



**Response to the Competition Commission Working Papers  
for the Private Motor Insurance Investigation**

**August 2013**

## **Background**

The Consumer Council has noted with interest the Competition Commissions statement of issues and associated working papers and welcomes the opportunity to respond. The Consumer Council is concerned at the high cost of car insurance in Northern Ireland and the detriment it causes to many groups of consumers. We continue to work with stakeholders across the spectrum to find ways in which the high cost can be tackled.

## **Introduction**

We welcome the Competition Commissions thinking on the market dynamic in Northern. The Consumer Council have been mindful that consumers in Northern Ireland face different market conditions than the rest of the UK when it comes to car insurance. In 2011 we asked the OFT if they could look at how the NI market functions in comparison to the GB market and if there were barriers to competition in NI. We are pleased to see that this work has been carried on by the Competition Commission. We wish to respond to some specific issues raised by the Competition Commissions working papers, in particular the paper on Theory of Harm 3: Horizontal Concentration in PMI Providers in Northern Ireland.

- **The Strong presence of brokers may prohibit entry**

We were aware that there is a difference in how companies operate here in Northern Ireland and that many insurers only operate through a brokering system. The Competition Commission commissioned research shows the extent of just how many NI consumers purchase through a broker: at 60 per cent this is a very significant proportion.

The Consumer Council can offer some explanation for the way consumers in NI choose to purchase through a broker. The purchase of car insurance here mirrors the way consumers choose to access other financial products and services such as banking. According to the Consumer Council's recent research, six in ten NI consumers visit a bank branch once a month and one in five don't like using online services. Eluded to in the Competition Commission research, many consumers here like using a local service with a local physical presence.

We note that on Page 24 of the Competition Commission's working paper on Northern Ireland it states "whilst commissions were generally paid in lieu of marketing and operational costs, there would be an element of broker margin that would result in an overall higher cost than if business were sold directly to the customer". ***The question arising therefore is how much more does it cost consumers in Northern Ireland to purchase their car insurance through a broker compared to purchasing it directly from an insurance company?***

The strength of brokers in Northern Ireland has many positive aspects for consumers but the Competition Commission has said that some insurers feel that the prolific broker market in NI may inhibit competition.

The Consumer Council feels that this is one dimension of the market that does require further examination. The Consumer Council requests that the Competition Commission scrutinise it to ensure that consumers are not at detriment from the way brokers in Northern Ireland practice. ***We would be interested to hear the Competition Commissions views on brokers in NI. What mitigating actions or remedies can be put in place if operational practices or broker's market position does inhibit competition?***

- **The NI market is small and it may not be economically viable for a new entrant to incur the necessary set up costs or to operate on a significant scale.**

The Consumer Council is aware that Northern Ireland is a small, but not insignificant market and economies of scale may make the market unattractive to some entrants. We would be interested to know what set up costs are likely to be. ***How do the set up costs for Northern Ireland differ to any UK insurer looking to increase their market share in any region of the UK?*** If we are able to question these questions then we will be in a better position to know what potential can be done to improve the situation. ***Are there differences in terms of driving practice or law, if so what specifically are they? Is there action the NI Assembly could potentially take to equalise the situation to match the rest of the UK.*** The NI Assembly has demonstrated a willingness to take significant action for example

through the development of a graduated driver licensing scheme (GDL) and the establishment of an All Party Group on Motor Insurance.

- **Claims costs within a small market may also be volatile and make it more difficult to underwrite business profitability.**

There are many differences between the legal system in England and Wales and Northern Ireland in relation to PMI. The insurance industry have long argued that car insurance premiums are more expensive in Northern Ireland because compensation levels are higher and the cost of administering claims are higher also. The legal profession in Northern Ireland have continuously repudiated that.

The Consumer Council view is that while there are actions that can be taken to stream line and make any legal system more efficient and cut out unnecessary cost, we have not seen any substantive evidence that conclusively indicates whether the compensation awards are higher and legal costs are higher in Northern Ireland. ***We would be very interested in seeing more of the data relating to claims from Northern Ireland in the research prepared by IFF Research for the Competition Commission.***

Recent developments such as legal reform in England in Wales in relation to personal injury claims and the introduction of the pre-action protocol in NI have done little to clarify the situation. The findings by the Competition Commission that there is a lower claims ratio in NI would suggest that claims cost is not a wholly valid assumption for higher premiums in NI compared to GB. ***We believe that what is needed is a conclusive, comparative study that looks at claims and the legal process in England, Wales and Northern Ireland. We ask the competition commission whether within the terms of their market investigation they would be willing to undertake this research.***

- **PMI profitability in Northern Ireland**

The Competition Commission analysis of PMI profitability is very interesting and stimulates the need for further debate and evidence in this area.

On face value it would seem that the lower claims ratio in Northern Ireland would suggest a higher level of profitability. In Northern Ireland we have long been told that our higher premiums are as a result of higher claims costs. However the lower claims ratio leads us to question whether or not the high premiums are justified and whether NI Consumers have been overcharged for their car insurance based on a perception of high claims costs. We accept that the lower claims ratio is dependent on other elements of cost such as distribution and overheads. However in order to definitively state whether these costs effect the overall ratio there is a need more information on what the costs are. ***Are the Competition Commission able to obtain data on the various costs of operation in Northern Ireland?***

- **A lack of underwriting experience places new entrants at a competitive disadvantage.**

According to the CC working paper, this is a bigger barrier to entry in NI than in the rest of the UK as some sources of socio demographic data are unavailable in NI. ***We would be interested in learning what data is missing and why it is not unavailable in Northern Ireland?***

***We would also be interested in potential solutions as to how the NI Executive and in particular the Department of Enterprise, Trade and Investment and Invest NI could do to assist companies who wish to enter the market in NI, particularly with regard to underwriting experience.***

- **Why are there fewer PMI providers offering policies for young and high risk drivers?**

The situation facing younger drivers in Northern Ireland is critical. In our previous submission to the Competition Commission we highlighted the extent of the problem. Through the Consumer Council's ongoing monitoring of the market for younger drivers we can confirm that there has been little movement in the market in terms of price or the number of providers.

In the Competition Commission working papers on pages 12 and 13 it is stated that some insurers simply choose not to provide products to younger drivers, some do not have knowledge and experience in this area, however there are no specific barriers.

The Department of Environment under the leadership of former Minister Alex Attwood has listened to the Consumer Council's concerns and has been working with us, the insurance industry, legal profession and other government departments here in order to bring about changes in premiums for younger drivers.

As a result the Department is on the verge of implementing a graduated driver licensing (GDL) scheme to reduce risk on the roads. The Minister also received a commitment from ABI that once GDL proposals are implemented the premiums for younger drivers will decrease. We believe that the implementation of this scheme should make younger drivers less of a risk on the roads and a more attractive business proposition for insurance providers.

However despite GDL ***we believe that more intervention is required for younger drivers and high risk drivers.*** The situation will not improved unchecked and we are interested in working with the Competition Commission and others to see how more providers can be encouraged to provide fair and affordable premiums for all consumers.

## **Conclusion**

We welcome the continued investigation by the Competition Commission into private motor insurance and the publication of the latest working papers and research. The papers add further content to the debate and give direction to the investigation.

The Consumer Council asks the Competition Commission to examine three specific areas as the investigation progresses;

- 1. Since the majority of consumers purchase their car insurance through a broker, we believe that this area should be further investigated**
- 2. The various costs for insurance companies to a) set up in NI and b) to operate in NI on a day to day basis**

**3. Further work on the issue of claims and compensation is needed and a definitive study to establish conclusively if costs are higher in NI than in GB.**

We would very much welcome the opportunity to meet with the Competition Commission inquiry team in coming weeks to discuss the issue of car insurance in Northern Ireland.

**For further information or to discuss any aspect of this submission please contact**