assessment in many claims that we have seen.

15 Allianz submits that it cannot be right for an insurer that charges a premium
16 for a product to secure margin from the cost of providing the very thing that
17 the premium relates to, repairing the car and this model is yet another
18 dysfunctional practice that has been introduced into the PMI market, a fresh
19 layer on top of rebates, referrals, differential pricing. It is of no benefit to the
20 consumer and can only exacerbate existing problems and adversely impact
21 on premiums.

22 Notwithstanding the legal position which I should say is subject to the appeal
23 before the courts, the Competition Commission has the ability to and should
24 conclude that this is a feature of the market that restricts and distorts
25 competition to the detriment of the consumers and for the purposes of the

1 Enterprise Act. The Competition Commission should remedy the moral
2 hazard and over-costing that arises.

3 Other referral fees: Allianz does refer non-fault policyholders to a credit hire
4 organisation. There was a business choice of following others or accepting a
5 commercial disadvantage. We have been transparent about our
6 arrangements, the income generated, and our unease concerning the practice
7 and have been vocal in calling for a ban on all forms of referral fees. Allianz
8 would welcome and support the Competition Commission for all insurers to
9 reveal the full extent of referral fee income from all sources.

10 Whilst personal injury referral fees paid by lawyers have now been banned,
11 other forms of referral fee remain legal practice and the detriment remains.

12 Add-ons: we believe that the price for the core insurance product should be
13 the consumer's starting point. A menu of add-ons with a product description
14 and price should be available, enabling the consumer to build a bespoke
15 insurance product, bottom-up, to meet their specific requirements. Allianz
16 does not operate a top-down approach of including add-ons as part of any
17 base build, thus requiring customers to opt out, which we fundamentally agree
18 with. We believe this approach leads to confusion on price.

19 We would also like to comment on PCWs as has been commented on
20 previously and we fully intend to be writing to the Competition Commission on
21 that. Given the timescales on the paper's publication, we were not able to
22 have expertise in this regard around the room today but we will take the
23 opportunity to write to the Commission on that theory of harm and in general
24 terms once the full terms of harm papers have been produced.

25 The final point I would like to make is around the FCA point which the RSA

1 have already made and I think that makes good sense. Thank you.

2 Q. Thank you very much. Zurich?

3 A. (Mr Holliday) Thank you. Zurich also welcomes the opportunity to participate
4 in this hearing. We also support many of the conclusions reached in the
5 annotated issues statements and the direction of the continuing analysis.

6 In particular we agree with the focus on the theory of harm 1 and specifically
7 the focus on the misaligned incentives over cost control. It is our belief that
8 establishing a better balance between the right of the injured party to be made
9 good and the responsibility to mitigate the costs of that loss will provide better
10 outcomes for both the purchaser of the motor insurance but also maintaining
11 the claimant's rights.

12 We also agree that it is right to focus on the cost of repairs and temporary
13 replacement vehicles. The issues around this are so structural and involve so
14 many participants, it is also clear to us a market-wide approach needs to be
15 developed.

16 We also note under theory of harm 2 that the survey showed that claimants
17 dealt with directly by the fault insurer were as happy with the service they
18 received as those dealt with by the non-fault insurer and ultimately this
19 confirmed to us that there is an opportunity to reduce the cost of insurance to
20 the consumer whilst still maintaining the claimant's rights through more
21 efficient claims handling and reduce frictional costs.

22 Finally, we also believe it is correct for the Competition Commission to focus
23 on any possible impact from most favoured nation clauses. Our view is that
24 given the rise in the prominence of the price comparison websites, the
25 relatively small number of them and from Zurich's perspective, they are

1 must-have partners and therefore, it is essential that these clauses do not limit
2 competition, either in price or the cost based price comparison websites.

3 Q. Thank you. LV?

4 A. (Mr O’Roarke) On behalf of LV, we also support the Competition
5 Commission’s review. We broadly agree with the majority of the findings. I
6 think we are in agreement with most of our competitors here in terms of
7 focusing on theory of harm 1.

8 We believe that the issue of dual pricing between fault and non-fault is a
9 market inefficiency and creates a distortion and introduces frictional cost. We
10 would agree with the moral tone, I think set by Martin Saunders of Allianz, that
11 some of these things are resulting in a dysfunctional market and we should do
12 everything we can to stamp them out, including banning referral fees if that
13 proves to be a possibility. Theory of harm 1 is the most pressing matter as far
14 as we are concerned.

15 In terms of theory of harm 4 and add-ons, we do have concerns that the
16 market or certain elements of the market sell add-on products without the
17 proper transparency and without a process which focuses on the fair
18 treatment of the customer. So, we believe there are concerns there that need
19 to be addressed.

20 I think we share the concerns of some of our competitors in the room that we
21 would not want to see two regulators looking at the same thing at the same
22 time. We do not have a preference of the Competition Commission or the
23 FCA but it would make sense, I think, for the regulators to agree who should
24 look at that.

25 I think those are the key points broadly.

1 Q. Okay, thank you very much all of you.

2 I want first to pose some questions in the area of post-accident repair services
3 and I will direct these questions to RSA in the first instance to lead on. I want
4 to start off with the issue of non-fault customers being given the choice
5 between claiming through their own insurance company or going through a
6 claims management company because on one level this could be regarded as
7 a puzzling choice to offer your customer when it would seem that the
8 customer is going to get a better deal from the claims management company
9 who, for example, although - sorry to introduce the replacement vehicle issue
10 slightly prematurely but going through a claims management company they
11 will get a better replacement vehicle than they probably will get from their own
12 insurer.

13 Why do you offer your non-fault customers this choice?

14 A. (Mr Currie) As a claim comes in, you want to make sure that the customer
15 who has chosen to come to RSA or any other insurance company is getting
16 the service that he or she has asked for and has bought. Most of the time, we
17 will have a very good idea about whether that individual is at fault or not at
18 fault but there are quite a few times where we will not know whether they are
19 fault or not fault.

20 Where we do know that they are at fault and non-fault we will direct them
21 down certain routes. So, the at fault driver will go through a particular route.
22 We will seek to direct them into our garages for a repair and similarly if they
23 are not at fault, we look to provide them with the same service on repair. So,
24 we go through the RSA route and then we go through an RSA recommended
25 garage.

1 We make sure that they are aware that they have got options. They can go
2 and choose their own but the vast majority of our customers, particularly on
3 the personal lines side, will actually take our recommendation and go down
4 that route.

5 The repair will then be done in exactly the same way, whether they are fault or
6 non-fault. They will get a car back in a certain number of days with a repair
7 which, if it has gone through one of our repairers, will be guaranteed. So, we
8 can offer them a service which may be above what they could get if they went
9 through a different source; a claims management company or even, say, the
10 at fault insurer.

11 That is what we do and that is why we do it. We believe it gives our
12 customers, who have come to us, they have paid our premiums, the best
13 service that we can possibly give them.

14 Now we turn to hire cars or temporary replacement vehicles. Again, it splits
15 into two chunks. If we look at our at fault drivers, our at fault drivers have
16 signed a contract. The policy is around provision of a repair and a courtesy
17 car while they are having that car mended. That courtesy car will be of a
18 certain type. It generally is not like-for-like, it generally will be a Ford Fiesta
19 type car. They like that service. We get very good customer satisfaction
20 feedback from the way that works.

21 For our non-fault customers, effectively what they are entitled to is a like-for-
22 like replacement. If they have been damaged by somebody and it is not their
23 fault, they need to be put back into the place that they were before the
24 accident happened and any disruption that they have needs to be resolved
25 and sorted out. The way we do that is by offering them a like-for-like courtesy

1 car.

2 We do not keep a huge fleet of courtesy cars, we will pass those out to one of
3 our partner companies to provide that like-for-like courtesy car for them. At
4 the moment, I do not think it is any secret, we use a company called
5 Enterprise Rent-A-Car. The charges from Enterprise Rent-A-Car will be dealt
6 with separately, so Enterprise Rent-A-Car will go off and provide the service
7 to that individual insured and RSA will receive a referral fee for doing that and
8 the non-fault customer gets a like-for-like courtesy car for as long as they
9 need that like-for-like courtesy car. Again, the feedback we get from our
10 customers is they like that service.

11 Q. (Mr Stern) I just want to clarify, as far as a fault customer is concerned, the
12 legal position is, is a question of need? For a non-fault car, it is like-for-like.
13 That is the way you look at it, is it?

14 A. (Mr Currie) The way we look at it is for an at fault customer it is contractual,
15 so whatever the contract says. If the contract says it is a like-for-like car, then
16 we provide a like-for-like car. The vast majority of our contracts would be for
17 a standard courtesy car.

18 For a non-fault customer, the legal position is different. This is effectively a
19 dispute between the person who has been damaged and the person who has
20 caused the damage. We, as an insurance company, are effectively standing
21 in the shoes of the person that has been damaged and going out and making
22 sure they are put back in the position they should have been in had the
23 accident that was not their fault not happened.

24 THE CHAIRMAN: Would anyone else like to comment on that broad issue?

25 A. (Mr O'Roarke) I think I am right in saying that there is a legal distinction

1 between the two scenarios in that the not at fault customer has got rights of
2 redress against the other insurance company and that is what creates the
3 disparate treatment. I guess the challenge for us is to say, for the greater
4 good and for the potential prize of a reduction in premiums across the market,
5 is that something that we would want to support at a macro level going
6 forwards because as your research has identified, many not at fault
7 customers are quite happy to have a Ford Fiesta rather than a 5 Series BMW.
8 The challenge, I guess, comes from the fact that there is a legal distinction.

9 A. (Mr Gibson) There is also very clear evidence that a not at fault customer
10 takes a credit hire vehicle on every occasion irrespective of whether or not it is
11 required. So, we often see credit hire bills where there has been 100 miles
12 done over two weeks.

13 Q. Well, we are going to come to that in due course.

14 A. (Mr Gibson) It just comes back to there is a legal point about need. Is there
15 truly a need or is it just a way to generate revenue.

16 A. (Mr Watson) I just want to come back to actually the repairs parts. Industry
17 practice varies but in some cases, as a consumer, you may phone up your
18 insurer, as a non-fault, that has been confirmed and you are told that if you
19 want to claim under your own insurance you have to pay an excess. It may
20 be recoverable in due course, once the claim has been settled or agreed and
21 you may lose your no claims bonus for a period, although that may also be
22 restored.

23 Q. Why, as a customer, would I want to take that service when I could go to a
24 claims management company and not lose my excess and not lose my no
25 claims bonus and still have my car repaired?

1 A. (Mr Currie) I guess it will depend on insurance company by insurance
2 company. Simply, the way our process works would be we, after determining
3 you are not at fault, would not ask you to pay your excess. We would not
4 change your no claims bonus and it would not impact potentially on your
5 pricing when you come for a renewal.

6 Whether we have got exactly the same clear distinction between what is fault
7 and non-fault and what area lies in the middle as a claims management
8 company has is debateable but then that is a risk that the individual would
9 take if he or she went to a claims management company. If they were
10 subsequently found to be at fault, rather than not at fault, then they are at risk
11 of the additional costs that that claims management company has actually put
12 in place for them.

13 That is, for me, why a non-fault customer would come to an insurance
14 company rather than go to a CMC.

15 Q. Can I now focus specifically on post-accident repair services? It appears to
16 us, and Martin has referred to this in his introductory statement, there are
17 various ways in which non-fault insurers or CMCs can raise the repair costs
18 which are charged to at fault insurers by adding mark-ups to the bills of repair
19 subsidiaries or not reflecting referral fees or parts and pence discounts in their
20 invoices.

21 How prevalent do you think these kinds of practices are?

22 A. (Mr Currie) RSA to answer? Not everybody does it but the vast majority of
23 insurance companies do. As Martin mentioned, we have been involved in a
24 court case now for what seems like a lifetime, it has been about 18 months.
25 As part of that we have done a fair amount of investigation into what other

1 insurance companies do. We were surprised. There are all kinds of various
2 practices going on.

3 We were not surprised with the financial findings that were in your AIS where
4 on average there is an additional £200 between the actual cost and the actual
5 subrogated amount; that kind of tallies with the numbers that we have seen.

6 The type of things we see is RSA run a model which I think everybody in the
7 world knows about now, because it has been through the courts. We have
8 got RSAAR to run our repairs for us. They have all the contracts with the
9 individual garages. The garages charge them what we call a wholesale rate.
10 We get charged a retail rate and that retail rate is exactly what we subrogate
11 out. What we look to do is to make sure that retail rate is reasonable, so it is
12 the man in the street mark. That does generate a margin. That is the way we
13 do it.

14 We see others that will have similar models but they will use an outsourced
15 organisation to do that for them, rather than an internal organisation. We see
16 others where the repairers directly are paying a rebate into the insurance
17 company. We will see models where there will be a standard amount charged
18 for fault and non-fault for repairers to an insurance company which then gets
19 subrogated out and then the insurance company will go and do an audit of
20 these repairers and generate 5 per cent to 10 per cent discounts effectively
21 coming back through. They are just a standard set of about four or five of
22 those things. There are a multitude of them.

23 The model we chose, we chose it after we had actually gone through some of
24 the same emotional, ethical and moral dilemmas that the Allianz guys have
25 talked about. We took a case right the way through to the Court of Appeal, a

1 case called *Bee v Jensen* basically on the same grounds that these guys did,
2 that we do not think this is right, we do not think there should be a margin, we
3 think everybody and everything should be at net. We absolutely got walloped
4 in court and following on from that, similar to what the guys said about credit
5 hire, it was basically our belief that if we did not play in this space then we
6 would be leaving our customers at a comparative disadvantage. So, we
7 needed to do something to play the game that others were already playing.

8 A. (Mr Saunders) I was almost at the danger of agreeing with the RSA for the
9 first time in two years. I would like to say that that is absolutely right. We do
10 have an ongoing case with them and we are at one end of the spectrum and
11 they are at the other in terms of that model and on 16 October we will take the
12 next step when that comes up.

13 However, fundamentally it is not just about the practice within RSA and they
14 are absolutely correct that there are different hidden practices out there that
15 are openly agreed as damaging.

16 Q. Would others like to comment on this issue?

17 A. (Mr Smale) Yes, I would like to state that I recognise the situation that certain
18 insurers are seeming to pull a margin out of the repair process. At the same
19 time I am not sure I recognise the statement "the majority". There are a lot of
20 insurers which are around this table, ourselves included, who charge out and
21 subrogate exactly the same costs as they would have charged on or have
22 been charged on their own repairs.

23 We do not get referral fees from parts companies and from garages and we
24 leave the business of negotiating parts and repair costs to the repairers
25 themselves, as we believe they are best placed to do that.

1 A. (Mr Holliday) I think from our point of view it is difficult for us to say what other
2 organisations are doing but I think the range of practices and figures that are
3 reported highlight the need for a return to the principle we are trying to
4 achieve.

5 From Zurich's perspective we would like to get back to the principle that the
6 wronged party has the right to be put back as good, the non-fault claimant, but
7 at the same time there is a legal requirement to mitigate the costs for the
8 person paying the bill which is the actual insurer.

9 For us I think it demonstrates that we have gone a long way from that
10 principle with all of these given practices emerging over the years for
11 effectively commercial reasons.

12 A. (Mr Cawley) I think just to add to that the key piece has got to be
13 transparency around these various arrangements so we do know what is
14 being subrogated, it is the correct amount or what the adjustments might need
15 to be. We are not strong players in this market. It is more a sort of needs
16 must to try and compete but I think transparency is the key.

17 We enter into various commercial arrangements based around volume and
18 bulk purchase as opposed to any build-up of costs when it comes to
19 subrogation. Those are commercial agreements, as you would expect with
20 any commercial organisation to bulk buy or who is providing a certain amount
21 of volume of work to another organisation and where do you draw the line
22 between that and then some perhaps subrogated inflated costs and I think
23 that is quite difficult to determine.

24 A. (Mr Howe) I just wondered, in terms of the costs of repair, there are the two
25 things that might go on. One of them is there may be some profit margin in

1 there and that may increase the cost of repair but also where you get
2 operational inefficiencies, clearly that also drives up the cost of repair.

3 So, I think you have to look at both of those things, not just the cost of the
4 repair, the profit margin that might be made but also within the industry are we
5 incentivising and as an industry are we indeed driving efficiencies so that we
6 keep the base cost as low as possible. I think there are two elements to it.

7 Q. (Mr Stern) Would you like to give an example of the kind of operational
8 inefficiency you are talking about?

9 A. (Mr Howe) Well, I will ask Ian to expand on this but I think it is broadly if you
10 have got a hold of your repair networks and you are managing them carefully
11 and managing the costs within them carefully, then you can reduce the cost of
12 those repairs. I mean, Ian, if you could add more detail.

13 A. (Mr Currie) Yes. It is probably worthwhile looking at a couple of numbers. I
14 will not quote direct numbers but if we look at the costs that RSA sees
15 subrogated to it, so it comes through from other insurers on average across
16 the market, and we look at costs that we subrogate out to the market,
17 including the add-ons and mark-up that the guys will talk about, they are
18 broadly in line. So, if everybody else is subrogating at cost, which I am not
19 convinced they are, then we must be doing something right to be able to
20 charge that extra whatever the amount is.

21 Now, what I would say we do do and I think many of us do this as well, is we
22 have got really good control on the garages that are actually doing the repairs.
23 So, are they using the right methods to do the repairs? We ask everybody to
24 use Thatcham methods. Are they properly accredited? We want people to be
25 PAS 125 accredited. Are they handling those repairs in the best way they

1 possibly can, so are the cars coming in at the right time, not sat around for too
2 long and going out at the right time? All those operational things that you can
3 do to improve your processes help drive down repair costs.

4 For others who may be less efficient, without as much control over those, they
5 can see those costs increase and for me, whilst it is really important that we
6 drive out the differentials that you can get, the most important thing is we
7 actually drive down the overall cost of those repairs so that the actual cost to
8 the customer eventually reduces because let us remember and the things that
9 RSA would state really clearly is that any margin that we do create between
10 our wholesale rate and our retail rate gets directly passed back to our
11 customers in terms of our pricing. So, actually, in terms of the overall impact
12 of the market on the kind of model that we run, if everybody else ran the same
13 model effectively those benefits would feed back to the customer through
14 pricing.

15 A. (Mr Saunders) The crux of it is they would not necessarily be benefits
16 because if everybody adopted that then potentially there would be a market
17 shift in a direction that would not be welcome. That is our point.

18 THE CHAIRMAN: Just continue to focus on the apparent differential of which we
19 estimated at around £200 and you said that is not out line with what you think
20 is a reasonable estimate. This differential between the costs of claims
21 managed by insurers and passed onto at-fault insurers compared with the
22 cost of captured claims. We would like to hear how effective you think are the
23 means by which the at-fault insurer can use to keep a grip on this differential
24 and hold it down; in particular do you think that the bilateral agreements are
25 effective at controlling this cost differential?

1 A. (Mr Currie) Yeah I do. I think there are two things we do as an insurance
2 company we do to control anybody else interfering in your customers' at-fault
3 claims. The first thing - and I am sure everybody does this - is we look to be
4 proactive in managing those cases. So when we have got an at-fault
5 customer who has bumped into a not-fault party, we will seek to get
6 information around that not-fault party, so that we can make contact and we
7 can seek to manage their claim directly as the at-fault insurer, offering all the
8 same services that they would get if they went through an independent party.
9 So, managing their excess, managing their car hire - so a like-for-like car -
10 and managing the repair to the same quality that we would do for our own
11 customers. So, that would be the first big thing that we would do and that is at
12 a transactional level we would look to do that on each and every occasion.
13 The second thing that we also look to do is bilateral deals. Now, for me, again
14 I agree with Allianz, which is not something I have done a great deal over the
15 last few months, but I would agree that RIPE is a mechanism that fell apart for
16 a variety of reasons. Bilateral deals that we are putting in place with other
17 insurance companies we think do several things. First of all there is complete
18 transparency between the two insurance companies - so we will agree the
19 rates to be charged; effectively the mechanisms by which those rates will be
20 charged. So a theory that everything is on - what these guys would call - a
21 net basis, so net of rebates, referral fees, discounts, audits; the whole kind of
22 thing all drops away and we charge each other on a net basis. And to give
23 each other confidence that that has actually been applied in the right way, we
24 have in each and every one of our contracts the right for individual companies
25 to audit each other on a regular basis through an independent auditor, so that

1 they can verify that the mechanisms that we say we are doing are actually
2 being achieved. And by doing that our view is that over time you get
3 significantly better experience for your customer, because effectively what you
4 have got is the teams talking to each other and agreeing liability really quickly,
5 so the customer understands exactly where they are. Costs are controlled
6 because you know what is going on. The insurers are treating each other
7 more as suppliers than adversaries. So you are supplying a repair to my
8 customer's car and vice versa that I am going to have to pay for, and you can
9 manage that in a particular way, so it speeds up for the customer, it speeds
10 up for the insurer, speeds cash flow and reduces costs and it takes out a huge
11 chunk of frictional costs as well because you have not got the day-to-day
12 adversarial "issues" going on, you completely remove those.

13 Q. (Mr Oram) Are there any downsides to a bilateral?

14 A. (Mr Currie) We are about 6 to 12 months into our range of bilaterals and we
15 have not seen any as yet. What I would say is they take a little bit of time to
16 get going in the first place. So for us, and given the situation we are in, the
17 level of trust that we have needed to rebuild with some of the other insurance
18 companies has been significant and we understand that, that has taken us
19 some time. Getting the mechanics right, so that things are flowing through in
20 the right way, it can take some time. Some insurers have been fantastic with
21 us, it has taken a little bit of a period of time, but generally at this stage, no.

22 Q. (Mr Stern) Do others around the table have views on the advantages and
23 disadvantages of bilaterals?

24 A. (Mr Milliner) If I can speak for Liverpool Victoria, I think history shows us that
25 bilaterals probably will not be the answer and there are multiple examples,

1 RIPE is an excellent one, where you need a 100 per cent mandatory sign up
2 by the industry as a whole to achieve the perfect answer. Bilaterals are
3 between two companies. You will not get the whole market signing up to this
4 approach. Another great example would be the ABI GTA on credit hire, not all
5 of the credit hire industry are signed up to this and not all insurers are signed
6 up to it. So unless you have a 100 per cent adoption of a bilateral between
7 the entire industry, which has never been achieved certainly in my lifetime
8 successfully, then I think the bilateral approach is unlikely to be the perfect
9 answer to the problem we have. So, there has to be a different remedy rather
10 than relying upon the industry to solve it for itself through a bilateral route.
11 And certainly we were an early adopter of a bilateral agreement - which is
12 public knowledge - with RSA, we felt that was the right thing to do because if
13 at least nothing else it kind of set the moral tone as to where we thought the
14 industry should be going and on the basis that it should be transacting
15 subrogation. However, the overheads, the creation of MI, the exchange of
16 information and in particular potentially the rebalancing of benefits, because
17 still there are collateral benefits that each insurer would say they may have
18 that needs to be rebalanced, at the backend of it does create an unnecessary
19 overhead.

20 So to do that throughout the entire market on multiple occasions will create a
21 degree of frictional costs, you will need an army of MI experts and analysts,
22 an army of auditors, and a process which ultimately has been suggested as
23 largely founded on trust, and unfortunately whilst perhaps around the table
24 today we may trust each other, in five years time I suspect something else will
25 have happened to undermine that feeling of trust.

1 A. (Mr Watson) Just to take your lead of efficient agreement, the position
2 expressed by Liverpool Victoria is very similar to Ageas' position.

3 A. (Mr Holliday) We would agree with that as well, bilateral is better than nothing
4 but is not the answer to the problem.

5 THE CHAIRMAN: So does that mean that you would all like to see some kind of
6 industry wide protocol for handling this issue?

7 Q. (Mr Stern) Or is it better without an industry type protocol but find some other
8 rational way of dealing with the situation.

9 A. (Mr Howe) I mean, I think we are all in agreement. We are certainly making
10 the point that bilaterals are some progress and go some way to helping with
11 the issues that you have raised but it goes back to I think a point I made at the
12 beginning that if the "silver bullet", the magic solution, was out there, I think
13 over the course of the last period of years we would have worked hard to get
14 to it. I think that absolutely reinforces the point that Martin made that
15 bilaterals will take you some of the way but are they long-lasting, are they
16 enduring, do they encompass all of the market, not just the insurers but the
17 other parties that might be engaged? No, so that is why certainly we were
18 very keen for this to be referred to the Competition Commission.

19 A. (Mr Saunders) There is also a scale thing here because it is one thing Martin
20 was talking about his army of analysts and MI and so on and so forth, in an
21 organisation the size and scale of Liverpool Victoria, what about the small
22 guy, you know there are 250 authorised motor insurers in the UK, of that sort
23 of ilk, and not all of them have scale. So conceivably you know when we are
24 subrogating thousands of claims against each other annually, that is a whole
25 industry that would be created in terms of having to run that. So yes this is

1 definitely a key area I think for all of us.

2 A. (Mr Aaronson) Following up on that I was wondering whether a large insurer
3 would have any incentive to sign a bilateral with a very small one because in a
4 sense you are giving away more than you are getting back.

5 A. (Mr Gibson) You are absolutely right you know it would not be an incentive,
6 why would you be doing a lean margin.

7 A. (Mr Saunders) Because you would be using your size, your scale, to leverage
8 some of those deals further down the line that you can look at with repairers
9 and so on. In the same way that you would bulk buy when you go to a
10 supermarket.

11 A. (Mr Howe) And it also comes back to the point I think Martin made that given
12 the amount of effort that has got to be put into these you clearly focus your
13 effort in certain areas - I mean the amount of time it takes to put a bilateral in
14 place and then to get to the point where you are happy with how that is
15 operationalised, you are obviously going to focus on the bigger players.

16 THE CHAIRMAN: Any comments from the perspective of the smaller player?

17 A. (Mr Dalton) I think you have heard from colleagues around the table some of
18 the difficulties that exist in the market and some models that operate, as
19 people have said and having had no experience of them ourselves bilaterals
20 have certainly emerged as a partial solution to some of the issues that we
21 have discussed.

22 The role of the ABI as a progressive trade body and trying to help members
23 improve outcomes for customers in this space is relatively limited because as
24 people have said there are big proportions of gross written premium insurers
25 sitting around the table but from the perspective of a small insurer there is no

1 real incentive to enter into a bilateral agreement between a very large and
2 very small insurer. And I think that means what you need as an industry is a
3 level playing field in terms of the rules by which everyone operates. And that
4 is I think what the industry as a whole whether large or small are seeking as
5 an outcome from the Commission's inquiry.

6 Q. Can I move onto relationships with repairers and we are still looking at RSA
7 for this. Repairers have told us that they find themselves in a position where
8 they have made recommendations to the insurer on how a repair should be
9 done and the insurer pushes back on it seeking to repair parts rather than to
10 replace them or not fixing hidden faults in order to save costs. How do you
11 respond to those sorts of views?

12 A. (Mr Currie) With a great deal of anger to be honest. We do not believe that
13 either RSA or any other insurance company, where we have subsequently
14 seen repairs done on their cars, have that kind of behaviour. Most of the
15 garages that we will use, we probably use each other's garages to do repairs.
16 Our engineers will encourage those garages to do the repairs the best way
17 possible. They use Thatcham methods and they get audited on a regular
18 basis. Our stance is always that quality is first, cost comes second, but it
19 does come somewhere. So if there is a better way of doing something which
20 is of equal cost or lower cost, then we would encourage those individuals,
21 those garages, to do that, to seek those things out.

22 We have got a particular thing about repairs of body parts and replacement
23 body parts. Generally we would look to do whichever one is the one that puts
24 the car back into the best place possible for the future. Sometimes that can
25 be repair, sometimes that can be replace.

1 A. (Mr Smale) I think it is important to make that distinction between repair and
2 replace. I think perhaps the economics of the market tends to sort of go quite
3 cyclically. Sometimes it is economically quite viable to replace a part. Having
4 said that, there is now technology that allows you to repair parts in situ on a
5 vehicle, which means that you have not had to break up the vehicle in quite
6 such an extensive manner as if you were taking the part off. I think and
7 particularly nowadays parts are frequently glued in place, there is certainly
8 quite a lot of filler, insulation material and things like that around it. So if you
9 can do the job in situ on the car, you are not removing windows and risking
10 breaking glass adding to the increased costs and you are not disturbing the
11 fabric of the vehicles, so the owner drives away with a vehicle that has not
12 had so much disturbance, which has to be good from their point of view.

13 And I think what has changed recently is by and large there are more lower
14 value repairs because of lower impact speeds, lower severity of repair of
15 accidents, there is more cosmetic type and cosmetic plus type repairs being
16 done that can be done quite safely and very well in situ on the vehicle. And
17 those definitely bring the cost of repairs down. Although, some repairers have
18 not necessarily embraced that technology and some of that knowledge.

19 A. (Mr Gibson) To follow up on that point, I think we would all agree with this,
20 the manufacturing techniques now used in vehicles are extremely complex, so
21 the days of repairing a vehicle "under the arches" as it were are long gone
22 and garages now need complex tooling and a very high-end equipment to
23 repair a standard vehicle. You will have seen that they have now computer
24 systems and all sort of avoidance technology built in. So, this sort of
25 suggestion that you can do it on the cheap somehow is just wrong, they are

1 very complex and need correct methods applied. Rob mentioned gluing but
2 you know your standard vehicle now has seven, eight, nine different types of
3 metals in it, welded in different ways and using different techniques. So it is a
4 very complex matter.

5 A. (Mr Cawley) We would endorse that from a Zurich perspective. I think we
6 also need to be conscious of the amount of money we spend with Thatcham,
7 the research enterprise, as an industry as a whole to find the safest and best
8 methods for repair. Our engineers certainly work to those standards and
9 insist on those in terms of timings and what is repaired and what is replaced.
10 I think one of the factors that Rob points out there is the fluctuation in market
11 pricing of parts, a part can be repaired but it might but it might be more labour
12 but depending on what the manufacturers are charging for those at any point
13 in time it becomes more economic and equally safe to repair.

14 Q. Can I raise the issue of the decision whether to repair or to write off a
15 damaged vehicle. If you are dealing with a claim that is on the margin of
16 being economically repairable, do you lean on one side rather than the other?

17 A. (Mr Currie) Probably more than anything we rely on the customer's desire.
18 So if the customer has a car that is a cherished car, they prefer to have the
19 thing repaired rather than not, then that would probably be the way that we
20 would go.

21 Q. And that is generally what the pressure from the customer is, is it?

22 A. (Mr Currie) It depends, some customers are quite happy to write the car off
23 and move on and look for something else, but generally we find there is more
24 - depending on what type of car – pressure for the customer to want to retain
25 their car.

1 A. (Mr Saunders) Just to jump in there, there is another dynamic here as well in
2 terms of first party and third party vehicles. So, on a first party situation I
3 agree with that, there would be a discussion with the customer and as long as
4 the margin is within it I think most people would actually prefer to have their
5 vehicle written off, they would not necessarily want to have a badly damaged
6 vehicle back. But on the third party side, when we start talking about fault and
7 non-fault claims, if I have say a credit hire claim running in the background
8 then that is a cost that starts to enter into the equation too because I am going
9 to be paying for that cost, so if I need a spare part that is going to take six
10 weeks at a £100, £200 a day credit hire and the vehicle is only worth £2,000
11 then do I run that into the equation, and the answer is yes we would.

12 Q. Okay. We have spent quite a lot of time on post-accident repair services, I
13 got the message at the beginning, Theory of Harm 1 is the top of your list, and
14 I want to continue with Theory of Harm 1 but switch to looking at post-accident
15 TRV services and I will be looking this time to Zurich to take the lead and
16 respond to the questions. What role do you think the level of referral fees
17 plays in the choice of parties to offer TRVs?

18 A. (Mr Holliday) In terms of the choice I think it is more of a process in terms of
19 being able to provide a like-for-like courtesy car through our garages - we
20 have a similar arrangement I think to one referred to by RSA where there is a
21 standard small car that is provided for repairs to provide a like-for-like
22 courtesy car. We obviously need access to a large and more diverse fleet
23 and there is a referral fee that is paid for that. I do not think there is a
24 significant decision in terms of deciding whether to pass the customer to a
25 credit hire organisation, I think it is more making sure they get access to the

1 vehicle they need.

2 A. (Mr Cawley) It works on several other levels does it not. If there is a referral
3 fee that is an income, good, if that is what we have to do in the marketplace to
4 compete. The other side of it is about customer choice, and obviously we can
5 only fund - trying to keep our premiums down - fairly basic courtesy vehicles
6 when it is a fault case if we built it into the repair model. But it is almost about
7 the race to the non-fault party, whether that is by the insurer, CMC, or a credit
8 hire organisation, and the person who gets there first sort of wins that
9 customer and that determines obviously where the referral fee goes. But that
10 is where it becomes very competitive.

11 As an insurer we would like to capture those non-fault parties at the earliest
12 opportunity and we invest in our own intervention teams but the fee income is
13 not a driver for that, it is actually preventative, to prevent that person going
14 through credit hire organisation and for us to be hit with the significant fees
15 there. So, the non-fault party against ourselves is benefiting from the fact that
16 we will do our utmost to try and get them in a like-for-like vehicle to prevent
17 them going into the CMC market or the credit hire market.

18 Q. One of you and I am sorry I do not remember who it was in the opening
19 statement suggested it would be better if we simply ban these referral fees for
20 TRVs.

21 A. (Mr Saunders) Yes that is something that we have been very vocal about.
22 We obviously welcome the work that was done around the PI fees but we
23 think that they missed a little bit of a trick as far as this is concerned because
24 we are very firmly of the view that this is driving some poor behaviours both in
25 terms of the organisations that get paid on a per case basis and then in some

1 instances where we have seen, and I think you have already alluded to it in
2 terms of the daily rates then becoming elongated. We have done a lot of work
3 around credit hire and the provision of vehicles and we probably think that the
4 ratio is about 1:3 in terms of how much it might cost us to provide that vehicle
5 against how much it would cost in an adversarial third party credit hire
6 situation. So there is money for the industry to safely save in that regard.

7 Q. (Mr Oram) Just to be clear, Allianz's view, is it that you would want to ban all
8 referrals fees and rebates, the lot?

9 A. (Mr Saunders) Yes, get it clean, clean it straight out.

10 THE CHAIRMAN: I confess I am not sure I completely understand what the
11 proposition is. Some people would see referral fees as the symptom of the
12 way that the market works and people have said to us we want to be very
13 careful about making proposals without thinking about what the unintended
14 consequences might be. I suppose I am being a cautious person, there is
15 something wrong in this market and referral fees are the problem, so we just
16 have a blanket ban on referral fees would solve the problem. And if the
17 referral fees are a symptom of something then generally speaking you do not
18 get a doctor treating the symptoms if there is an underlying cause that has not
19 been addressed.

20 A. (Mr Saunders) Yeah it is not for me to tell this Commission how CMCs and
21 some of the history around this but there was a hole created by the insurance
22 industry around service, around the provision of alternative transport and like
23 the guys have already said: "Common law you are entitled once you have
24 express the need and you have maintained that need for a like-for-like
25 replacement vehicle for as long as you need it" and that is what the courts will

1 allow you to deal with. And the insurers were pretty slow on this, we would
2 offer a little bit of compensation in terms of loss of use, we would not be
3 particularly proactive in offering that service because we thought that we
4 could be silent on it, it would not be taken up and I am talking about 10, 15, 20
5 years ago. And credit hire came along in order to fill that void. So it is a
6 symptom in terms of providing the service, it is a symptom in terms of
7 business models that we have seen that have been built that generates
8 referral fee income first off the back of ostensibly putting the customer back
9 but actually it is very much referral fee income-based rather than customer-
10 based.

11 So, I think that in tandem with it we would need to look afresh at how the
12 insurers look at customers, we might look at potentially ways of adding first-
13 party non-fault vehicle transport into a motor policy. You know we are not into
14 solution mode but that has been talked about but that is not easy in terms of
15 well if you offer that first then yes your policies are going to be that much more
16 expensive and so on. So there is a bit of difficulty around some of that but
17 there are opportunities that exist in this area.

18 A. (Mr Holliday) From a Zurich point, I think one observation is that what created
19 that need that was then filled by the CMCs was the amount of time taken to
20 agree liability - who is the fault and not-fault party. I think from where we were
21 20 years ago and possibly due to the emergence of some of these practices
22 and symptoms the industry has got a lot better and a lot quicker at deciding
23 who is fault and non-fault in limiting liability and that is something that as an
24 industry we need to take on. And that is one of the drivers that has caused
25 that gap to open up because that right for the replacement vehicle was

1 already there for the non-fault claimant, it was the fact that it took a week or
2 so to establish who was liable, meanwhile the non-fault party was left without
3 a vehicle and the claims management firms stepped in, took that risk on, and
4 that is what creates all these symptoms that we are now managing. If that is
5 something in the industry we can accelerate to ensure that ultimately the
6 person who is established as a non-fault claimant is not left without a vehicle,
7 to reduce that liability period as we have done with other types of claims.

8 A. (Mr Cawley) The industry is far better prepared to deal with this now than it
9 was 10 to 15 years ago simply because of the changes in the MoJ portal
10 driving all insurers to determine liability far quicker in the process and having
11 resource committed to doing that. The other side of that coin is we generally
12 have intervention teams who will try and get to that third party as quick as
13 possible and drive a decision on liability much, much earlier in the process
14 which has moved us light years ahead of where we were. And a final point on
15 that is referral fees only become possible because there is so much margin on
16 the fees charged on the daily rate for credit hire.

17 A. (Mr Watson) I think that is the point and we, Ageas, would agree with your
18 suggestion that referral fee is the symptom rather than the problem itself. And
19 to build on the point that was just being made, the existence of a referral fee
20 and the fact that a referral fee has been able to be paid is because there is a
21 margin in the system. Banning the referral fee on its own, in and of itself,
22 without taking money out of the system is probably not very effective. In fact I
23 would say that there is some recent history in terms of bodily injury claims
24 where referral fees were banned, not very effective, but as soon as lawyer
25 fees, MoJ fees were reduced, much more effective. So I think there is a very

1 recent overlap in terms of the effectiveness or not of a pure referral fee ban in
2 isolation.

3 A. (Mr Currie) We would absolutely agree with that and it might be worthwhile
4 having a look at exactly those numbers that Andy was talking about, it is quite
5 stark.

6 A. (Mr Gibson) I totally agree but I would go further. The amount of money in
7 the system, as we have seen very clearly in the PI space, rogue practices that
8 none of us would support in terms of fraud, CMCs and what actually
9 happened because the significant amount of cash in the process attracted
10 elements that we would not want.

11 Q. In the case of where the customer is going to a credit hire company, it is said
12 that credit hire company has incentives to prolong the hire to overcharge. I
13 would like to know how effective you think the constraints are on preventing
14 overcharging, overprovision, excessively lengthy hire. Do you think the GTA
15 is an effective constraint?

16 A. (Mr Holliday) I think time has moved on a lot since the GTA was agreed. All
17 the parties that are involved in the processes and are participants of it I think
18 are aware of the issues and again it comes down to misalignment of
19 incentives. It was then a case of effectively gaming of the system and parties
20 maximising it for themselves. So the GTA was there to kind of reduce the
21 frictional costs. It cannot be effective because in actual fact Zurich and I am
22 sure others around the table have teams of people who are employed to
23 ensure that people are not abusing the GTA, are not abusing hire periods, are
24 following up, are chasing up and so on. How effective our own internal
25 processes are to minimise that sort of leakage is something for us to consider

1 but at the same time the fact we have to have people paid to do that, to chase
2 down this, just puts more deficiency in the system. We are back to the
3 principle of there has got to be a more efficient way to use the purchasing
4 power of all insurers in terms of hire car vehicles and for a better solution than
5 what we have got now, and the GTA is part of what we have got now.

6 A. (Mr Smale) I think an important point was made there that I think there are
7 opportunities for the at-fault insurer to object to the size of a hire bill but it is
8 usually retrospective, so that means there is a great deal of attritional arguing
9 and the very fact that we have to have to have an intervention team, and each
10 of the insurers around this table also, is a cost to the industry. I would just
11 like to highlight that point especially.

12 A. (Mr Milliner) I wholeheartedly agree with that our internal studies show that
13 the amount of money we spend on the teams that actually either try to
14 intervene or oppose credit hire or the legal costs we pay in association with
15 trying to defeat credit hire claims are more than the cost of us actually
16 supporting the service we deliver to our own customers when we try to repair
17 their cars. That cannot be the right balance - insurers cannot be set up to
18 manage that kind of frictional cost at the expense of their own customers.

19 A. (Mr Cawley) It is one of the most challenging areas I think, 90 per cent of the
20 credit hire payment packs that we receive are incorrect and need challenging
21 and that is not just because we are particularly picky it is just because they
22 are wrong. And it is out by £300-£400 per case and that is behind the GTA.
23 So to answer your original question: "Is the GTA effective?" I would say
24 probably not.

25 A. (Mr Saunders) I have a slightly different view, I think that the GTA in its

1 present form is the best model that currently exists on the market and I think it
2 is imperfect and I would agree with a lot of what has been said but there is still
3 a huge chunk of the market that actually operates outside of the GTA which
4 arguably is at the “shadier” end if I can make that sort of comment, as a gross
5 generalisation, and we do see more problems with outside the GTA than
6 inside the GTA. Each of us will probably have various agreements and
7 associations and relationships with the majority of those big players that exist
8 inside the GTA, and as far as those relationships is concerned I think that
9 element of it has actually gone a long way in order to help some of the friction
10 in this area.

11 So, intervention, yes we would still monitor repairs but actually then in dispute
12 resolutions you know we for instance will have a team that would go out and
13 look at a thousand cases with one of the credit hire repairers and look at them
14 and actually take views on them and that then eases some of that
15 administrative problem that we have been talking about.

16 A. (Mr Smale) I do not think you can get away from the fact that for reasons that
17 make me scratch my head and have done since I joined the industry it seems
18 to take longer to fix a non-fault car than it does an at-fault car.

19 Q. Well that is actually what I wanted to go onto next. Do you think that that is
20 because it is in the interest of the credit hirers to extended the period of repair
21 and if so how can they influence the length of the repair process?

22 A. (Mr Smale) I find it difficult to comment on the process that might be going on
23 within a CMC but certainly when we are controlling the repair within Ageas we
24 are contacting the garage on a regular basis and moving them along and
25 making sure that there are no delays being put into the system and I am sure

1 that other insurers around this table have a similar view.

2 A. (Mr Currie) Exactly the same as Rob explained, when we are in control of a
3 claim that is exactly what we would do. It is interesting that what you found is
4 the difference is about three and a half, four days, which tends to be a
5 weekend. So cars that might have been picked up on a Thursday kind of drift
6 to a Friday, then it becomes a Monday, so suddenly you get the weekend and
7 extra three or four days which give a huge amount of margin to the CHOs.

8 A. (Mr Gibson) And these are to our mind deliberate practices. So when
9 extensions are looked for on vehicles we actually monitor the cause. So the
10 only time that we see, virtually the only time we see requests for extensions
11 on vehicles is about 4pm on Friday afternoon. So then you definitely get a
12 weekend extension.

13 A. (Mr Saunders) There was a case which Allianz ran which is one of the
14 leading cases in this area called - I will let you have the details if you want it -
15 but it is commonly known as *Hoyer*, which is *Beechwood Birmingham v Hoyer*
16 *Group*, and this was about the inter-hire of a motor vehicle that was damaged
17 on a forecourt to themselves and we did get underneath some of the
18 incentives that sat behind it that the hire car company actually gave to the
19 motor repairer group in order to incentivise some of these things, and it
20 started to play in exactly those areas. And it might be an interesting read for
21 the Competition Commission.

22 Q. Thank you. Last question - do you think that a captured non-fault claimant is
23 likely to receive a lower level of TRV service than a non-fault claimant whose
24 claim is managed by a party other than the fault insurer?

25 A. (Mr Holliday) Sorry can you repeat the question?

1 Q. Yes. If we are comparing a captured non-fault claimant with a non-fault
2 claimant whose claim is managed by some other party, like a CMC, is the
3 captured non-fault claimant going to get a lower level of TRV service?

4 A. (Mr Holliday) I think our experience is that we would be very clear with the
5 captured non-fault claimant as to their rights. We would probably have a
6 conversation about what their needs were, in terms of well this is the vehicle
7 you had, this is the vehicle you are entitled to, and some claimants, in our
8 experience, say: "Well I do not need that, I only need a car for a couple of
9 days, I am happy with a smaller car" but that would be the customer's choice.
10 I mean, looking at our experiences, our view of our processes would be that
11 once we have established it is a non-fault claim and our insured has damaged
12 them then they are entitled to a like-for-like car. The benefit for us to keep
13 them out of credit hire and some of those additional costs that come along
14 with that. We are not looking to sort of minimise the benefits paid to the non-
15 fault claimant we will do what we can.

16 Q. (Mr Stern) So you are not taking the same like-for-like approach as RSA were
17 describing earlier? If you have captured a claim then you are going to treat it
18 on a need basis?

19 A. (Mr Holliday) No. For a non-fault claimant if we captured a claim we would
20 offer them a like-for-like car. We would ask them what their needs were, if
21 they would like a like-for-like car they would get a like-for-like car.

22 A. (Mr Cawley) It is a conversation managed, you know if it is somebody who is
23 doing ten miles a week we might make them a cash offer, an inconvenience
24 payment if that is suitable, if they wanted a vehicle they would get a vehicle, if
25 they wanted a like-for-like vehicle they would get a like-for-like vehicle. It is

1 just a more of a managed conversation and forcing them into a like-for-like
2 vehicle when perhaps they do not need one.

3 A. (Mr Smale) I think it is important to remember that when claimants are
4 captured by the at-fault insurer, that choice discussion is given to the
5 customer and they frequently choose themselves: "No, a courtesy car is fine"
6 or indeed no car, but perhaps that discussion does not happen and perhaps
7 other things are at stake.

8 A. (Mr Milliner) I think the other sort of erroneous statement about like-for-like is
9 that this sort of vision that everybody is driving a brand new car and the credit
10 hire operators have a car park of exactly the same car as you are driving, you
11 know that is not the reality of the situation. If you have a four-door saloon car
12 that may be top of the range to take the children to school in the morning, a
13 Mondeo or something like that may be perfectly adequate for you, it is unlikely
14 you are going to get exactly the same car as the one you are driving. If it is a
15 15-year-old car that happens to be a Jaguar, 15- or 20-year-old Jaguar,
16 getting yourself a brand new Jaguar with current specifications, it just is not a
17 like-for-like proposition. However, the CHOs will use that like-for-like tag and
18 provide just that kind of vehicle, whereas in reality that is a distortion of where
19 legal precedent truly intended to be in my opinion those years ago when that
20 sort of replacement Chattel law came in.

21 THE CHAIRMAN: Okay, well that has brought us to the end of the range of issues
22 on Theory of Harm 1 that we wanted to raise with you. Can I suggest we
23 have a 5 minute break now but let us try and keep it to 5 minutes and then
24 there are a number of other issues that we want to raise with you.

1 (Short break)

2
3 THE CHAIRMAN: I want to move onto a couple of questions about Northern Ireland
4 and I am going to ask Allianz to take the lead. Having heard what you said at
5 the beginning that your Northern Ireland business is a different part to the
6 business from the one that you are in, but we are interested in the question of
7 why fewer private motor insurers in Northern Ireland than in the rest of the
8 UK?

9 A. (Mr Saunders) I am truly going to have to disappoint you because I simply do
10 not know the answer because it is not an area that this business that we
11 represent actually operates in. I could guess in terms of its competitiveness
12 and so on but I suspect there are others more able around the table to help
13 and assist.

14 A. (Mr Gibson) Obviously what we can do is have our Northern Ireland
15 colleagues contact you; they are a separate legal entity.

16 Q. What about the rest of you, given that it is a market that seems to have fewer
17 players than the rest of the country and it is one country, why is this?

18 A. (Mr Watson) We have a tiny presence in Northern Ireland. We take the view
19 it is a different jurisdiction and is an area that you need to have knowledge of
20 that local market and we have chosen not to be a major player there.

21 A. (Mr O'Roarke) Yeah at LV we write reasonable amount of business in
22 Northern Ireland but principally through Northern Irish brokers. My experience
23 of car insurance in the UK and Northern Ireland is that typically UK insurers
24 take the view that the local custom and practice in the north of Ireland in terms
25 of claims settlement - and by custom and practice I guess the sort of legal

1 community, the repair community and the whole sort of planned settlement
2 process - requires local knowledge and if you do not have that local
3 knowledge, if you are based in the UK, to use a colloquial expression, "you
4 run the risk of getting turned over", and therefore I think a lot of UK insurers do
5 only distribute through brokers in Northern Ireland. Which I think may be
6 partly the explanation for why you have seen lower loss ratios in Northern
7 Ireland because the cost of distribution is higher, there are more frictional
8 costs involved in distributing in Northern Ireland and therefore the loss ratio by
9 necessity has to be lower in order for insurers to make a return and that is
10 kind of a parallel with the UK market. If you look at economics of the broker
11 channel business verses the economics of the distribution channel business
12 you tend to find that in the broker channel loss ratios are lower and expense
13 ratios are higher. So I think in that sense the Northern Ireland market is not
14 structurally that different from the UK.

15 Q. And you will see the strength of the broker channel in the Northern Ireland
16 market as driven by the need for insurers to protect themselves rather than by
17 a consumer preference that we are doing business.

18 A. (Mr O'Roarke) Yeah partly that, but I suppose if you reflect on what happened
19 with distribution in the UK, broker distribution was supplanted largely by direct
20 distribution or to a great degree. I think one reason why maybe that has not
21 happened in Northern Ireland is that it is a much smaller market and there is
22 less incentive. You know if we were to say: "Well let us go direct into
23 Northern Ireland" and we might get five per cent market share, it is going to be
24 50,000 policies at most and therefore hardly worth the effort, really, to invest
25 in getting to understand that market. So I think that absolute scale is

1 limitation.

2 A. (Mr Cummings) Just to add to that, the ABI have done a lot of work recently
3 on the operations in Northern Ireland and why costs are different in Northern
4 Ireland to the rest of the UK and the main driver is the cost of litigation in
5 Northern Ireland, both in terms of compensation awards, which are generally
6 higher, but also legal costs attached to that which are generally higher. And
7 obviously England and Wales we have seen the introduction of the RTA
8 claims portal in 2010 which has helped to drive efficiencies in the system, the
9 introduction of fixed costs and those fixed costs have now been reduced as
10 well and in Northern Ireland those costs are only increasing.

11 Q. Any other comments on Northern Ireland?

12 A. (Mr Howe) I think we broadly agree with that, it is a small market. At the end
13 of the day it is a small market and where do you focus your attention.
14 Northern Ireland for us within the UK is a very small market.

15 Q. Okay. Can we move onto to add-ons then, I mean things like motor legal
16 expenses, breakdown cover, windscreen cover, no claims discount protection
17 - we did not say much in our Annotated Issues Statement about the analysis
18 of add-ons and we have got ongoing work in this area. But it appears to us
19 that the claims ratios for some of the most commonly sought add-ons are
20 generally pretty low, often well below 50 per cent. Why do you think this is the
21 case, can I ask Ageas to respond to this one?

22 A. (Mr Watson) You can ask but it is difficult to comment in detail without seeing
23 the analysis that you have clearly started to do if not published. Again there
24 are parallels with most legal expenses insurance where I think the FSA looked
25 at it and at an early stage drew the conclusion that there was a low loss ratio

1 but ended up concluding that the product had utility and use. So a loss ratio
2 in and of itself is not necessarily an indicator of whether the product has utility.
3 And the second point to make is that the cost of sale for an add-on product is
4 a feature that needs to be taken into that assessment. Beyond that, difficult to
5 comment in any detail, because I have not seen your analysis.

6 Q. But the fact that a product is not of utility - well take it the other way round, a
7 low loss ratio might indicate that a product has a high price and the fact that it
8 is of utility is not an explanation of it having a high price, an unnecessarily
9 high price.

10 A. (Mr Watson) No but I think we would recognise the conclusions that you
11 seem to have drawn so far, and that is that transparency is key in terms of the
12 sales process, explaining the product and indeed the price and that when
13 asked customers preferred and indeed welcomed the opportunity to tailor their
14 product rather than to have a one size fits all. So in a situation where there is
15 clarity about what the product covers and the price that is an informed
16 consumer decision.

17 Q. Do you think that consumers do understand these products though? Some
18 evidence from our survey that consumers when questioned about what they
19 were getting for legal expenses cover or for no claims discount protection
20 were not actually all that well informed about it what protection they did get
21 from this.

22 A. (Mr Watson) I think the example you cite is no claims discount and no claims
23 discount protection. It is a focus of Ageas and it has certainly been the focus
24 of the Regulator over a period of time to increase the amount of transparency
25 and the amount of detail that a consumer has, both pre and post sale. So

1 there is plenty of information for a customer to access.

2 A. (Mr Saunders) I think it is very difficult to comment without seeing the results
3 of that survey. I do know from conversations that I had with my retail
4 underwriting colleagues that these areas and indeed that the whole complaint
5 and treating customers fairly and making sure that people have products that
6 are fit for purpose is an area that they do monitor very closely and it impacts
7 and touches on some of the areas that we are talking about and I certainly
8 having seen some of the Allianz figures around the Allianz Your Cover brand
9 which is our direct offering which has very low complaints around this area.
10 So, I am struggling at this point in order to recognise some of those areas but
11 equally I am trying to make it clear that we do recognise that there could be
12 issues here and we do recognise that there are strategies out there such as
13 complaints monitoring and all that feedback that we get back from our
14 customers who are actually purchasing from us.

15 A. (Mr O'Roarke) I think the issue that we would have is that - to respond to your
16 point about profitability - although some of the loss ratios may be relatively
17 low, the absolute profit amount in pounds is actually fairly modest. So I think
18 there is less risk of customer detriment regarding profitability and I think the
19 risk of customer detriment is in the sales process where customers either do
20 not understand the product or are sold it when they do not have a need for it
21 or find it very difficult to opt out of a product when it is opted in automatically
22 through a web distribution channel, and I think those are the practices where
23 there is more likely to be customer detriment.

24 Q. (Mr Oram) Can I just pick up on that because we were told this morning that
25 as a result of the FCA report that the insurance industry was moving away

1 from requiring opt out to opt in. Is that your view?

2 A. (Mr O'Roarke) It is the response to the FCA investigation into motor legal
3 expenses as being fragmented. I think a number of insurers including some
4 sat around this room have actually moved to opt in. There are other insurers
5 who have not and in fact there are some insurers who - not to put too fine a
6 point on it - make it reasonably difficult to opt out. So I think one of the
7 disappointments of the FCA work was that the recommendations which
8 followed from it were not completely mandatory and relatively immediate in
9 terms of deadlines. So I think through practical considerations the FCA have
10 said: "Well some firms will have systems challenges and it takes a while to get
11 these things to happen." But I guess we would encourage swifter and more
12 all embracing recommendations so that we have a level playing field.

13 Q. (Mr Oram) You will have seen in the FCA report - it was only a limited case -
14 but the penetration rate for opting out was 80 per cent and the penetration
15 rate for opting in was 40 per cent and I just wondered whether those figures,
16 you recognise those sort of figures or was it a surprise to you?

17 A. (Mr O'Roarke) I think in our experience the gap that you mention would be at
18 the extreme end of the spectrum but there certainly is a difference at an
19 industry level between opt-in and opt-out levels of interest in a product. 10 to
20 20 per cent, I would estimate.

21 THE CHAIRMAN: Right, okay. Can I ask a couple of questions about no claims
22 discount protection? Because it is a case where there are questions to ask
23 about whether consumers know what they are buying, because there might
24 be a view that if you have no claims discount protection and you have an
25 accident then the cost of your insurance policy is not going to go up, and I

1 suspect some people in that situation might be surprised the following year
2 when they have still got their no claims discount but it is a discount of a
3 premium that has gone up, because the risk assessment has been changed.
4 That is an example, is it, of where we might have concerns about whether
5 consumers know what they are getting. Is that a fair comment?

6 A. (Mr Watson) I do not know. I get the question but I have not seen your
7 analysis. I thought the contribution that you were flagging but had not yet
8 shared with us was between consumer confusion between the concept of a
9 no claims discount and the concept of no claims discount protection.

10 Q. Okay.

11 A. (Mr Dalton) I think what the FCA's MLEI studies showed was that the industry
12 as a whole has some more work to do into explaining what its products are,
13 and do, to consumers, and that is always a challenge for an industry that sells
14 a whole range of different products. And part of the challenge from an FCA
15 perspective, I think, is always to strike the right balance between requiring
16 insurers to provide a sufficient amount of information to consumers to allow
17 them to make an informed choice, versus overburdening that consumer with
18 so much information that in fact they do not read any of it because it is all too
19 complex. And all of these products that we mentioned, there is probably that
20 challenge in term of striking the right balance between providing too little and
21 too much information. As I say, as an industry, we recognise that part of the
22 work that the ABI does is to encourage and help the industry to provide better,
23 more easy to understand information to consumers, so they make informed
24 choices.

25 Q. Going back to no claims discount protection, do you think there is any danger

1 that discount is switching in the sense that, if a customer has had an accident
2 and they have got a protected no claims bonus, they have reason to fear that
3 if they shop around and transfer their custom to another company, then the
4 accident will count against them and they will not get a no claims bonus. Do
5 you think that is a belief that exists, or is that a justified belief? Do you
6 transfer a protected no claims discount even from people who have had
7 accidents?

8 A. (Mr Saunders) I cannot answer that specific question. I would say in terms of
9 the market, the churn that we constantly see, annually around the way in
10 which people will chop and change insurers, would suggest to me that there
11 are no barriers, or there a few barriers around here. Whether this is a
12 particular barrier, obviously once we have seen the research then we would
13 be able to better comment, but ...

14 A. (Mr Holliday) I think that the process for customers transferring in just
15 requires evidence from the previous insurer what the no claims bonus is. So
16 as long as that shows some no claims bonus, that is protected. The fact that
17 they have had a claim is also taken into account in risk assessment.

18 Q. But it would not be a barrier to transferring the no claims bonus.

19 A. (Mr Holliday) As long as they have got evidence from the previous insurer
20 which says that this is your number of years no claims bonus.

21 Q. Okay. Can we move on to PCWs, because several of you made strong points
22 in your opening statements about PCWs. Has the growth of PCWs made the
23 market for private motor insurance more competitive? Can I look to LV to ...

24 A. (Mr Cassidy) I think our answer to that is manifestly, yes it has. I think our
25 view is, if you look at the last cycle in the private motor insurance market, it

1 has kept on a downwards trajectory, with prices being charged for insurance
2 at a level below which insurers could make an economic return, for long that
3 would otherwise have been the case, and probably in large measure because
4 of the arrival of price comparison websites in the market place a few years
5 ago, giving a degree of transparency around pricing that simply did not exist
6 beforehand, so I think our view is, absolutely, that level of price information
7 and openness is contributing towards a classic economic perfect marketplace
8 more than has ever been the case before.

9 Q. And has it led to more switching?

10 A. (Mr Cassidy) Absolutely. Again, it is a contributory factor that people have
11 got in the habit of using the web for purchases in all areas of economic
12 activity, not just insurance, you know, purchasing your weekly groceries as
13 well as doing your banking and your insurance purchases, it has simply
14 become what you do, and because it is so easy, customers who, say, in the
15 past might have been happy to renew on an inertia basis, year in year out, the
16 tendency is now: "Well, I will just check online, it will only take me five minutes
17 to benchmark the renewal price that I have been offered and see that it looks
18 about right, and if it does not I will move". So our view is that the advent of
19 price comparison websites has served to enhance competition in the market
20 place and to keep prices lower for the consumer.

21 Q. Has it led to insurers advertising less?

22 A. (Mr Cassidy) I think what it has done is produced a realignment, if you like, of
23 the total marketing spend between that which would have been allocated to
24 other channels, for example television et cetera, a large part of it is now
25 allocated towards paying the remuneration of price comparison websites, and

1 a big shift in the aggregate external marketing spend has shifted from direct
2 marketing by insurers to direct marketing by price comparison websites.

3 Q. And are the price comparison websites expensive, as a sales channel for
4 you?

5 A. (Mr Cassidy) I think our view would be that compared with the cost of
6 acquisition in other business channels, it is a cheap way of acquiring
7 business.

8 Q. Any dissenting or additional views on all of that? These are consensus views,
9 are they?

10 A. (Mr Holliday) I think it is a cheaper way, in terms of previous direct marketing
11 costs, particularly if you did not have a large brand. But due to the influence
12 of the channel on the customers' behaviour, this means you are not getting a
13 like-for-like basis. You are getting a customer self-selecting through the price
14 comparison websites, and they will probably have lower retention than the
15 previous customers would have had ten years ago, whether that be able
16 customer self-selecting to that channel, or whether it is a dynamic because of
17 the market because retaining rates have fallen.

18 A. (Mr Watson) I think the only addition I would make to the points that have
19 been made is that, in terms of the cost per channel, is it a cost effective
20 channel? If your metric is the pure marketing spend, then it is a cost effective
21 channel, but if it is the lifetime value of that customer then maybe less
22 effective, because, on the basis of one of your questions, the propensity to
23 switch on a more regular basis, and indeed there is the feature that, although
24 a customer could attempt to game any channel, they would appear to try and
25 game the aggregator channel, the price comparison website channel more

1 than others, so it is not just a straight comparison between the acquisition
2 costs.

3 A. (Mr Cassidy) I think that just a slight rider for that, though, is I think, whereas
4 maybe a few years ago, the demographic who came through a price
5 comparison website might have been a bit different from the generality and
6 with a greater propensity to shift allegiance year on year, as the years have
7 gone by, I think that has less and less been the case, and it is these days, the
8 price comparison website is a standard route to market for almost all
9 customers, so to regard customers who come through that channel as being
10 somehow sort of a bit different from the market generally is maybe no longer
11 the case and therefore, trying to say that there is maybe a different
12 characteristic of them, in terms of propensity to go somewhere else at
13 renewal, a propensity to claim, a propensity to have a shorter life with one
14 insurer. Yes, that was the case a few years ago, now maybe rather less so
15 because to a large extent, it is the market.

16 A. (Mr Watson) I am not sure I recognise that.

17 Q. What are the bargaining positions between insurers and price comparison
18 websites? Has that shifted, or ... who do you see as being in the strong
19 bargaining position?

20 A. (Mr Cassidy) Well I think, by their nature, given that there are only four
21 leading players in this marketplace, and no insurer can afford to ignore them,
22 they obviously all have significant bargaining power with insurers. Maybe it is
23 just a little bit surprising that this number of years since the marketplace has
24 become increasingly dominated by price comparison websites, is that they
25 have not sought to ramp up prices to a greater extent than they have.

1 Q. Any comments on that?

2 A. (Mr Howe) I think we would agree, there is no doubt that price comparison
3 websites have come in and they have been part of that. Part of that has been
4 a socio-economic change as well, they really have been driving change in the
5 market, and I think the public reap the benefit in terms of costs, from a
6 customer's perspective, but you know, it is pretty early in however many years
7 price comparison websites have been going, it is early in its development, and
8 actually those price comparison websites are getting more sophisticated, so it
9 is just, one to watch and make sure we get the balance between customer
10 benefits and the costs as we go through that.

11 Q. Moving onto MFNs, which seem to be pretty pervasive throughout the PCW
12 industry, what do you see as being the effect of MFNs, first of all, in the way
13 that insurers can sell direct through their own websites?

14 A. (Mr Cassidy) Well I think that it is something which clearly inhibits what an
15 insurer can do, and probably from the price comparison websites point of
16 view, it is something that maybe is something which is reasonably important
17 to them to make their business models viable.

18 Q. Do any of you want to express views about how these different forces should
19 be weighed?

20 A. (Mr Watson) Within Ageas UK, we use price comparison websites to a lesser
21 or greater extent within our various businesses and therefore we are clearly a
22 supporter of price comparison websites. We have made comments about
23 MFN clauses in our submission, and just to reiterate those, the answer to your
24 question is, I think it is a restriction on the price that the insurer can offer, that
25 is fairly self-evident. We try and price on how we see the risk, lots of standard

1 rating factors go into that, but the anti-fraud mechanisms within a channel, or
2 within a broker, within a trading partner would be important to take into
3 account. The likelihood that a customer will stay with us for a number of
4 years is a factor that we would want to take into account as well, and certainly
5 those latter two, particularly the whole area of a customer gaming, by which I
6 mean, during the quotation process they change their details, and can do
7 several times. Customers seem more comfortable doing that via the
8 aggregate channel, for whatever reason. That is a risk to the insurer, and we
9 would want the ability to be able to reflect that risk within our pricing,
10 potentially between different price comparison websites.

11 Q. So it is not just a matter of the price that you can offer directly to the
12 customers as opposed to the customers coming through an aggregator, are
13 you saying that if different aggregators offer you different levels of fraud
14 protection but could not compete in price, then that is inhibiting competition?

15 A. (Mr Watson) Indeed, or for whatever reason, and I am talking hypothetically
16 now, but it is well within the realms of possibility. We were working more
17 closely with one than another, or for whatever reason, one price comparison
18 site wanted to offer a promotion to their customers, then clearly we would be
19 constrained from working with that price comparison website in an MFN
20 situation.

21 A. (Mr Saunders) I think that is a good point. If you want to be on the
22 aggregators there is an MFN to sign up to, obviously they all have clauses,
23 and I think they go into two broad categories, they go into the category that
24 says, "the website versus selling direct", and we are starting to see some of
25 them say, "but we must have cheapest", so amongst the four, one of them

1 would then want to be a dominant feature of that, in terms of the price and the
2 sign up. But I think what the market is also starting to see now are some
3 slightly different issues arise, so you will see a different customer base, look
4 at different channels, and the way in which they would search and enter
5 details, you are seeing some of the subtleties around what happens if that
6 policy is not taken up or if it is cancelled, and how does the clawback work in
7 terms of the commission and the fee that is paid, between one particular site
8 and another. So this is something that we will be writing to you about and
9 expanding in the course of the next couple of weeks.

10 A. (Mr Holliday) I think the big danger for us with the most favoured nation
11 clauses, is, as we said before, in terms of negotiation about the fees, the price
12 comparison websites do have the upper hand. It is quite possible, I think, the
13 way the contracts are written, you could end up with a situation where one
14 price comparison website negotiates a higher acquisition fee per case, but
15 then invokes the most favoured nation clause, so therefore that is not
16 reflected in the price. It is the same risk, the same price, but they are getting
17 a higher acquisition cost, so it is about being able to negotiate.

18 Q. (Mr Aaronson) Can I come back to the gaming issue that you mentioned? If
19 you have a customer that goes on a price comparison website and enters
20 some data and then changes it three times, is that not a customer you would
21 not really want, because it looks like you cannot trust any of the information
22 that is being entered?

23 A. (Mr Watson) I am sure that the insurers around the table are putting in
24 mechanisms to identify that type of behaviour and take a commercial decision
25 relative to the risk that you have just identified, absolutely.

1 A. (Mr Gibson) I think we all are. We look at clicks and counts and changes and
2 movements.

3 Q. (Mr Aaronson) And you can do that even if it is not on your own website but
4 on the PCW website?

5 A. (Mr Gibson) That would be through our limits and bars, but if we get past a
6 certain limit of changes we will not buy the business because we know that
7 that customer is apparently falsifying information to get a cheaper quote.

8 A. (Mr Holliday) But it can be subtler than that. A price comparison website may
9 choose to classify data slightly different to another one. Occupation codes
10 might be an example, or the way that they present the questions might make
11 a difference to the way the customer reacts, the significance they place on the
12 importance of the information being accurate. That can all make the
13 difference, as can the way the customer paying, as can the marketing of the
14 price comparison website, in terms of the sort of customers they attract for
15 themselves and so on. It can all make a difference to the business unit.

16 A. (Mr Gibson) Perhaps an exaggeration but if you see someone put on two or
17 three speeding convictions and then they suddenly disappear, then that
18 indicates where you are. And that happens.

19 Q. (Mr Aaronson) Yeah, it just seems to me to go slightly against the argument
20 that you want to charge a different price under different PCW sites according
21 to how well they filtered out this behaviour, because it is not something you
22 can remedy by charging a different price. As you say, you reach a certain
23 point and you just do not want to write that business.

24 A. (Mr Gibson) It goes right to the moral hazard in the individual that you are
25 insuring, and there are, I am sure, we all do this, there are statistics that

1 clearly show that the higher the moral hazard, the more likely it is the
2 individual will make a claim, and that they will have an accident involving
3 injury. It is factual.

4 THE CHAIRMAN: Moving on just a little bit, cashback websites. Do you think the
5 emergence of cashback websites has challenged the position of the PCWs?
6 Are they going to have a big impact on the market?

7 A. (Mr Cassidy) I think at present we have not seen them have a -- you know, it
8 is a peripheral activity in the marketplace, rather than anything which at this
9 point has had a significant impact or is causing a particular concern to us. It is
10 just a sort of, "watch this space" situation.

11 Q. What about Google and Tesco? Do you expect them to have an impact in the
12 market?

13 A. (Mr Cassidy) Well, we have been waiting for it for a long time but it has not
14 materialised yet. On the face of it they have the power to be a major
15 influence. As of yet ...

16 Q. But if they have the power to be a major influence, why have they not
17 emerged?

18 A. Well, in the case of Google, I think the conclusion that we have reached is
19 that they have had bigger and more important priorities to occupy themselves
20 with than playing in the UK private motor insurance market, which does not
21 mean to say that they are not planning to do something big at some point in
22 time.

23 A. (Mr Currie) I think it is probably also worth pointing out that across the motor
24 insurance industry, we are not known for making huge profits, so if you are
25 Google, and you have a look at where you can make more money, well I do

1 not think motor insurance would be my first choice.

2 A. (Mr Dalton) As you will see from the combined operating ratios from the
3 industry. I was just going to make exactly the same point, if you are Google,
4 surely you are making an informed business decision about how you are
5 going to make more money. Entering private motor insurance is somewhere
6 you are probably not really going to go.

7 Q. Okay. Move onto the last topic, which is supplier relationships, and I am
8 going to be looking to RSA to take the lead in responding here. We are aware
9 that many insurers have contracts with suppliers of paint or parts, contracts
10 that generate rebates for them. Do you think this achieves efficiency, this kind
11 of relationship with suppliers?

12 A. (Mr Currie) Yeah, I think most insurance companies, I say most rather than
13 the majority, will have some kind of rebate process in place with suppliers that
14 they use, be it repairers, be it paint manufacturers, be it part manufacturers.
15 That happens. Is it efficient for us? Yes, because what it allows us to do is to
16 use our bargaining power as a buyer of a large amount of services, and the
17 individual garages and the individual repairers would have significantly less
18 bargaining power.

19 Q. So in the end your customers are getting a better deal because of it?

20 A. (Mr Currie) Yes, because the customer gets a cheaper price.

21 Q. (Mr Stern) Why then do you do it in the form of rebates rather than simply
22 negotiating a lower overall price?

23 A. (Mr Currie) Because it is generally, the way we see these things happening, it
24 is the individual garage that will actually buy the parts and buy the paint.
25 What we can then do is negotiate a deal with the parts manufacturers and the

1 paint manufacturers to make sure that the scale that we are using, that we
2 have got, is properly reflected in the price that we are achieving.

3 Q. (Mr Oram) Could I ask Ageas then, if RSA are correct, why is it you do not do
4 that?

5 A. (Mr Smale) We, about seven years ago, looked at the market and decided
6 that if we were to attract a group of repairers who would buy into our strategy
7 of customer efficiency and customer service, and also who would be prepared
8 to differentiate their service, we have to become something called, or which
9 we christened, "The insurer of choice for repairers", and we felt that
10 interfering -- our word -- in the procurement of paint and parts was an area of
11 friction between insurers and repairers and we moved out of it. We wrote to
12 5,500 repairers in the UK and asked them if they wanted to engage in Ageas
13 business. 1,000 repairers replied, and filled in an application, and 138 were
14 successful in getting onto our network, and they chose the means by which
15 they would discount parts and paint. That went into the contract, that they
16 controlled the procurement. And we believe for us, that is a more efficient and
17 a lower cost way of going about this particular aspect. Certainly our very low
18 cost ratios, and the ability to sell policies at a very low price, seem to bear that
19 out.

20 Q. (Mr Stern) And they would charge the same rate, whether it is a fault or
21 non-fault claim?

22 A. (Mr Smale) Yes, absolutely. No distinction.

23 THE CHAIRMAN: Any other views on how to manage these relationships?

24 A. (Mr Milliner) I think from our point of view, I think it goes back to the first
25 theory of harm really, in terms of whilst those relationships may exist for some

1 insurers, how do you then pass those collateral benefits back when it comes
2 to subrogation, so whatever model you choose to operate, it goes back to
3 what outcome are we looking to achieve. And if we are looking to achieve a
4 level playing field without detriment to the customer, creating an opportunity
5 for differentiating your model, potentially at the detriment of the consumer,
6 probably may create unintended consequences, so, I think whichever model
7 you are arriving at, if you are in a credit capital cost, and pass on that cost on
8 a net basis, to the at-fault insurer, then fine, but if you are going to create a
9 model which creates a kind of back pocket kind of revenue stream for you,
10 then that probably is, at the end of the day, a detriment for the consumer.
11 And I totally agree with Rob, you know, at the end of the day, what we are
12 looking for is the best service you can provide that consumer and that would
13 be paramount.

14 Q. Okay. One other question in this area. One of the things that repairers have
15 said to us is that they are under what they see as very strong pressure from
16 insurers, to keep their labour rates down, and the impression we get is that
17 they are under less pressure in other areas, so they may feel that they are
18 getting a reasonable margin, for example on paint, through the way the
19 arrangements are done on paint. Is there any reason why insurers would
20 want to negotiate with the repairers in a way that keeps the focus on keeping
21 the labour costs low, and being a little bit less rigorous in other areas?

22 A. (Mr Currie) I would say, the way we negotiate with our suppliers, is based on
23 the overall cost that is going to come back to us, and the breakdown of it
24 between labour and parts and paint, whatever. We have much more interest
25 in a measurable overall cost that comes through.

1 Q. So you do not get in the position of --

2 A. (Mr Currie) I mean, it is an interesting debate, we would talk to them about

3 what the labour rates are but more than anything we are looking at what the

4 overall costs are.

5 A. (Mr Smale) We can cite an example within Ageas where actually our repairer

6 that provides us with the lowest overall repair cost actually has the highest

7 labour rates, by some margin.

8 A. (Mr Saunders) I think we have got to monitor, control both ends of that and

9 encourage good use of best practice across both of those areas.

10 A. (Mr Gibson) It is the old conundrum of, is it 10 hours at £20 an hour, or is it 20

11 hours at £10 an hour? That is what it is.

12 Q. Okay. That brings us to the end of the set of questions that we wanted to

13 cover, I think. Is there anything you came along dying to tell us about, and we

14 have been negligent in not giving you the opportunity to bend our ears on? Or

15 have we covered all the issues you had hoped to raise?

16 A. (Mr Howe) I think, from our perspective, we have covered it all, I mean, given

17 the exchange of documents between the two organisations, there is nothing.

18 We would have certainly flagged it in advance. I do not think there is anything

19 we have not covered for RSA, that is for sure.

20 Q. Okay.

21 A. (Mr Milliner) I think when it comes to theories of harm one, I do not think we

22 spent any time actually exploring the issues around total loss and salvage,

23 and proportionally that probably makes up about 20 per cent of the claims that

24 happen and I think, as your report suggests, there probably is considerable

25 consumer harm there, I would suggest, and we do not seem to have focused

1 on that at all, which did surprise me, given the extent of the problem that
2 exists. So I felt that we perhaps should have explored that.

3 Q. (Mr Aaronson) And what is the problem, in two sentences?

4 A. (Mr Milliner) The problem, in two sentences is, as explained in your document
5 is essentially the opportunity to under-report the sale of the salvage by the
6 tune of about £200, according to your findings, which is in line with our own
7 experience, in so much as the sort of matrix approach to valuing that piece of
8 salvage gives the opportunity to under-value it, compared to the actually
9 market price it is absolutely sold at, at the end of the day, so what should be
10 happening is, insurers should subrogate on a net basis, i.e. the actual sale
11 price of the salvage should be netted off against the write-off cost of the
12 vehicle. However, that is not how some insurers are currently practising.

13 Q. (Mr Wright) And they are not doing that because of time? You do not know
14 the actual salvage value, or is there another reason?

15 A. (Mr Milliner) I do not think it is about efficiencies, I think they see that as an
16 additional revenue stream, you know, if we are talking about a differential on
17 average of £200, compared to waiting a little bit of time to get the cheque
18 through the door, I think that gap is not explained away from frictional cost.

19 THE CHAIRMAN: So you would see this as another way in which referral fees are a
20 stream of income which is not then netted off in the bills that are sent to the
21 at-fault insurer?

22 A. (Mr Milliner) Absolutely.

23 Q. Okay. Yes.

24 A. (Mr Saunders) I think we have covered from the Allianz perspective,
25 everything that we anticipated, judging by the -- we did some of us speak to

1 each other on the way in today, and I think one of the burning questions that
2 we do have is really just to have some views on the remainder of the papers,
3 noting that there is quite a burden on the Competition Commission to produce
4 this stuff, in terms of the expectation of when that is going to be made
5 available, noting of course that there is a narrow window between now and 16
6 August. I think that is one of the issues.

7 Q. Andrew, yes I think you are the person to comment on that.

8 Q. (Mr Wright) Okay. We set the deadline of 16 August on the basis of when we
9 published the Annotated Issue Statements, and a rough expectation at that
10 time of when we might get the papers out. Two main things still needed to
11 happen at that stage. One was we needed to go through a back process with
12 issue on the evidence you have given us, and secondly we needed to go
13 through an internal process of getting a document right for public
14 consumption, if you like, in terms of the style and all the rest of it.

15 On the first of those we have had quite a lot of comments back, which we
16 need to think about and some of which need some re-engagement with
17 individual parties, so that is taking a little bit longer than we expected, and the
18 internal process has taken a little bit longer than expected, which is why we
19 have not managed to get out any further working papers, apart from the
20 Annotated Issues Statement and the survey report to date. The papers will be
21 published, though, during the course of the next two or three weeks or so, in
22 batches. So I suspect that we will putting out groups of three or four papers at
23 a time over the course of the next two or three weeks. When we have found
24 out where we have got to, then we will obviously consider whether we need to
25 change the deadline of 16 August at that stage. So we will be reasonable in

1 the period we give you. We have no interest in being unreasonable. But we
2 will consider that again when we get to the stage of when we know that the
3 last few papers have been published.

4 A. (Mr Dalton) This is a particular issue for smaller insurers, so a number of the
5 insurers that you have got around the table today, will have teams working on
6 analysing, reading, thinking up the submissions on the papers that you have
7 released, that smaller insurers with maybe 10 or 12 employees will find it
8 much more difficult to engage with that process in a constructive and informed
9 way.

10 A. (Mr Smale) Speaking as a larger insurer, we have had to direct people away
11 from the front line, in order to deal with the information the CC have been
12 requesting. Certainly in the last request that came to us, gave us a very
13 limited turnaround. So if you could apply some pragmatism to some of those
14 turnarounds we would be very grateful.

15 Q. Okay. Thank you.

16 THE CHAIRMAN: Okay, all of those points have been noted and understood. So
17 can I finish off then by thanking you all for taking the time to come here. We
18 have had, from our perspective, a very useful and open and interesting
19 discussion. Thank you for the time you have put in today. Thank you for the
20 time you have put in preparing for this engagement, and also, and especially
21 for the time you are putting in throughout the work of this investigation. We do
22 understand that dealing with a Competition Commission market investigation
23 is a burdensome process, and we very much appreciate the work that you are
24 putting into it. We are, as I said earlier, intending to produce a Provisional
25 Findings report in late October, possibly early November, and we will be

1 | looking to further engage you in some further dialogue with you as the
2 | investigation goes forward. So thank you all very much.
3 |

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?