

Competition Commission: PMI Market Investigation

Allianz Insurance plc Response to the Notice of Provisional Findings

Allianz Insurance plc ("Allianz") welcomes the opportunity to respond to the Notice of Provisional Findings recently published by the Competition Commission ("CC").

Theory of Harm 1: Harm arising from the separation of cost liability and cost control

Allianz agrees that the separation of cost liability and cost control has had an adverse effect on competition (AEC). It has resulted in some non-fault insurers and other parties consciously managing non-fault claims in a way that increases cost for the at-fault insurer. This is to achieve one or both of the following objectives:

- To increase the cost liability of a competitor.
- To "earn a rent", to use the CC's terminology, or make a profit from the control of non fault claims.

The natural result is conflict and dispute over costs, which in itself creates added frictional cost.

Ultimately the additional cost generated by the AEC translates into increased PMI premiums and is borne by the consumer.

In Allianz's opinion the situation is wholly unsustainable. An effective remedy is necessary to prevent non-fault claims being viewed as a commodity that provides a "legally permitted" profit margin. Allianz has responded to the CC's Notice of Provisional Remedies and believes that an effective remedy can be achieved by a combination of 1A, 1D(a), 1E(b), and 1G.

TOH 2: Quality of vehicle repairs

Allianz is concerned by the provisional finding that an AEC arises through:

1. insurers and claim management companies not effectively monitoring the quality of vehicle repairs; and
2. claimants' limited ability to assess the quality of vehicle repairs.

Responses from consumers did not indicate a problem with the provision of repairs by insurers. On that basis the CC considered it unlikely that an AEC existed however, as a precautionary measure, MSXI was retained to undertake some post repair inspections. The CC has recognised that the audit sample was not representative (just 101 vehicles). All of the 101 vehicles were returned in a safe state. There were 45 vehicles with some reported cosmetic defects – mainly imperfect paint matches and imperfectly aligned panels. Of those vehicles 12 owners (25%) were unaware of the cosmetic imperfection suggesting they were almost unperceivable. In respect of the 45 repairs with cosmetic defects Allianz wishes to highlight the following:

- We do not know the age of the vehicles. Sometimes it is impossible to age new paint to achieve a perfect match on older vehicles. The issue might be

whether a repair is "unacceptable" and that may be a lower threshold than perfection.

- We do not know whether any, or how many, were repaired by insurers' approved networks. It may be that the consumer elected to use another repairer of their choice. In that situation the insurer cannot be responsible for the quality of repairs.
- We do not know whether any of the repairers were PAS125 or manufacturer accredited.
- We do not know the pre accident condition of the vehicles. They may have been in a poor cosmetic state pre accident. They may have been involved in previous accidents and not repaired properly for a number of reasons.

Sometimes a perfect repair is not possible. In that situation a non-fault claimant can seek compensation for diminution in value as a consequence of the cosmetic defect. It is not known whether any of the 45 vehicle owners had been compensated for diminution in value in addition to recovering the cost of repair.

In short Allianz does not believe that there is sufficient evidence of harm arising from the under provision of repairs by insurers.

Allianz agrees consumers may have limited ability to identify mechanically defective repairs although on many occasions it will be detectable due to recognisable issues when driving. However, none of the vehicles inspected by MSXI had mechanical defects.

Consumers should have the ability to identify cosmetic defects. They are not hidden inside engine compartments. They do not require mechanical expertise or even rudimentary knowledge of mechanics. Any consumer will have the ability to determine if a paint match is unacceptable or a panel unacceptably aligned.

Allianz does strongly believe that insurers owe a duty of care to consumers to ensure that their approved repairers comply with standards that address the root causes of potentially defective repairs. PAS125 and manufacturer accreditations impose such standards and require stringent audit. By addressing the root causes in this way, defective repairs should be prevented.

Allianz does not agree with the CC's provisional finding in relation to the provision of repairs and we believe the finding has led the CC to a disproportionate remedy. Allianz has offered views on that separately and suggested an alternative proportionate safety mechanism that will give the required protection and reassurance to consumers (see Allianz's response to the notice of provisional remedies).

ToH 4 The sale of add-on products

Allianz agrees that different levels of information are provided by different motor insurers and that, in some cases, consumers may require greater transparency with the features and benefits of certain add-ons.

Depending on the type of add-on that is being displayed, some prices will be fixed, not indicative. These prices should be consistent on click through from the PCW to the Motor Insurer's website

ToH 5 Price comparison websites and MFN clauses

Allianz agrees that price competition between insurers on PCWs is intense and that PCWs are currently a pro-competitive force in the market.

Allianz agrees that MFN clauses restrict the ability of the insurer to charge on other sales outlets a price different from the price offered through the PCW.

We agree that wide MFN clauses soften price competition between PCWs as savings with individual PCWs cannot be fed back to the customer through differentiated premiums.

We agree that narrow MFN clauses may be necessary for the survival of the present PCW business models.

Allianz supports the claim that wide MFN clauses are not necessary for the continued existence of PCWs.