

Inquiry Manager
Competition Commission
Victoria Hose
Southampton Row
London
WC1B 4AD

16 January 2014

Dear Sir,

Re: PRIVATE MOTOR INSURANCE INVESTIGATION

Overview

This is a response to the provisional findings published by the Competition Commission (CC) on 17th December 2013. The response will endeavour to suggest an alternative to Adverse Effect on Competition (AEC) as outlined within section 134(2) of the provisional findings. The main reference is section 10 of the provisional findings which identifies the features that the CC has provisionally found giving rise to the AEC and the resulting detrimental effect experienced by customers.

- 1) It is the view of this submission that the average private car policyholder does not properly understand or appreciate what an excess or deductible (whether compulsory or voluntary) is nor how it operates in practice.

It is our belief that private motorists do not generally realise or understand that any excess under their motor insurance policy needs to be paid to the vehicle repairer before the insured vehicle can be released by the repairer following a claim for damage to that vehicle. This excess has to be paid whether the claim is the insured motorists fault or not. In the vast majority of non-fault accidents, the excess can be recovered from the at-fault party or his insurer, often using legal expenses insurance.

- 2) One of the impacts of the growth of Price Comparison Websites (PCW's) is that motorists are able to easily and conveniently look at ways they can modify their own insurance risk details to reduce or optimise the cost of their motor insurance premium.

One of the easiest ways to do this is to increase the amount of voluntary excess. The average amount of voluntary excess has been steadily increasing over the past few years and a total excess (compulsory plus voluntary) of around £1,000 is not uncommon and £500-600 for young drivers the norm.

This amount of excess, combined with a lack of knowledge or understanding of what an excess is and how it operates in practice, could be viewed as a cause for concern. One thousand pounds is a sizeable sum for the average person or family.

This situation seems to have been seen as an opportunity by short term loan company's (sometimes called pay-day loans) who are targeting motorists in their media advertising.

- 3) Notwithstanding the above there remain a substantial number of motor policyholders who do not fully appreciate that they can reduce the cost of their motor insurance by opting to select a larger

voluntary excess. Our own research using PCW's indicates that selecting a larger voluntary excess can result in significant savings in the cost of a motor insurance policy and that around 90% of quotes offered a voluntary excess.

- 4) It is not widely known but it is possible for a motorist to opt for a large excess and then insure this excess with a specific add-on insurance product offered at the point of sale by his motor insurer, broker, a PCW site or from a number of separate specific excess insurance providers.

Regardless of which excess insurance product the motorist chooses, the cost of this product will normally be less than the saving in the cost of the motor insurance policy generated by choosing a larger voluntary excess.

In addition to this aggregate saving, the motorist is actually afforded better protection as the excess insurance policy will cover damage to their vehicle from the first pound upwards and any excess will be either paid for or reimbursed to the motorist.

We will now turn our attention to the four theories of harm identified in the provisional findings of the Private Motor Insurance Market Investigation as outlined under rule 11 of the Competition Commission Rules of Procedure. We do not intend to comment on each point as there are other persons or organisations better equipped to respond to these specific points but we will respond to a couple of the findings.

The Second Provisional Finding

States that there are two features of the supply of motor insurance and related services which have, in combination, an AEC:

- a) Insurers and claims management company's (CMC's) do not monitor effectively the quality of repairs; and
- b) There are significant limitations to claimants' ability to assess the quality of repairs

The CC provisionally concluded that these features distort competition in the motor insurance market and result in detrimental effects on consumers because they mean it is more difficult for

Consumers' to identify the best value offers in the market and may lead to consumers buying products at inflated prices.

Submitter Viewpoint

In the CC's view, the overall detriment to the consumer from the alleged distortion of competition is thought to amount to £150-£200 million annually. In a market worth in excess of £8 billion per year in annual premiums and assuming the application of remedies achieved a saving of at best 50% of the overall detriment, this would equate to £75-£100 million per year, or between 0.75% and 1.00% of annual motor premiums. This is equivalent to around £6 on an average motor insurance policy.

The inflationary cost of repairs for accidental damage has been relatively modest in recent years and insurers go to great pains to monitor and manage the activities of vehicle repairers, both in terms of the extent and applicability of the reported vehicle damage, including whether it is related to the reported incident, the labour rates charged by vehicle repairers and finally the cost of replacement parts and paint.

The main cost factor driving up motor insurance premiums in recent years has been the growth of personal injury claims involving both the drivers concerned and any passengers. There has been a big rise in the number of "passenger" claims, whether legitimate or otherwise.

It would be a relatively simple step for insurers and CMCs to offer to guarantee any repairs for accidental damage for a suitable period of time. In fact a number of insurers now do this automatically, especially for newer vehicles. This would give the motorist the necessary protection and drive out any repairers who fail to

meet the required standard. However it is possible that the provision of a guarantee on all accidental damage repairs may carry a cost for the motorist borne via an increase in his/her motor insurance premium.

The Third Provisional Finding

States that there are two features of the supply of motor insurance (and in particular the supply of add-ons such as motor legal expenses insurance, personal injury cover, courtesy car cover, key loss cover, extended foreign use cover, no-claims (NCB) protection and excess insurance cover) which have , in combination, an AEC:

- a) information asymmetries between motor insurers and consumers in relation to the sale of add-ons; and
- b) the point-of-sale advantage held by motor insurers when selling add-ons.

Submitter Viewpoint

Whilst there is no doubt that motor insurers do have a point-of-sale advantage, many of the different types of add-on policies such as excess insurance do offer the consumer a genuine benefits. Providing the motorist with a choice of what add-on benefits he/she wants rather than packaging such benefits into a master product along with the motor insurance coverage would drive up cost and reduce choice.

Add-ons such as excess insurance allow the motorist to reduce the overall cost of his motor insurance and improve his/her cover either by using the product available from the insurer, the PCW or from another retailer.

Clearly there needs to be a clear and simple description of each add-on product, together with the relevant terms and conditions and how much it costs, etc. However the Financial Conduct Authority already supervises and regulates this, including the Six Consumer Outcomes laid out under the Treating Customer Fairly initiative, and takes appropriate action.

The activities of PCW's can actively aid and assist the motorist in the sale of add-ons by offering the consumer a choice of products and providers in a sale process removed from the insurer/broker offering the main motor insurance policy.

It is widely accepted that the advent of PCWs has created a more competitive market amongst motor insurers and made shopping around for alternative prices far easier for the consumer. This greater competition has a favourable impact on motor insurer premiums from the consumer's viewpoint.

Yours faithfully,

Bradley Brandon-Cross
Director