**WNS's COMMENTS ON VARIOUS OF THE WORKING PAPERS PUBLISHED BY THE COMPETITION COMMISSION**

## 1. THEORY OF HARM 1: OVERCOSTING AND OVERPROVISION OF REPAIRS

1.1 In paragraph 4(a) the CC states that credit repairs are likely to be more expensive because they usually use OEM parts whereas captured non-fault repairs use some non-OEM parts. If one looks at the CC's statements in the working paper on Theory of Harm 1 and the underprovision of repairs, it is clear that the use of non-OEM parts in insurer managed repairs is small (i.e. between 2% and 15% of all parts used, by value).

1.2 In paragraph 4(c) the CC states that the cost incurred by the fault-insurer in managing the repair is around £58-£77 per repair. [✂].

1.3 Paragraph 4 fails to take into account the fact that the captured non-fault repairs may well relate to lower cost damage vehicles rather than prestige vehicles or vehicles with greater levels of damage. The CC has received evidence from insurers (see transcript of multi-lateral hearing with the insurers Direct Line Group, Admiral, AXA, Esure and NFUM) indicating that non-fault drivers are more willing to have their repair managed by the at-fault insurer where the damage is more minor but would rather have their own insurer deal with more substantial repairs. This issue is mentioned in passing in paragraph 4(d) but the CC states that it was not able to quantify the effect of this on average costs. [✂].

1.4 It would be helpful to understand how the CC calculated the cost of repair figures in Table 1, lines a & d. [✂].

1.5 In Table 2, the average repair cost paid by the fault insurer where the repair provider non-fault insurer is stated to be £1,347. The CC claims that this figure is taken from Table 1. No such figure appears in Table 1 and, in fact, Table 1 does not deal with the situation where the repair provider is the non-fault insurer. It would therefore be helpful to understand how the CC has come up with the figure of £1,347 for the average repair cost paid by the fault insurer where the repair has been provided by the non-fault insurer.

1.6 In paragraph 14, the CC claims that the main differences between credit repairs and repairs managed by insurers are the more frequent use of OEM parts by credit repairers and a higher ratio of parts being replaced as opposed to being repaired. The CC has stated in its working paper on Theory of Harm 2 relating to the underprovision of repairs, that the use of non-OEM parts in insurer managed repairs is small. As for the contention that a higher ratio of parts are replaced by credit repairs as opposed to being repaired, the CC has provided no evidence to support such a claim. The CC needs to bear in mind that it takes much less time to replace a damaged panel than it does to repair the panel. This has an impact on the duration of any credit hire and thus the overall size of the claim.

1.7 The CC states in paragraph 28 that 9 of the 10 largest insurers made no referrals to credit repairers and managed the repairs of their non-fault customers themselves.

This would seem to suggest that the number of repairs managed by credit repairers is a relatively small percentage of the total number of repairs undertaken by, or on behalf of, insurers. The OFT, in its report on the market study, estimates that only 32% of repairs to a not-at-fault driver's vehicle were provided by credit repairers. Since only around 20% of insurance policy repairs are classified as non-fault repairs, this must mean that credit repairers are only responsible for managing a small proportion of the total number of repairs undertaken by, or on behalf of, insurers.

1.8 In paragraph 35(e), the CC claims that insurers and CMCs take rebates from suppliers to repair subsidiaries or approved repairers in return for requiring the use of that supplier's inputs, often resulting in higher input costs for repairers (with the likelihood of higher repair bills). As the CC states in this paragraph, the main inputs used by repairers are paint, parts and cost estimation systems. [✂] WNS does not agree with the CC's contention that taking rebates from input suppliers often results in higher input costs for repairers. It would be helpful to see the evidential basis for the CC's contention. It would also be helpful to understand whether the claimed increase in input costs was material or negligible – the information in paragraph 47 would seem to suggest that any claimed increase was likely to be negligible.

1.9 Paragraph 42 states that the lowest non-fault repair costs paid by fault insurers are for captured non-fault repairs. The CC claims that this is consistent with the fault insurer having the greatest incentive to keep repair costs low. However, another important reason as to why captured non-fault repairs may result in the lowest non-fault repair costs paid by the fault insurer is the fact that captured non-fault repairs may involve much less extensive damage and therefore be less costly to repair in the first instance. This comment is made in paragraph 44 and in footnote 8.

1.10 Paragraph 48 compares a non-fault repair cost and credit repair bills. The CC recognises that the average costs shown at lines (a) and (c) in Table 3 may not be on a like for like basis because credit repair is almost always provided as an additional service to credit hire so minor repairs, where a TRV is not required, might not be handled by a CMC. [✂]. The CC suggests that there may be a reluctance on the part of some credit repairers to undertake very expensive repairs due to the credit risks that they involve. [✂]. A further complicating factor is that not all the repairs are likely to be undertaken by network repairers: WNS's experience is that in around [✂] of cases, the insured party will insist on using his/her own choice of repairer as opposed to a WNS approved repairer and such repairs are significantly more expensive [✂].

1.11 In paragraph 49, the CC contends that the rebates received by some CMCs from suppliers of inputs to their approved repairers had the likely effect of increasing the cost of repairs billed. The CC advances no evidence in support of this contention. In WNS's experience, this contention simply does not hold true (see comments at 1.8 above).

1.12 In paragraph 50, the CC refers to the cost of providing a courtesy car compared with the cost of a TRV. [✂].

1.13 Paragraph 58 states that adding an engineering charge is common practice amongst CMCs. Such charges are permitted under the terms of the GTA. Indeed, the GTA obliges repairers to use independent engineers.

1.14 Paragraph 60 states that the rebate payments received by CMCs were likely to increase the cost of the repair to the credit repairer and ultimately to the fault insurer. No evidence is provided by the CC in support of this contention. [✂].

1.15 In paragraph 62, the CC considers what might give rise to the higher repair costs for credit repairs. The CC postulates that, in part, the higher costs might be explained by insurers benefitting from large economies of scale in their negotiations with repairers. [✂].

1.16 Table 8 in paragraph 73 [✂].

1.17 Footnote 14 refers to the cost of capital borne by credit repair businesses. WNS estimates that the average cost of a credit repair carried out by its approved network repairers is [✂] this sum will need to be funded by the credit repairer in those instances where it does not receive payment from the fault insurer on time. Since a credit repairer will often deal with [✂] the level of capital it will need access to is not insubstantial. Therefore, the cost of funding this capital will, similarly, not be insubstantial. [✂].

1.18 In paragraph 100, the CC refers to credit repairs having a higher proportion of replacement to repair than insurer-managed repairs. No evidence has been adduced by the CC to support this contention or to give any indication as to the extent to which CMCs replace parts which insurers would have repaired. It is noted that the CC states that it found no evidence to indicate that this additional level of service from credit repair was unreasonable.

1.19 [✂].

1.20 [✂].

1.21 When looking at potential remedies, the CC will also need to be aware that only around 20% of all motor insurance policy repair claims are classified as non-fault claims and the smallest of these are dealt with in the same manner as a fault claim (see 1.19 above). In addition, the OFT's report on the market study estimated that only 32% of repairs to not-at-fault drivers' vehicles were carried out by credit repairers. This means that the vast majority of repair claims are not eligible for any form of Credit Repair and/or are not carried out by credit repairers. This working paper and many of the other working papers have concentrated on non-fault claims. As these account for only around one-fifth of the claims dealt with by insurers and the actual number of non-fault claims dealt with by credit repairers is a fraction of the total number of non-fault claims, the CC will need to exercise some caution to ensure that any remedies it might propose to deal with perceived issues in relation to the management of non-fault claims do not impact negatively on fault claims and

thereby result in increased premiums for purchasers of private motor insurance cover.

## 2. THEORY OF HARM 1: OVERCOSTING AND OVERPROVISION OF TRVs

2.1 Paragraph 6 makes the comment that the average credit hire duration is about 3.7 days longer than the average direct hire duration. [✂]

2.2 Paragraph 10 states that the level of referral fees may be an indication of the extent of the underlying profitability in credit hire. [✂].

2.3 Paragraph 21 states that when a non-fault customer's claim is handled by a CMC/CHC, the TRV is usually provided under credit hire. This is too broad a statement which does not reflect the variety of situations handled by a CMC. [✂].

2.4 It is impossible to comment on paragraph 36 because the vast majority of the text has been excised on confidentiality grounds.

2.5 In paragraph 44, the CC claims that Table 5 shows [✂].

2.6 The data presented in Table 7 is less reliable than the data in Table 6 because the average daily rates in Table 7 take no account of the different vehicle categories which are included in the data provided by each insurer/CMC/CHC. Also, it would be helpful to understand whether the average insurer direct hire daily rates and the average CHC/CMC direct hire daily rates set out in Table 6 include the cost of insurance cover, because the GTA credit hire daily rate does include the cost of insurance. If the direct hire daily rates in Table 6 do not include the cost of insurance cover, the "multiple" figures contained in the table will be overstated.

2.7 [✂].

2.8 Paragraph 49 refers to long hire periods of three weeks or more. [✂].

2.9 It would be helpful to understand whether, in putting together the figures in Table 9, the CC has taken into consideration the impact of the different classes of vehicle hired under a credit hire arrangement as compared with a direct hire. [✂].

2.10 Table 10 [✂].

2.11 The CC says, in paragraph 66, that the fault insurer employs claims handlers to undertake each of the activities set out in points (a)-(f) and that these activities are also undertaken by the CMC/CHC managing the claim. However, the position would be the same if the claim was being managed by the non-fault insurer. Both sets of insurers need to verify certain key issues at various stages of the claim process. Therefore, it is misleading of the CC to imply that these administrative costs are only duplicated when the claim is being managed by a CMC/CHC.

2.12 Paragraph 67 contains a misleading statement when it claims that frictional costs arise from the party controlling the credit hire having a different interest from the party paying for it. According to the CC, the frictional costs incurred by CMCs include the administrative costs to increase the likelihood of the claim being settled by the fault insurer and the costs of pursuing and recovering disputed credit hire claims or

claims which have not been settled within the periods provided for under the GTA. By incurring administrative costs to increase the likelihood of the claim being settled by the fault insurer (e.g. by ensuring that repairs are carried out in a timely manner and any unjustified periods of credit hire are excluded from the claim pack) is as much of interest to the party paying for the claim as it is for the party who wishes its claim to be settled as swiftly as possible. Similarly, where there is a genuine dispute over a credit hire claim, it is in the interest of both parties to try to resolve the dispute without recourse to litigation.

2.13 In paragraph 73, the CC suggests that administrative costs and litigation costs are the largest elements of the frictional costs incurred by CMCs. [✂].

2.14 Paragraph 74 states that the level of frictional costs incurred by CMCs suggest that considerable resources are expended in order to gain settlement of credit hire claims. [✂].

2.15 The comments made in paragraph 75 in relation to the difference in frictional costs between GTA and non-GTA credit hire claims are based on a small sample of data and, as such, should be treated with caution. It is not disputed that the GTA does provide a framework for the efficient negotiation and settlement of credit hire claims.

2.16 Paragraph 80 states that a fault insurer incurs frictional costs in relation to the verification, negotiation and settlement of credit hire claims. [✂].

2.17 The CC states, in paragraph 86, that fault insurers incur significant frictional costs. [✂].

2.18 In paragraph 101 the CC states that the separation of costs liability and cost control gives rise to significant frictional costs. However, in the preceding paragraph the CC states that it treats these calculations of average frictional costs with some caution for the reasons outlined in paragraph 100. If these calculations of averages are to be treated with caution, how can the CC legitimately conclude that the separation of cost liability and cost control gives rise to significant frictional costs? This conclusion simply does not follow if the CC has concerns over the information it has received in respect of frictional costs.

2.19 Paragraph 125 refers to the evidence of one repairer that non-fault repairs were not dealt with as quickly as fault repairs because it was in the interest of the non-fault insurer or CMC/CHC to delay repair authorization and vehicle inspection, in order to extend the hire period. This statement fails to take account of the requirements of the GTA, which sets out clear time limits for repair authorization and vehicle inspection, thus limiting the extent to which such delays could be incurred. Also, if a hire period is longer than required, there is a risk that this will be challenged by the fault insurer and the credit hire element of the claim will not be paid in full. This is not in the interest of the non-fault insurer or the CMC/CHC.

2.20 The CC claims that the evidence referred to in paragraph 126 supports the view of the single repairer referred to in paragraph 125 (that non-fault repairs are not

completed as quickly, in order to extend the hire period). [✂]. The GTA estimating process (often referred to as a mobile estimate) often leads to the situation where additional damage is discovered once the repair commences because, during a mobile inspection at the driver's home or place of work, it is not possible to remove the damaged panel to assess whether there is further damage that is not immediately visible and there is no ability to put the vehicle on a ramp to fully inspect the underside of the vehicle for damage. In any event, the views of this single repairer are very much at odds with the views of all of the other repairers in the CC's sample who said that, they did not differentiate between fault, non-fault and captured claims in how they conducted repairs (including in the time taken to complete the repair) and, in addition, usually they did not know the fault status of the customer. [✂].

2.21 Paragraph 127 makes a number of observations as to how, according to the insurers, CMCs/CHCs could extend the credit hire period. [✂].

2.22 [✂].

2.23 [✂].

2.24 [✂].

2.25 Paragraphs 150 and 151 refer to additional services provided by CMCs/CHCs which, the CC states, are funded by the higher daily hire rate (and, possibly, the longer hire duration). [✂] the maximum daily credit hire rates are set under the GTA by the technical committee consisting of representatives from insurers and CMCs/CHCs alike.

2.26 [✂].

## 3. THEORY OF HARM 1: STATISTICAL ANALYSIS OF CLAIMS COSTS

3.1 In paragraph 5, the CC says that it interprets the differences in repair cost numbers with some caution because the differences in repair costs were generally lower than those the CC found in the working paper Theory of Harm 1: Overcosting and Overprovision of Repairs. Could it actually be the case that the differences in repair costs found in this working paper are actually more accurate than the differences referred to in the working paper Theory of Harm 1: Overcosting and Overprovision of Repairs?

3.2 It is impossible to comment on paragraphs 22-24 inclusive because all of the information contained in Figure 1 and Figure 2 has been excised.

3.3 The CC makes uncaveated conclusions in paragraph 32. Surely, the caveats referred to in paragraph 31 of this working paper are relevant and should be mentioned in paragraph 32?

3.4 It is impossible to comment on the conclusions set out in paragraph 34 because all of the data in Table 1 has been excised. Similarly, it is impossible to comment on the conclusions set out in paragraph 35 because the data in Figure 5 has been excised.

## 4. THEORY OF HARM 1: ANALYSIS OF THE RESULTS OF THE NON-FAULT SURVEY IN RELATION TO OVERPROVISION

4.1 In paragraph 7, the CC states that some consumers might have been more willing to accept a lower-class TRV had they known the cost, thereby reducing the cost of their claim. [✂].

4.2 Please see comments in 2.20 above in respect of paragraph 16 and table 4.

## 5. THEORY OF HARM 2: UNDERPROVISION OF REPAIRS

5.1 The comment made in paragraph 54(c) appears to be unsubstantiated and flies in the face of the evidence the CC has received from CMCs, which states that CMCs do monitor the quality of vehicle repairs (see paragraph 47 of this working paper).

5.2 [✂].

## 6. THEORY OF HARM 5: ANALYSIS OF POTENTIAL FORECLOSURE AS A RESULT OF VERTICAL RELATIONSHIPS

6.1 In paragraph 33, the CC states that the average paint cost represented about 20% of the average repair bill. Where repairs are carried out by [✂].

6.2 The statement made in paragraph 46 that an upper bound of the share of the cost of OEM parts produced by a car manufacturer was 6% of the average repair bill is erroneous for the reasons set out in 6.4 below.

6.3 WNS is unable to comment on the various statements and figures contained in paragraph 11 of the Appendix because the key figures have been excised.

6.4 The calculation in respect of the VW Group set out in paragraph 16 of the Appendix does not take into consideration any differences in OEM parts costs as between the various manufacturers listed in Figure 1 in the Appendix. It is most unlikely that the prices of OEM parts will be equivalent as between manufacturers because the parts will differ and they may be manufactured by different companies in different geographic locations, thus contributing to the cost differences. Also, the make and model of the car significantly influences the level of OEM parts required for a repair because certain parts (e.g. panels made of aluminium and plastic parts) cannot be repaired but must be replaced once they are damaged. Therefore, simply looking at repair volumes (which is what Figure1in the Appendix does) and then using the percentage figures from the repair volumes analysis as a proxy for repair costs, is a methodology that will yield grossly unreliable results. [✂].

## 7. THEORY OF HARM 5: ANALYSIS OF VERTICAL AGREEMENTS FOR THE SUPPLY OF PAINT (EXCLUDING FORECLOSURE)

7.1 In paragraph 2, the CC claims that the increase in the billed cost of paint may increase the cost of non-fault claims and ultimately harm final consumers through higher PMI premiums. [✂].

7.2 It is not possible to comment on the last sentence of paragraph 8 because details of the mechanism have been excised.

7.3 In paragraph 17, the CC states that repairers told it that the cost of paint was between 20 and 40 per cent of the Audatex weighted average paint price. [✂] WNS questions whether the 80% discount refers to lower quality paints and not "A" brand paints.

7.4 It is impossible to comment on the section of this working paper dealing with exclusive contracts because so much of the information has been excised.

7.5 Paragraphs 26 & 27 comment on non-exclusive contracts with minimum volume requirements. It is impossible to comment on these paragraphs because so much of the information has been excised. [✂].

7.6 Paragraph 51 contains the statement that repairers face higher retail prices for refinish paint than would otherwise be the case. The CC also cross-refers to paragraph 59 of this working paper. It is clear from footnote 27 that two repairers claimed they could make cost savings whilst two other repairers said that no significant savings could be achieved. Footnote 28 also makes the point that savings would not be significant. The evidence relied on by the CC is, therefore, far from conclusive. Also, when the CC states, in paragraph 59, the paint is "of comparable quality" does it actually mean an "A" brand paint substituted for an "A" brand paint? If it does not, then this further calls into question the evidence of cost savings presented by the two repairers referred to in paragraph 59. [✂].

7.7 If, as is stated in paragraph 56, the amount by which some insurers benefit when in the non-fault position due to their paint supply contracts is small relative to the average billed cost of paint and even smaller relative to the average total cost of a non-fault repair, the impact of such supply contracts on PMI premiums must similarly be very small (if any). The CC appears to accept that harm to PMI consumers is unlikely to arise directly from paint supply contracts (see paragraph 63).

7.8 In paragraph 63 the CC states that harm to PMI consumers might still arise indirectly due to paint supply contracts inflating non-fault repair costs. [✂].

7.9 It is impossible to comment on paragraphs 65-70 inclusive as the vast majority of the relevant text has been excised.

7.10 WNS is unable to comment on paragraphs 73 – 76 because key text has been excised.

7.11 In paragraph 82, the CC states that repairers do not usually charge the Audatex weighted average paint price to insurers. Whilst this is certainly the case where the repair is carried out either by an insurer's network repairer or a CMC's network repairer, where the customer insists on using his/her own repairer the full Audatex price will usually be charged.