



Consumer Council response to the Competition Commission's provisional report into the private motor insurance market

It is clear from our own research and from the recent provisional findings of the Competition Commission (CC) that the car insurance market is not working well for drivers.

Overall, the Consumer Council welcomes the CC investigation and we have urged the Commission to give full consideration to the functioning of the NI insurance market within the UK study. The Consumer Council is currently conducting qualitative research across Northern Ireland (NI) in relation to car insurance and the findings are included throughout this paper.

1 Theories of Harm 1: Cost Control and Cost Liability:

The CC believes that costs could be reduced by linking cost liability and control.

The current operation of post-accident services results in increased premiums to consumers. At-fault insurers are required to put the not at-fault party back to the position they would have been in before the accident meaning that the at-fault insurers may be paying for cost of repairs, a temporary replacement vehicle, medical treatment and legal costs.

The issue is that the at-fault party has no ability to choose the providers of these post accident services and the non-fault side has little incentive to keep costs down hence services maybe more expensive than they need to be or a higher quality than required i.e. consumers gaining more than the position they were in before the accident.

The Consumer Council believes that more scenario testing should be done to ensure that consumers will gain benefit from any proposed changes and that consumers will always be restored to the position they were in before the accident.

The CC is also suggesting prohibiting referral fees. These refer specifically to fees which can be charged by claims management companies, repairers and others to non fault drivers seeking replacement cars or parts.

The Law Society advised the All Party Group on Motor Insurance on 4 February 2014 that it had long campaigned for a comprehensive ban on referral fees such as those engendered by claims management and other companies. This is because the Law Society believes that: *'the activities of Claims Management Companies (CMCs) are increasing the cost of motor insurance in this jurisdiction'*.

Whilst NI does not have the same number of CMCs operating here, the Consumer Council welcomes any measure which would reduce the overall cost of repair or replacement vehicle and overall insurance to the driver.

2 Theories of Harm 2: Under provision of services to those involved in accidents

After the event of a collision, post accident services may be provided by a range of providers but it may not often be in the best interests of consumers.

The CC found that consumers are not always able to assess the quality of car repairs and insurers and CMCS do not monitor the quality of the repairs effectively. The CC has suggested introducing compulsory audits of vehicle repair work.

The Consumer Council believes that post accident services should be fair and transparent to all drivers concerned. Insurers and CMCs are not always adequately incentivised to ensure that claimants get the quality of service to which they are entitled i.e. that consumers should always be restored to the position they were in before the accident. The CC believes that work should be undertaken in order to improve claimants' knowledge of their legal rights, post accident.

It is extremely difficult for claimants to be able to assess the quality of car repairs. The Consumer Council believes compulsory audits would give drivers reassurance that work is of an acceptable standard and would prevent sharp practice and inflation costs. A full cost/benefit analysis would be needed to ensure that any the independent audits would not adversely affect premiums.

The Body Shop Alliance has expressed concerns over the quality of replacement parts which are allowed by insurers.

The Body Shop Alliance NI has launched a high profile campaign regarding the cost control measures being employed by certain insurers.

They believe these measures are putting lives at risk, because insurers are demanding that repair garages only use replacement parts selected by the insurer. Not only are these parts in danger of invalidating warranties, but they are also believed to be of an inferior and less safe standard.

3 Theories of Harm 3: Concentration in the Northern Ireland Market

On 27 February 2013, the CC stated that under Theory of Harm (ToH) 3: *Harm due to horizontal effects (market concentration)* in motor insurance they would focus their investigation solely on Northern Ireland, and they would investigate the profitability of insurers in Northern Ireland.

Following this investigation, the CC conceded that ‘Profitability and concentration are somewhat higher in Northern Ireland than in Great Britain’. They also found that concentration may be particularly high for the sale of insurance to high-risk drivers. They attribute this high concentration to Axa’s recent growth in the market, as a result of Axa’s competitive and well-managed expansion strategy.

“Switching to someone online, say an English insurance company, just wouldn’t be worth it. You wonder if something does happen, will you even be covered?”

Cushendall Consumer, 2014

“Then they tell you on the TV, it’s cheap insurance, and then you look at the bottom of it and it’s ‘not in N.I.’

Enniskillen Consumer, 2014

Despite this finding, the CC does not consider either profitability or market concentration to be higher *as a consequence of a failure of competition*. This is because they feel that underwriting profits from the sale of motor insurance are low, and they do not believe that entry barriers are high. CC, in coming to this conclusion looked at the claims ratio and the combined operating ratios of five insurers operating within NI. To further analyse these figures, they applied the HH¹ index which measures the size of industry share in a market. Some indications are that others are now expanding and Axa’s growth has abated.

The most recent British Insurance Premium Index shows that as of January 2014, the average NI quote for car insurance was £820.83. Whilst this has come down from the previous quarter average of £1,023, it still remains the second highest in the UK.

Given that NI still has the second highest premiums in the UK², the Consumer Council has concerns that more investigation needs to be done to explain why this is the case. (See table below)

Private motor insurance premiums , ranked by UK region				
Rank	Region	Average Market Price	Region	Average Shop Around Price
1	Granada (Wales)	£1341.99	Granada (Wales)	£ 957.35
2	UTV (N.Ireland)	£1149.58	UTV (N.Ireland)	£820.83
3	Yorkshire	£1079.08	Yorkshire	£812.94
4	London	£1065.10	London	£780.62
5	Central	£ 977.25	Central	£737.51

4 Theories of Harm 4: Harm arising from providers' strategies to soften competition

The CC has proposed clearer information for drivers regarding add-ons to policies.

'Add-ons' are additional insurance products that provide cover for various risks over and above the core risks covered by a basic motor insurance policy, usually sold on top of the basic motor insurance policy for an additional premium. These include 'No Claims bonuses'. The Competition Commission found that different insurers offered varying levels of information to consumers.

² Source: British Insurance Premium Index- January 2014

"When it comes to crunch, they say you haven't got this, you haven't got that, so sorry. It's a bit deceitful with their small print"

Limavady Consumer, 2014

"That's the thing with getting cover from the broker. You get a summary letter of what you're actual cover is, without needing the actual cover document. You know if you've got breakdown cover and all that"

Cushendall Consumer, 2014

"It's very difficult to know because you don't know how good your insurance is until you need it."

Lisburn Consumer, 2014

In 2011, the Consumer Council launched a petition and forum for consumers to add their support and tell us their experiences. In a five week period, over 5000 consumers in Northern Ireland signed our petition. We listened to the views of over 1500 consumers who left comments, telephoned our office or spoke to us at our outreach events. Some of those comments concentrated on insurance add ons for car insurance.

There was a concern about the lack of transparency for consumers regarding the extent of cover and exclusions in policies. Consumers find it difficult to compare like for like and determine what is included and excluded in a policy.

"I have noticed that everything is optional extra. When insurance is advertised it states that it is so much but by the time the basic extras are added it is an awful lot dearer just like the budget airline scams."

Petition comment, 2011

"The AA gave me free roadside recovery for 1 year when I took out my policy. I then cancelled my policy as I sold my car. A few months later they auto renewed my roadside recovery and debited money from my account. I rang to cancel and they told me the admin fee to cancel was so high it was not worth it. Bottom line they did not tell me that the roadside assistance was not cancelled when my policy was!"

Petition comment, 2011

They also say they will give you breakdown cover, we'll give you this, we'll give you that, but if you take away something. I'm in the AA but they'll still offer me breakdown cover but I tell them I'm in the AA and they'll say no still take ours and I'm saying no

Lisburn Consumer, 2014

These sentiments were reiterated by many other consumers who rang the Consumer Council. Many made the point that this lack of transparency made shopping around for the most suitable policy and deals very complicated.

Insurers have a point-of-sale advantage when selling add-ons because it is difficult and time consuming for customers to compare the combined price of basic motor insurance policies and add-ons across different providers. The point-of-sale advantage is a source of market power for insurers.

Overall the Consumer Council has concerns that the information provided regarding add-ons is simply not enough for consumers to make an informed choice. Insurers should clearly explain products and they should put consumer need at the heart of their sales activity.

The Consumer Council agrees that customers need clear relevant information with which to make an informed choice about the total cost of the policy they are buying and the cost (and precise purpose) of its component parts.

5 Theories of Harm 5: Harm arising from vertical relationships

The CC is proposing a ban on price parity on Price Comparison Websites.

The Consumer Council believes drivers should be able avail of real competition on price, rather than a narrow range of similar prices on any one particular website.

The Consumer Council feels that a ban on price parity (Most Favoured Nation Cause) would be good news for consumers who want more options when shopping around for the best car insurance deal. This is especially true of NI which is highly reliant on a broker led market with 60 per cent of policies being bought this way

6 Outstanding Questions for Competition Commission

- How many insurers are offering Learner and Restricted drivers insurance in Northern Ireland?
- How does the effect of the strength of brokers in Northern Ireland affect competition?
- Is there is a cost difference from purchasing car insurance through a broker as opposed to buying directly from an insurer?
- If the claims ratio is lower, what can be done to lower claims costs?
- What is the CC view on NI Body Shop Alliance concerns regarding replacement parts?
- How can CC ensure that any costs reduction caused by remedies will be passed to consumer as lower premiums?

We would be happy to meet in person or over the telephone to discuss this further.



The Consumer Council

***Making the consumer voice
heard and making it count***