

COMPETITION COMMISSION MARKET INVESTIGATION
PRIVATE MOTOR INSURANCE

**ACCIDENT EXCHANGE'S RESPONSE
TO THE COMPETITION
COMMISSION'S PROVISIONAL
FINDINGS (PUBLISHED ON 17
DECEMBER 2013)**

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1. EXECUTIVE SUMMARY

- 1.1 The CC's provisional approach, as set out in the Provisional Findings represents a huge success for the insurance industry at the expense of innocent drivers. The CC's conclusion in relation to the AEC under Theory of Harm 1 rests on its conclusion that there is a net consumer detriment arising out of the separation of cost liability and cost control in relation to non-fault accidents. As set out in this submission, and the accompanying Compass Lexecon Report (at Annex 1) the CC's analysis is fundamentally flawed in a number of respects. The CC's analysis has both fundamental errors of approach and also contains numerous substantial errors and omissions in the quantification of the net consumer detriment and the AEC. There are important issues in this regard which the CC has failed to investigate. As a result, the CC's conclusion as to the net cost arising out of separation cannot be relied upon. Moreover, this leads to a flawed approach by the CC to possible remedies; many of which would or could risk diminishing innocent motorists' legal rights, or the degree to which they realise their existing rights.
- 1.2 The CC's essential complaint about the separation of cost control and cost liability ignores the reason why there has historically been a non-alignment of the interests of innocent drivers and at-fault insurers (which has triggered the inception of the credit hire industry). In practice the relationship is necessarily adversarial: on the one hand, an innocent driver seeks to be put back in the position they would have been in, but for the accident, and on the other, insurers have a strong commercial interest to avoid paying claims.
- 1.3 The consequence is that historically, innocent accident victims have faced a struggle to assert their rights. Even where they succeed in doing so they have incurred substantial costs: either frictional costs of their own in seeking to negotiate with such insurers and press their claims themselves, or costs of under-provision where obfuscation or delay by an insurer has eroded or defeated their rights.
- 1.4 In accident cases of the kind the CC is concerned with, delay by an at-fault insurer may be enough to defeat a claim altogether. The motorist may ultimately be "ground down" by the at-fault insurer into being denied, at worst case, or accepting less than their full legal entitlement, at best.
- 1.5 Further, many motorists are unaware of their rights and, absent someone 'on their side', would not pursue a claim to their entitlement at all, or would settle for less.

- 1.6 The result may be very serious for an individual motorist: whether a parent who requires a vehicle to perform a school run, a low paid worker who needs mobility to work or someone living in a rural location where alternative transportation is scarce. Under-provision, or non-provision of TRVs can impose very substantial costs upon innocent drivers in individual cases and on society as a whole.
- 1.7 The credit hire industry has therefore grown in order to enable innocent drivers to more fully assert the rights afforded to them by tort law. A CHC stands in place of the consumer and acts as the drivers' advocate, assuming the risks of TRV provision and pressing the innocent driver's claim. A CHC has the professional expertise and knowledge of the victim's rights to press such claims far more efficiently than an individual driver. This is precisely why the House of Lords has recognised that CHCs serve to redress "*the imbalance between the individual car owner and the insurance companies.*"¹
- 1.8 Under the current law, the claims of drivers are subject to limits that serve to ensure that the burden placed upon at-fault insurers and their customers remains a reasonable one. Those claims are governed not only by the strict legal requirements imposed on claimants (such as the duty to mitigate and the ability to only recover what is reasonable) but has also been controlled effectively over the years by the creation, operation and on-going refinement and improvement of the GTA.
- 1.9 Under the CC's approach to assessing the AEC the class of drivers who actually call upon CHCs to provide TRVs will be very substantially worse off. However, the CC's AEC analysis has erroneously failed to consider this at all instead only considering consumers in aggregate. This is not sufficient to allow the CC properly to quantify the AEC. In any event as set out in Sections 7 and 8 below, the CC's analysis falls far short of what is necessary even to show an aggregate disbenefit.
- 1.10 Moreover, the CC's idealised world is one in which there will no longer be separation and consumers will no longer have the benefits of credit hire leading to the serious risk of underprovision, (of TRVs) by insurers. The CC's failure to consider this is surprising in light of the CC's concerns about underprovision under Theory of Harm 2. In addition, the CC's possible remedies will also give rise to a serious risk of underprovision and again the CC has failed to consider the consequence of the findings of underprovision in Theory of Harm 2 its possible approach to remedies.

¹ Paragraph C, page 91, *Dimond v Lovell* [2002] 1 AC 384.

- 1.11 In summary AX considers that the CC's provisional AEC in relation to ToH1 is fatally flawed as follows:
- 1.11.1 The CC's conceptual benchmark for assessing the adverse effects on competition following from the separation of cost control and cost liability erroneously assumes an idealised frictionless world in which (i) insurers are focused on the welfare of those consumers that they have no contractual or financial relationship with; and (ii) consumers' still obtain their full legal entitlement (which is currently achieved solely because of separation) by direct hire.
 - 1.11.2 Consequently, the CC's analysis of the costs of separation fails to recognise (let alone quantify) the frictional costs that will be transferred to non-fault drivers in a world absent separation and fails to recognise (and, again, fail to quantify) the other costs non-fault drivers will incur in recovering the shortfall in the quality of service provision that will arise in a world absent separation. These are material omissions in the CC's analysis, and therefore have led to a flawed conclusion on the scale of the AEC.
 - 1.11.3 The AEC identified by the CC has distributional implications for consumers. In particular, non-fault drivers may be worse off since they would suffer the quality and service differentials. The CC has failed to address this as it has only considered consumers in aggregate (i.e. it has abstractly averaged benefits across all consumers, rather than only those who receive them).
 - 1.11.4 The CC has failed to consider the role of competition among CHCs/CMCs; the implications of the alignment of CHC/CMC incentives with the interests of non-fault drivers; and the adversarial nature of the relationship between at-fault insurers and innocent motorists.
 - 1.11.5 The CC's assumption that absent separation there would be direct hire instead of credit hire fails to take into account the CC's own finding that without credit hire there would be no incentive on insurers to provide direct hire or the incentive would be so weak as to mean that non-fault drivers would be underprovided.
 - 1.11.6 The CC has made a number of material errors in its calculation of the costs and revenues arising out of separation, for example:

- 1.11.6.1 In calculating the ratio between average daily hire rates for credit hire and for direct hire, the CC erroneously included VAT in its credit hire figures and excluded VAT from its direct hire figures. This is a material error in the CC's calculation, which has inflated the multiple over which the CC considers credit hire to cost more than direct hire (2.5x);
- 1.11.6.2 The CC has not analysed the market dynamics around the provision of direct hire and not accounted for the commercial incentive of CHCs to offer lower direct hire rates in the light of their interest to obtain credit hire referrals;
- 1.11.6.3 The CC's estimate of direct hire costs used data from only three large insurers, therefore it is likely that this will be unrepresentative and biased towards concluding direct hire rates are lower than what they actually are;
- 1.11.6.4 The CC may not have reflected the full costs of direct hire, by excluding add on services that are included in credit hire bills. The CC is not, therefore, comparing 'apples with apples';
- 1.11.7 The CC has erred in not quantifying the costs for consumers of rectifying quality and service differential associated with separation, for example:
 - 1.11.7.1 The CC has omitted consumers' private frictional costs entirely;
 - 1.11.7.2 The CC has failed to quantify or in some cases identify adequately or at all service differentials in respect of the features of the car, uninsured loss recovery, and provision before liability is resolved;
 - 1.11.7.3 The CC has also not taken any account of the benefits of liability being determined more often under separation than would be the case absent separation;
- 1.12 Finally, as a consequence of the CC's approach to the AEC and Theory of Harm 1 a number of the CC's possible remedies are also either unnecessary or likely to lead to the elimination of credit hire and the consequential serious harm to consumers in terms of increased costs and loss of quality and service differences. AX has summarised and expanded on its submissions in relation to the CC's proposed remedies in Section 10 below. Section 9 of the Compass

Lexecon Report also makes some important points about the implications of the CC's approach to the AEC in relation to remedies.

2. INTRODUCTION

- 2.1 This submission ("**Response**") is made on behalf of Accident Exchange Limited ("**AX**") in response to the Provisional Findings report ("**PFs**") issued by the Competition Commission (the "**CC**") on 17 December 2013 in its Private Motor Insurance ("**PMI**") Market Investigation. The Response refers to and incorporates the Compass Lexecon Report dated 7 February 2014 which is attached as Annex 1. The contents of that report are not set out in full in this Response and the CC is respectfully asked to read it in full.
- 2.2 This Response primarily relates to the CC's provisional findings in respect of its first theory of harm (separation of cost liability and cost control) ("**ToH1**") which concerns AX's business in the provision of temporary replacement vehicles ("**TRV**") through credit hire post-accident. AX has set out general comments on the CC's approach to under-provision by insurers in relation to its Second Theory of Harm (Possible under-provision of service to those involved in accidents) ("**ToH2**").
- 2.3 The PFs were issued alongside the CC's Remedies Notice and the CC requested responses to its Remedies Notice by 17 January 2014, prior to the deadline for responding to the PFs. In its Response to the Remedies Notice², AX expressed its serious concerns about the CC's administrative procedure in this regard. In particular, it was wholly impractical and prejudicial to require AX to respond to the Remedies Notice prior to responding to the CC's PFs. Accordingly, AX reserved the right to make further submissions on the Remedies Notice in its written submission on the PFs. Those submissions are detailed in Section 10 below.
- 2.4 Furthermore, AX has been unable to provide a full response to the PFs as a consequence of the CC's denial of access to data redacted from and underlying its report. Despite a request for access to the data that has either been redacted or which underpins the CC's PFs the CC has so far failed to provide any of the necessary data, even on a data room basis. Therefore, AX and its economic advisers, Compass Lexecon, are unable fully to understand and analyse the provisional findings in relation to ToH1 (and ToH2). This is of particular importance given that the PFs and Remedies Notice give rise to the prospect that credit hire, and therefore

² Submitted to the CC on 17 January 2014.

AX's business, will be entirely eliminated. In the circumstances, the CC's failure to grant access to the data that AX has requested access to is a serious breach of AX's rights of defence.

2.5 Consequently, whilst AX has sought to address the points of principle which are apparent from the PF's themselves, it has not been able to address the details of the CC's underlying analysis. AX reiterates its request for access to the underlying data and for a proper opportunity to address the case against it.

2.6 This Response addresses the following:

2.6.1 the legal framework relating to the key principles of the law of tort and market investigations (Section 3);

2.6.2 the alleged AEC in relation to ToH1 (separation) (Section 4);

2.6.3 the CC's flawed conceptual approach to assessing the AEC (Section 5);

2.6.4 the CC's incomplete and inherently biased ToH 1 (Section 6);

2.6.5 the CC's failure to identify and measure all the material effects of separation on insurers' and brokers' costs (Section 7);

2.6.6 The CC's failure to properly take account of the quality and service differences and benefits to consumers of separation (Section 8);

2.6.7 The implication for consumers of separation (Section 9)

2.6.8 The proportionality and reasonableness of the CC's proposed remedies (Section 10).

2.7 In Annex 2 of this response, AX provides evidence it has made available to Compass Lexecon and upon which Compass Lexecon has relied in its Report.

3. THE RELEVANT LEGAL FRAMEWORK

3.1 Before dealing with the substance of AX's response to the PFs, it is necessary briefly to describe the key principles of tort law that have developed in relation to non-fault accidents and the legal framework relating to market investigation references. The CC has not grappled with the functions of the credit hire industry, which is a key dynamic of the industry and the

importance of the services CHCs provide to innocent motorists in either its conceptual approach to assessing the AEC or in its quantification of the alleged consumer detriment arising out of ToH1.

Separation and the Law of Tort

- 3.2 The rights of innocent drivers which are asserted by CHCs on their behalf arise out of a fundamental feature of the law of tort i.e. that consumers who are the victims of a tort are fully protected against the unlawful actions of others. The law achieves this by imposing the costs of the loss and damage they have incurred upon those at fault. Where those tortfeasors are insured, the cost ultimately falls upon their insurers. Moreover, tort law recognises the economic benefits to consumers subrogating their claims to CHCs and for CHCs recovering the loss the non-fault driver has incurred.
- 3.3 However, that cost liability on the tortfeasor is subject to two important qualifications in the law of tort: the law of contributory negligence – which ensures that a party is exposed to costs only to the extent they are at fault³, and the requirement upon the innocent victim to act in reasonable mitigation of their loss.
- 3.4 The “separation” that the CC identifies as being at the heart of ToH1 arises as a function of these features of the law of tort: provided the accident victim acts reasonably, he or she is entitled to take action to restore themselves to the position they were in before the accident and then to be compensated for the costs of doing so.
- 3.5 These rights are not mere technicalities, but rather are central to the way in which the law of tort reflects the core principle of the rule of law that the innocent victims of legal wrongs should be entitled to compensation. Yet the CC’s analysis – and a number of its proposed remedies in particular - are an attack on this fundamental principle.
- 3.6 Moreover, the focus of the CC's analysis on separation is striking in itself given the CC's acceptance (at many points in the PFs) that separation and credit hire provides at fault insurers with an incentive to meet consumers' full legal entitlements and provide a good quality of service⁴. Despite the CC’s acknowledgement of this point, however, the CC does not in any meaningful way (or indeed at all) internalise it into its conceptual approach to assessing the

³ So in an accident which is only 2/3 the tortfeasor’s fault, they are exposed to liability for just 2/3 of the damage.

⁴ See for example paragraph 6.69 of the PFs.

AEC or the quantification of the harm to consumers arising out of its AEC assessment. The logic of the CC's acceptance that credit hire incentivises fault insurers to meet consumers' entitlements is that absent separation, and absent credit hire, at fault insurers would not have an incentive to meet consumers' full legal entitlements. If this had been the position that the CC was asked to look at (i.e. a world without separation in which fault insurers did not provide consumers' legal entitlement) then the CC would have had to have concluded that the market was functioning poorly and not providing non fault drivers with their entitlement.

Credit hire is a valuable means of obtaining a TRV

- 3.7 The importance of credit hire in redressing the imbalance between accident victims and at-fault insurers has been repeatedly recognised by the highest Courts.
- 3.8 The House of Lords held in *Giles v Thompson*⁵ that CHCs provide a legitimate and practical means by which a non-fault driver can acquire a TRV. Ironically, that sentiment was expressed at a time of financial austerity when the then Government was seeking to reduce the Legal Aid bill and their Lordships recognised the social and welfare benefit of credit hire.
- 3.9 In that case Lord Mustill, commenting on the development of the credit hire market, highlighted that "*loss of use is not recoverable under a comprehensive policy*"⁶ and few motorists "*will have the time, energy and resources*" to attempt to recover the cost of a TRV, nor the "*ready cash*" or desire to take the risk of recovering personally from the at-fault driver's insurer. Lord Mustill concluded "*thus, there exists in practical terms a gap in the remedies available to the motorist, from which the errant driver, and hence his insurers, frequently profit.*"
- 3.10 Lord Mustill went on to note that CHCs "*identified this gap [in remedies available to the non-fault driver] and have sought to fill it in a manner advantageous to motorists*".
- 3.11 In economic terms, Lord Mustill recognised the risk of consumer detriment arising if the victims of accidents do not receive their legal entitlement and the frictional costs that are likely to be incurred if they seek to enforce those rights themselves.

⁵ *Giles v Thompson*, [1994] 1 AC 142.

⁶ *Ibid*, 154H-155A.

3.12 The importance of credit hire services to the vindication of the rights of innocent motorists was also confirmed in the seminal case of *Dimond v Lovell*⁷. In this case, the legal position of the non-fault driver was described as being able to recover from the at-fault driver (or his insurer) "*reasonable charges incurred in hiring a [temporary] replacement [vehicle] if this is reasonably necessary*"⁸, but that "*the existence of this liability can be more theoretical than real*" and that "*this source of recompense frequently does not yield money... in time to be of use*". The House of Lords considered that credit hire companies have managed to "*bridge this gap*" and that:

*"...accident car hire arrangements provide a reasonable basis by which no-fault victims can in fact obtain the benefit of the right which the common law and compulsory third party insurance seek to give them against careless drivers."*⁹

3.13 In economic terms, the CHCs serve to reduce the frictional costs incurred by individual motorists and enable them to realise their full legal entitlement. They accordingly perform a vital function and without this substantial frictional costs and risk would be borne the non-fault driver, or alternative they would forego their rights.

3.14 Indeed, Lord Nicholls commented in *Lagden v O'Connor*¹⁰ that "*the law would be seriously defective if in this type of case the [non-fault driver] were, in practice, unable to obtain the use of a [temporary] replacement [vehicle]*"¹¹, and referred to Lord Reid's statement in *Cartledge v E Jopling*¹² that:

*"[t]he common law ought never to produce a wholly unreasonable result"*¹³.

3.15 Therefore, it is clear that the provision of post-accident services through credit hire is recognised in common law as being a valuable and reasonable (and in some cases compulsory (see paragraphs 3.17 to 3.23 below)) means of obtaining a TRV.

3.16 Indeed in the recent case of *Copley v Lawn*¹⁴, the Court of Appeal held it was reasonable to reject an unsolicited offer of the provision of a TRV in favour of hiring from a credit hire

⁷ *Dimond v Lovell*, [2002] 1 AC 384.

⁸ *Ibid*, 391.

⁹ *Ibid*, 391.

¹⁰ *Lagden v O'Connor*, [2004] 1 AC 1067.

¹¹ *Ibid*, paragraph 6.

¹² *Cartledge v E. Jopling & Sons Ltd*, [1963] AC 758.

¹³ *Ibid*, 772.

company, further validating the existence of credit hire companies and the service they provide to innocent drivers.

Legitimacy of recovery of costs

- 3.17 In *Dimond v Lovell*, Lord Nicholls recognised that the "additional services"¹⁵ provided by CHCs (i.e. pursuing the subrogated claim on behalf of a non-fault driver for damages for loss of use of his vehicle) "*redress the imbalance between the [non-fault driver] and the insurance companies*". That part of the hire charge representing this activity "*should be part of the recoverable damages*" so long as it is "*reasonable*". The Court considered it to be "*too narrow a view*"¹⁶ to say that a non-fault driver should bear the costs of the provision of these services himself.
- 3.18 In terms of what ought to be considered to be reasonable, Lord Nicholls commented that "*the law on the measure of damages should reflect the practicalities of the situation in which a wronged person finds himself*".
- 3.19 The law of tort entitles a non-fault driver to be put in the position he was in pre-accident at no cost to himself. However, the practicalities of the situation a non-fault driver finds himself in post-accident often preclude his recovery for the loss of use of his vehicle, in particular because the at-fault insurers has an incentive to challenge claims made against them (and lower their costs).
- 3.20 In terms of the practical difficulties faced by non-fault drivers after an accident, typically these innocent victims who lose their mobility cannot afford to spend the time it would take to pursue the at-fault driver's insurer to recover for loss of use of his vehicle. As set out above (see paragraph 3.9), an individual would require time, energy and resource to pursue such claims, and motorists may ultimately be "ground down" by the at-fault insurer into accepting less than their full legal entitlement. In *Dimond v Lovell*, Lord Nicholls succinctly summarised the resultant situation as follows:

"So it comes about that [credit] hire companies are fulfilling a real need" (emphasis added)¹⁷.

¹⁴ *Copley v Lawn*, [2009] EWCA Civ 580.

¹⁵ *Dimond v Lovell*, [2002] 1 AC 384, 391.

¹⁶ *Dimond v Lovell*, [2002] 1 AC 384, 390.

¹⁷ *Dimond v Lovell*, [2002] 1 AC 384, 390.

- 3.21 This real need is met by CHCs who have the expertise and knowledge to pursue subrogated claims and help innocent motorists to assert their rights fully under tort law. CHCs provide a legitimate and experienced service by which a TRV can be obtained quickly.
- 3.22 In numerous cases, the Courts have considered CHCs to be effective at bridging the gap between the practical difficulties experienced by non-fault drivers' in post-accident situations and the recovery for their loss of use of their vehicle. The existence of CHCs and/or their legitimacy has never been questioned by the Courts; indeed their existence has been specifically endorsed to help innocent drivers. They obviate the need for innocent drivers to incur substantial frictional costs in dealing with at-fault insurers and ensure that consumer welfare is enhanced through receipt of the benefits to which innocent drivers are entitled.
- 3.23 AX notes that the CC's benchmark for assessing the AEC takes consumers' legal entitlement as given.¹⁸ The CC, therefore, should not do anything which risks consumers being able to obtain their full legal entitlement as to do so would not meet its benchmark and would contravene this important case-law and curtail the right of innocent motorists (a right which has been upheld by the highest of Courts).

The Road Traffic Act 1988 (the "RTA")

- 3.24 Under s.143 of RTA, any person who uses a motor vehicle on a road or other public place must have third party motor insurance cover. Section 145 specifies that this policy must cover any liability for the death of or bodily injury to any person or damage to property caused by, or arising out of, the use of the vehicle on a road or other public place.
- 3.25 The RTA does not specifically require a driver to insure against loss suffered by the victim in the form of the cost of hiring a TRV while the damaged vehicle is being repaired. However, the victim is entitled to be compensated for the costs of hiring a TRV under tort law.

The legislation in relation to Market Investigation References

- 3.26 In connection with a reference under subsection 131(1) of the Enterprise Act 2002 (the "Act"), the CC's duties are defined by subsection 134(1) of the Act which provides the CC must:

¹⁸ Paragraph 6.3 of the PFs

"...decide whether any feature, or combination of features, of each relevant market prevents, restricts or distorts competition in connection with the supply or acquisition of any goods or services in the United Kingdom or a part of the United Kingdom" (emphasis added).

3.27 The definition of "feature" is that provided in subsection 131(2) of the Act:

"For the purposes of this Part any reference to a feature of a market in the United Kingdom for goods or services shall be construed as a reference to -

(a) the structure of the market concerned or any aspects of that structure;

(b) any conduct (whether or not in the market concerned) of one or more than one person who supplies or acquires goods or services in the market concerned; or

(c) any conduct relating to the market concerned of customers of any person who supplies or acquires goods or services" (emphasis added).

3.28 Subsection 134(2) introduces the concept of an "adverse effect on competition" ("AEC"):

"...there is an adverse effect on competition if any feature, or combination of features, of a relevant market prevents, restricts or distorts competition in connection with the supply or acquisition of any goods or services in the United Kingdom or a part of the United Kingdom" (emphasis added).

3.29 If the CC finds that an AEC exists it is required by subsection 134(4) of the Act to decide the following additional questions:

"(a) whether action should be taken by it under section 138 for the purpose of remedying, mitigating or preventing the adverse effect on competition concerned or any detrimental effect on customers so far as it has resulted from, or may be expected to result from the adverse effect on competition;

(b) whether it should recommend the taking of action by others for the purpose of remedying, mitigating or preventing the adverse effect on competition concerned or any detrimental effect on customers so far as it has resulted from, or may be expected to result from, the adverse effect on competition; and

(c) in either case, if action should be taken, what action should be taken and what is to be remedied, mitigated or prevented".

3.30 Subsection 134(5) provides the definition of detrimental effect on consumers:

"For the purposes of this Part, in relation to a market investigation reference, there is a detrimental effect on customers if there is a detrimental effect on customers or future customers in the form of:

(a) higher prices, lower quality or less choice of goods or services in any market in the United Kingdom (whether or not the market [or markets] to which the feature or features concerned relate); or

(b) less innovation in relation to such goods or services".

3.31 Subsection 134(6) provides that, in reaching its conclusions under subsection 134(4) of the Act, the CC:

"shall, in particular, have regard to the need to achieve as comprehensive a solution as is reasonable and practicable to the adverse effect on competition and any detrimental effects on customers so far as resulting from the adverse effect on competition".

3.32 Under subsection 134(7) the CC may have regard to the effect of any action on any relevant customer benefits "of the feature or features of the market concerned".

3.33 Subsection 134(8) provides the definition of "relevant customer benefit":

"... a benefit is a relevant customer benefit of a feature or features of a market if:

(a) it is a benefit to customers or future customers in the form of:

(i) lower prices, higher quality or greater choice of goods or services in any market in the United Kingdom (whether or not the market [or markets] to which the feature or features concerned relate); or

(ii) greater innovation in relation to such goods or services; and

(b) the Commission...believes that:

(i) the benefit has accrued as a result (whether wholly or partly) of the feature or features concerned or may be expected to accrue within a reasonable period as a result (whether wholly or partly) of that feature or those features; and

- (ii) *the benefit was, or is, unlikely to accrue without the feature or features concerned*" (emphasis added).

Impact of the loss of separation

- 3.34 The CC itself recognises that CHCs and CMCs only exist as a consequence of separation.¹⁹ However, the practical implications of a number of the CC's possible remedies under ToH1 is that separation will be removed (despite the CC assessing its AEC by reference to a benchmark in which consumers were still able to obtain their full legal entitlement). This will drive CHCs out of the market altogether and eliminate the socially and economically important service they provide to the non-fault driver.
- 3.35 However, this consequence is arrived at despite it being in no part of the CC's analysis that credit hire is a bad thing, and/or that the CC rejects the established view of the Courts in this regard. On the contrary, the CC itself recognises a number of benefits that flow from credit hire and from separation. In the case of an economically vulnerable accident victim, those benefits (or the costs of making good the loss of those benefits) may be of critical importance. However, the CC's insistence that separation gives rise to an AEC under ToH1 fails to recognise the value the CC has itself attributed to credit hire; a value only created by separation.
- 3.36 AX submits that in light of this and the CC's benchmark "well-functioning market", which assumes that consumers rights are maintained, the CC has no legitimate basis for considering possible remedies that will:
- 3.36.1 significantly erode the rights enjoyed by accident victims under tort law or compromise the ability of consumers to realise their rights;
 - 3.36.2 remove altogether a sector of economic activity which provides clear benefits to consumers; and
 - 3.36.3 strengthen the rights of at-fault insurers to the detriment of consumers;
- 3.37 In this case the CC has:
- 3.37.1 Made a number of material errors in its conceptual approach to assessing the AEC (see further paragraphs 5.4 to 5.19 below);

¹⁹ See, for example, paragraph 6.38 of the PFs.

- 3.37.2 Materially failed to take into account in its description of ToH1 a number of its important conclusions and/or failed properly to analyse the dynamics of competition among CHCs/CMCs and the incentives of at fault insurers (see further paragraphs 5.7 to 5.19 below);
 - 3.37.3 Materially failed to adopt a proper economic framework for assessing the effects of separation (see further paragraphs 6.2 to 6.9 below);
 - 3.37.4 Made a number of material errors in relation to the quantification of the effects of separation on insurers' and brokers' costs and revenue. In particular, the CC has made a number of errors in its treatment of the evidence it has taken account of and in its failure to take account of other relevant evidence (see further paragraphs 7.4 to 7.43 below);
 - 3.37.5 Materially failed to quantify any quality and service differences (and benefits more generally) associated with separation and set these against the alleged costs of separation (see further paragraphs 8.3 to 8.29 below);
 - 3.37.6 Failed to investigate a number of highly material issues arising in the course of the above matters;
 - 3.37.7 Materially failed to consider the implications for consumers of separation (see further paragraphs 9.4 below); and
 - 3.37.8 Considered possible remedies that are inconsistent with the CC's conceptual benchmark and which do not allow consumers to still obtain their full legal entitlement (or at least not without incurring significant frictional costs).
- 3.38 For these reasons, AX contends that the CC has failed to establish that ToH1 gives rise to any AEC within the meaning of the Act and/or that any of its proposed Remedies would be proportionate.
- 4. THE ALLEGED AEC AND THEORY OF HARM 1: SEPARATION OF COST LIABILITY AND COST CONTROL**
- 4.1 The summary of the CC's AEC (in relation to ToH1) is contained at paragraph 6.91 of the PFs:

"We have provisionally found that separation results in an inefficient supply chain, with excessive frictional and transactional costs, for meeting non-fault claims. Insurers and brokers are competing to find ways of earning a rent from their control of non-fault claims, rather than simply competing 'on the merits' (i.e. offering the lowest price and best quality of claims handling and other service to customers). Furthermore, since the greatest effect is on drivers with the most adverse risk factors, prices to individual drivers are not fully reflective of expected costs. These are not aspects that would be observed in a well-functioning motor insurance market. We consider that these effects represent a distortion of competition in the supply of motor insurance."²⁰ (emphasis added)

- 4.2 The CC summarises the *features* giving rise to the AEC (in relation to ToH 1) at paragraph 6.93 of the PFs:

"We have identified the following two features of the supply of motor insurance and related services which have, in combination, an adverse effect on competition:

(a) separation - that is, that the insurer liable for the non-fault driver's claim, i.e. the insurer to the at-fault driver, is often not the party controlling the costs; and

(b) various practices and conduct of the other parties managing such non-fault drivers' claims which (i) were focussed on earning a rent from control of claims rather than competing on the merits; and (ii) gave rise to an inefficient supply chain involving excessive frictional and transactional costs.

We provisionally conclude that these features distorted competition in the motor insurance market." (emphasis added)

- 4.3 Therefore, there are three facets to the features giving rise to the AEC:

4.3.1 Separation²¹; AND

4.3.2 Practices and conduct of parties managing non-fault drivers' claims which were focussed on earning a rent from control of claims, rather than competing on the merits, AND

²⁰ Paragraphs 6.91 and 6.92 of the PFs

²¹ Note separation only relates to 64% of claims, as the rest are either captured or both drivers have the same insurer.

- 4.3.3 Practices and conduct giving rise to an inefficient supply chain involving excessive frictional and transactional costs.
- 4.4 The CC provisionally finds that the nature of the AEC is that (i) motor insurance premiums are higher overall²²; (ii) insurers and brokers are not competing 'on the merits' (i.e. offering the lowest price and best quality of claims handling and other services to consumers)²³; and (iii) premiums to individual drivers are not fully reflective of their expected costs (in particular their relative riskiness)²⁴.
- 4.5 The CC has only provided quantitative analysis in respect of (i). The CC provisionally concludes the effect of this AEC on increasing premiums in relation to TRVs was £193m against the total revenue increase (referral fees) of £98m.²⁵ Therefore, the total net AEC in relation to TRVs is actually estimated to be £95m.²⁶
- 4.6 For the reasons set out in Sections 9.2.5 to 9.2.7 below, and in greater detail in the Compass Lexecon Report at Annex 1, AX submits that it is clear that the figure of £95m cannot be sustained. There are a series of errors and omissions in the CC's analysis of costs and benefits. The CC has failed to have proper regard to relevant considerations, namely it has (i) understated the true extent of direct hire costs, and (ii) understated and failed to quantify the benefits of CHC. As a result the conclusion it reaches as to the net cost of the supposed AEC is unsustainable. The CC cannot safely conclude that there is any net effect of the AEC at all.
- 4.7 The CC must now carry out the further quantitative analysis that is explained as being critical by Compass Lexecon in the attached Report. Without further such analysis the provisional AEC (and proposed Remedies) cannot stand.
- 4.8 Sections 6 to 8 below deal with key errors in the CC's analysis as summarised in paragraphs 3.37.1 above. At the time of preparing this Response, the CC has declined to provide access to the excised information and underlying data relating to ToH1 in its PFs to AX's legal and economic advisors. Therefore, AX is not in a position to carry out a full analysis of the CC's PFs, until adequate access to the requested information is provided. This Response, therefore,

²² Paragraph 6.92, PFs.

²³ Paragraph 6.91, PFs.

²⁴ Paragraph 6.91, PFs.

²⁵ Paragraph 6.92 PFs.

²⁶ This assumes equal pass through of costs and revenues. Although the CC contends the pass through rates would be different, the CC appears to consider that this difference would be small.

should not be considered to be complete and AX reserves the right to provide additional submissions when access to this information is granted by the CC.

5. THE CC'S CONCEPTUAL APPROACH TO ASSESSING THE AEC IS FLAWED

- 5.1 In relation to measuring the existence of an AEC, the CC's Guidance for Market Investigations states:

"The Act does not specify a theoretical benchmark against which to measure an AEC. In its market investigation reports the CC uses the term 'a well-functioning market' in the sense, generally, of a market without the features causing the AEC, rather than to denote an idealized, perfect competitive market.^{"27} (emphasis added)

"In the absence of a statutory benchmark, the CC defines such a benchmark as 'a well-functioning market'...i.e. one that displays the beneficial aspects of competition as set out in paragraphs 10 to 12 but not an idealized perfectly competitive market. The market will generally be the market envisioned without the features. But there may sometimes be reasons to depart from that general concept, for example, if features are intrinsic to the market but nevertheless have anticompetitive effects (as in the case of a natural monopoly or if the nature of competition in the market is defined by arrangements put in place by Government, eg as in rolling stock leasing"²⁸. (emphasis added)

- 5.2 In the PFs the CC describes its approach to considering the effect on competition as follows:

"In assessing the effect on competition, we considered a benchmark 'well-functioning market' to be a market which delivered consumers' legal entitlements in an efficient way. We therefore looked at two dimensions: (a) how separation affects insurers' costs and revenue streams and ultimately its effect on the price paid by consumers; and (b) differences in the quality of service received by claimants that were associated with separation to understand any impact of separation on the quality of service received by consumers. We took both into account in reaching our provisional view on the effect on competition."²⁹ (emphasis added)

- 5.3 Essentially, therefore, the CC has purported to assess the effects of separation against a benchmark "well-functioning market" in which:

²⁷ Paragraph 30, CC's Guidelines for Market Investigations (CC5).

²⁸ Paragraph 320, CC's Guidelines for Market Investigations (CC5).

²⁹ Paragraph 6.3 of the PFs.

- 5.3.1 there is no separation;
 - 5.3.2 all TRV services are provided by direct hire only (and not via credit hire or any other method)³⁰;
 - 5.3.3 all TRV services provided under direct hire involve the provision of the same vehicle class for the same duration as under credit hire;
 - 5.3.4 at fault insurers provide direct hire without the consumers incurring any frictional costs in order to obtain their full legal entitlement;
 - 5.3.5 consumers are (still) able to and do obtain their full legal entitlement from at-fault insurers; and
 - 5.3.6 there is no difference between the status quo and the benchmark in the quality and service provision for TRVs currently being provided via direct hire.
- 5.4 However, the CC has in fact made a number of factual, legal and economic errors in its conceptual approach which leads to the provisional AEC being unsustainable and to the remedies set out in the Remedies Notice being ineffective and disproportionate.
- 5.5 The errors in the CC's economic assessment and analysis are contained in full in Section 2 of Compass Lexecon's Report attached at Annex 1.
- 5.6 Compass Lexecon's analysis of the implications of the CC's conceptual approach considers the implications of taking consumers' legal entitlements as a given under its benchmark; and the CC's assumption that there will be no frictional costs in its benchmark.
- 5.7 In summary, however, contrary to the standard approach to establishing a benchmark of a "well-functioning market" (i.e. a market without the features giving rise to the AEC) set out in the CC's own guidance (and without any explanation for its departure from this approach³¹), the CC has adopted a benchmark for assessing the effects of the AEC that is highly (indeed extremely) idealised. It is predicated on a world in which non-fault drivers obtain their full

³⁰ This can reasonably be inferred from paragraph 6.77, PFs.

³¹ At paragraph 3 of the CC's Guidelines it states that when departing from its Guidelines the CC will explain its reasons for doing so. However, the CC has given no explanation here for its departure from the approach set out in its Guidelines to assessing the existence of an AEC. At paragraphs 320 of the Guidelines the CC makes it clear that the CC has to find a benchmark against which to determine how the market may be performing. The Act does not specify a statutory benchmark and so the CC defines the benchmark in paragraph 30 of its Guidelines as being a "well-functioning market" i.e. one that displays the beneficial aspects of competition as set out in paragraphs 10-12 of its Guidelines but not an idealized perfectly competitive market. The CC also

legal entitlement from at-fault insurers without incurring any costs themselves, or without anyone doing so on their behalf - despite the incentives of at-fault insurers being diametrically opposed to consumers. Accordingly, the CC's benchmark takes no account of the reality of a world absent the features it has identified as leading to the provisional AEC. Moreover, there is no explanation from the CC anywhere in its PFs how its benchmark operates and, in particular, how consumers would obtain their full legal entitlement absent separation (or why insurers would provide direct hire absent separation) and no explanation from the CC as to how consumers would obtain their full legal entitlement without incurring their own frictional costs in doing so. The CC's analysis of the effects of separation by reference to its benchmark is, therefore, lacking in the necessary qualitative description of what it has done and, more fundamentally, is flawed in its approach.

5.8 Furthermore, the CC has failed to consider the costs and mechanisms that will be required to produce this outcome and has proposed Remedies that will also not achieve this outcome.

5.9 Secondly, the benchmark identified by the CC is contrary to the standard approach set out in the CC's own guidance in another regard. As mentioned at paragraph 5.1 above, the benchmark ought to be one that displays the beneficial aspects of competition as set out in the CC's guidance. These aspects include:

"...a process of rivalry as firms seek to win customers' business. It creates incentives for firms to meet existing and future needs of customers as effectively and efficiently as possible - by cutting prices, increasing output, improving quality or variety, or introducing new and better products, often through innovation; supplying the products customers want rewards firms with a greater share of sales...vigorous competition between firms also fosters economic growth, as firms respond to competitive pressure by striving for efficiency and directing their resources to customers' priorities. Customers have an important part to play in stimulating rivalry between suppliers by making informed decisions which reward those firms that best satisfy their needs or preferences. Markets work best when both the supply side (the firms) and the demand side (the customers) interact effectively."³²

5.10 As described at paragraphs 3.2 to 3.5 above, the interests of at-fault insurers and innocent drivers are not aligned, indeed the relationship is almost adversarial. In the absence of

states that the benchmark will generally be the market envisioned without the features it has identified as leading to the provisional AEC.

32 Paragraphs 10 to 12 of the CC's Guidelines for Market Investigations, CC3.

separation (and therefore in the absence of credit hire³³), at-fault insurers will have no incentive to provide TRV services to innocent drivers. This is acknowledged by the CC³⁴. This means that if we take the current market situation and remove separation as envisaged by the CC's benchmark, at-fault insurers would either have no incentive to provide direct hire at all, or would provide it but without meeting the consumers full entitlement in terms of quality and service provision. This benchmark world would be less competitive than the current market situation. The CC's benchmark would (i) not create a process of rivalry, as service provision would only be available from at-fault insurers via direct hire and therefore rivalry would be reduced as a result of the elimination of CHCs/CMCs; and (ii) at-fault insurers would have no incentive to meet the needs of innocent motorists at all because CHCs would not exist to incentivise the provision of good quality services³⁵. Therefore, the CC's benchmark leads to a less competitive situation than the current market conditions. The CC must have regard to this but has failed to do so.

- 5.11 Moreover, the CC's benchmark (in which direct hire is provided despite the absence of separation) therefore does not describe the outcome of the market with that feature (separation) removed. Accordingly, the CC's benchmark is not the market envisioned without the features (potentially causing an AEC). The CC has also provided no reasons for its departure from this standard approach as set out in its Guidelines nor has it explained why in this case it is appropriate to have a benchmark that does not allow the CC to identify the effects of separation compared to the current world with separation removed.
- 5.12 Thirdly, the CC's benchmark is predicated on consumers receiving their full legal entitlement (*"we considered a benchmark 'well-functioning market' to be a market which delivered consumers' legal entitlements in an efficient way"*). However, the CC has failed in practice to consider the costs to consumers of making up the quality and service shortfall direct hire produces compared to credit hire (as described fully in section 8 below). The CC must consider the costs of making up this shortfall, so that consumers' legal entitlement is delivered and account for it in its assessment of the alleged AEC. Moreover, the shortfall in any legal entitlement cannot be ignored by the CC, as to do so would be contrary to its own benchmark (i.e. that consumers' legal entitlements are delivered fully and in an efficient way). The CC cannot ignore its findings elsewhere in the PFs that there is a quality and service differential

³³ Paragraph 6.81, PFs.

³⁴ Paragraph 6.90, PFs.

³⁵ Paragraph 6.90, PFs.

between credit hire and direct hire and that given its benchmark of consumers receiving their full legal entitlement, this service differential must be accounted for in the CC's analysis.

- 5.13 Fourthly, the CC's benchmark is predicated on consumers receiving their full legal entitlement through direct hire without incurring any frictional costs. It is self-evident that this simply will not be the case and the CC's failure to take into account the costs that will be borne by consumers in obtaining their full legal entitlement is a fundamental flaw in the AEC analysis.
- 5.14 Moreover, while the CC describes the benchmark as a "market", this would not be a functioning market in which consumers would be able to assert their legal entitlement. In a world without separation, the CC's PFs do not suggest any market mechanism would be required to ensure at-fault insurers met the full legal entitlements of innocent motorists (as envisaged by the benchmark). This would be crucial to innocent motorists and is not considered in the CC's PFs nor assessed in terms of the costs implications of this.
- 5.15 The CC's benchmark has a further fundamental flaw in that it considers "consumers" in aggregate and does not differentiate between the different classes of consumers (i.e. at-fault and non-fault drivers, and high risk and low risk drivers) and their different interests. This makes it impossible to assess the impact on non-fault drivers and the distributional consequences of the CC's conceptual approach.
- 5.16 Indeed, the CC's guidance makes it clear that in relation to the range of problems that can be identified as a basis for an AEC, the CC assumes that the problems identified make some consumers worse off and no consumers better off: *"...how far any feature identified by the CC is along a causal chain resulting in harm to competition may vary (i.e. some may be directly causing harm and others may be doing so indirectly)".*³⁶ This is fundamentally different from the present case where non-fault drivers receive their full legal entitlement as a result of separation, and are, therefore significantly better off compared to the CC's benchmark in the way that the CC actually implements it (i.e. conceding that there is in fact a quality and service difference under direct hire). Moreover, as detailed above, AX submits that these differentials are severely understated by the CC.
- 5.17 Accordingly, the CC has identified an AEC that has distributional implications for consumers (there would be *"winners and losers"* in the status quo compared to the CC's benchmark, given the quality and service differential). It is highly unusual for a competition authority to

³⁶ Paragraph 155, CC's Guidelines on Market Investigation.

proceed on the basis of an AEC that has such distributional consequences. Such an approach includes implicit value judgments which are not explored by the CC.

- 5.18 In terms of remedies, the CC's conceptual approach also produces fundamental proportionality concerns and the CC has not assessed the proposed remedies appropriately. In so far as any of the CC's proposed remedies involve reducing consumers' legal entitlements (this concerns Remedy 1A and 1B for example), or to the degree to which consumers can realise them, these remedies would not be consistent with the CC's benchmark by which the CC has assessed the AEC. Therefore, this would require a very different economic analysis which the CC has not performed. Paragraph 2.14 of Compass Lexecon's Report considers these issues and the entirely different economic analysis that would be required.
- 5.19 Finally, but perhaps most fundamentally of all, by assuming separation in combination with frictional costs are features causing the AEC, and then assuming that the frictional costs do not exist under the CC's benchmark, it is natural that the CC can hypothesise a "better" outcome. This is an entirely circular approach and one that cannot properly be used to provisionally find an AEC. It is contrary to the CC's standard approach as set out in its Guidelines and there is no justification given by the CC for taking this approach. Furthermore, the economic implications of this are considered further at paragraph 2.20 of Compass Lexecon's report.

6. THE CC HAS ADVANCED A THEORY OF HARM WHICH IS INCOMPLETE AND INHERENTLY BIASED

- 6.1 The CC describes the effects of separation in paragraphs 6.4 to 6.11 of the PFs. The CC describes the different incentives for different companies seeking to manage claims at paragraph 6.5 and whilst it considers the incentives for CMCs / CHCs and non-fault insurers the CC's focus (in paragraph 6.6 of the PFs) is in fact on the ways in which separation can lead to higher costs for at fault insurers. The CC finds (at paragraph 6.7 of the PFs) that:

*"In addition to paying out more for claims than if they had managed them, at-fault insurers also incur costs in dealing with and seeking to reduce the subrogated bills sent to them by non-fault insurers, CMCs and CHCs...We describe the resulting costs for both sides as transactional and frictional costs"*³⁷.

³⁷

Paragraph 6.7, PFs.

- 6.2 The CC's approach to assessing the effects of separation, and its ToH1, is therefore entirely focused on looking favourably at the actions of insurers and unfavourably at the actions of CHCs/CMCs. However, nowhere in this section of the PFs (or anywhere else for that matter) does the CC consider the law of tort and the clear legal dicta on the beneficial role of CMCs/CHCs or the strict legal controls on the costs that can be recovered under credit hire.
- 6.3 These are highly relevant factual elements that should have been considered by the CC when asking itself whether separation leads to higher costs for at fault insurers; and if so, why that is the case and what currently constrains these costs. However, the CC has entirely failed to take these facts into account and consequently its approach analysing the effects of separation is materially incomplete.
- 6.4 Moreover, the CC completely fails to consider the incentive effect of credit hire upon at fault insurers to provide TRVs at all and its recognition of this effect elsewhere in the PFs. While the CC does acknowledge this material finding of fact³⁸, it fails to give this any consideration to this in its analysis of the effects of separation. Accordingly, the CC's comparison between the current market conditions and the benchmark is materially flawed.
- 6.5 Secondly, the CC fails entirely to consider the dynamics of competition amongst CHCs/CMCs and the benefits that this competition derives for consumers. In practice CHCs/CMCs compete using referral fees because they cannot recover bills that are higher than the amount the non-fault driver is legally entitled to. This leads to higher cost CHCs/CMCs being driven out unless they can reduce their costs and increase the referral fees paid. The driving up of referral fees has a direct impact on the CC's analysis of the net consumer detriment arising out of separation. However, the CC has failed to analyse or take into account the dynamics of competition in this respect.
- 6.6 Furthermore, the competition between CHCs/CMCs is intense because CHCs make no rent³⁹. The effect of this is that CHCs are incentivised to reduce their costs, including frictional and transactional costs in order to be able to pay higher referral fees. This ought to be fundamental to the CC's analysis of the effects of separation, but again is missing from the CC's PFs.

³⁸ Paragraph 6.69, PFs.

³⁹ Paragraph 6.17, PFs.

- 6.7 The CC appears to criticise non-fault insurers for seeking to manage claims *"themselves because they can make a profit in doing so"*⁴⁰. However, in a competitive market for the supply of PMI, it would be expected that insurers would compete for referral fees in order to be able to offer lower premiums (an insurer that did not do that would be less competitive in the insurance market). However, the CC takes no account of this in its analysis of the effects of separation.
- 6.8 Thirdly, the CC omits to consider the fact that the interests of CHCs/CMCs are aligned with the interests of innocent motorists. The CC's analysis of the effects of separation therefore do not consider the benefit which is attributable to the non-fault motorist having someone advocating their interests in common with their own (as opposed to the adverse interests of at-fault insurers). In this regard, it is apparent from the PFs that the CC's main focus and concern is on at-fault insurers (i.e. insurers' costs, insurers' revenue streams, insurers' attempts to reduce frictional costs etc) and that at-fault insurers' motives for cost control are erroneously (and without any justification) deemed to be entirely legitimate because of the CC's failure to acknowledge their incentives to achieve cost control by underproviding.
- 6.9 The CC's (too) brief consideration of bilateral agreements between insurers again fails to take into account all relevant facts about the motivations behind these agreements. Instead, the CC (without any justification or explanation) treats insurers' incentives in this regard as completely legitimate and benign and bilateral agreements, therefore as entirely positive and only relevant to the issue of controlling costs while maintaining the level of provision to consumers. However, the CC has failed to consider the evidence provided by AX in relation to how bilateral agreements between insurers have been used by insurers to facilitate agreements on circumventing consumers' legal entitlements⁴¹. AX is seriously concerned that this behaviour is akin to cartel behaviour, and is concerned that evidence of such behaviour, clearly aimed at curtailing consumers' legal entitlement, has not been investigated by the CC or taken account of in the CC's analysis of the AEC. The CC's failure to investigate insurer behaviour means it cannot impose any remedies that transfer more influence to insurers.
- 6.10 These issues are also considered further at section 3 of Compass Lexecon's report.

⁴⁰ Paragraph 6.5, PFs.

⁴¹ See paragraph 3.2.2 of AX's response to the Statement of Issues, dated 11 January 2013.

7. THE CC HAS FAILED TO IDENTIFY AND MEASURE ALL THE MATERIAL EFFECTS OF SEPARATION ON INSURERS' AND BROKERS' COSTS

7.1 The CC sets out its approach to assessing the effects of separation on insurers' and brokers' TRV costs and revenue in paragraphs 6.12 to 6.18 and 6.28 of the PFs. The CC's supporting analysis is concluded at Appendix 6.1 and Appendix 6.6 of the PFs.

7.2 A description of the CC's approach to assessing these effects (credit hire versus direct hire and GTA versus direct hire) is provided at paragraphs 5.4 to 5.15 of Compass Lexecon's Report. As set out there:

7.2.1 The CC concluded that the ratio of credit hire daily rates to direct hire daily rates was 2.5x;

7.2.2 The CC identified an increase in at-fault insurers' costs of credit hire compared to direct hire of £640⁴²;

7.2.3 The CC estimated that the average referral fee paid to insurers was £340 per episode⁴³;

7.2.4 This CC considers this implies a net increase to insurer costs of £300 (£640-£300)⁴⁴; and

7.2.5 In addition to the 2.5x factor by which average credit hire rates exceed direct hire daily rates, the CC calculated that GTA daily rates exceeded direct hire daily rates by a multiple of 2.1x⁴⁵.

7.3 An analysis of the CC's calculation of the overall difference between the costs of credit hire and direct hire (the £300 net of referral fees) is detailed at paragraphs 5.16 to 5.20 of Compass Lexecon's report.

7.4 AX considers there to be a number of material flaws in the CC's analysis which vitiate its quantification of the effects of separation. In particular, the CC has made a number of fundamental errors which include, as follows:

⁴² Paragraph 6.17, PFs

⁴³ Paragraph 6.17, PFs.

⁴⁴ Paragraph 6.17, PFs

⁴⁵ Footnote 12, paragraph 6.16, PFs.

- 7.4.1 A failure to treat VAT properly - leading to an overstatement of the effects of separation on consumers;
 - 7.4.2 A failure to identify the sample used to estimate credit hire costs (a sample which is highly likely to be unrepresentative if it excludes Enterprise) - leading to a potential overstatement of credit hire costs;
 - 7.4.3 A failure to use an appropriate sample of insurer direct hire costs in order to calculate the appropriate direct hire rate - leading to a bias towards finding lower direct hire rates than are likely to exist;
 - 7.4.4 A failure to reflect the full costs of direct hire - leading to a likely understatement of direct hire costs;
 - 7.4.5 A failure to take into account relevant factors in relation to the provision of direct hire and the costs of the provision of direct hire - leading to an incomplete picture in terms of direct hire rates and credit hire rates;
 - 7.4.6 A failure to take into account the rate of claims settlement within the GTA and the impact of any improvements in the efficiency of the GTA - leading to a static analysis that does not take into account relevant features of the market.
- 7.5 Most importantly, the CC's failure to afford AX (or its advisers) access to the data redacted in Section 6 and Appendix 6.1 and 6.6 of the PFs and the underlying calculations has severely hampered AX's ability to consider and understand fully the CC's calculations and conclusions of the effects of separation. Therefore, these criticisms of the PFs are only those which can be identified from the face of the CC's Report. As such, there may be further important points to be made (and elaboration of those points already made) but until the CC provides access to the data requested AX is not in a position to complete its response to (at least this aspect of) the PFs.

Failure to consider the composition of the residual difference between the cost of credit hire and the cost of direct hire

- 7.6 In paragraphs 5.16 to 5.19 of Compass Lexecon's Report at Annex 1 the CC's residual difference of £300 between credit hire and direct hire is analysed. However, as explained by Compass Lexecon the CC has failed to assess how the £300 residual is made up and how sensitive it is to the CC's conclusions on the operation of the GTA and insurer behaviour.

- 7.7 This is a key failing on the part of the CC to substantiate its conclusion that there is a £300 difference between the cost of credit hire and the cost of direct hire. If this £300 residual were overstated then the CC's AEC may fall away to a large extent, or even entirely. The CC could and should have analysed the issues set out in paragraph 5.18 of Compass Lexecon's Report.

Failure to consider consumers' frictional costs

- 7.8 As detailed in paragraph 5.13 above, the CC's analysis has failed entirely to consider the fact that frictional costs are currently borne by the at-fault insurer and CHCs/CMCs and that under its benchmark these frictional costs will be transferred to consumers who will bear these substantial costs privately to obtain their full legal entitlement absent CHCs/CMCs. This is a material omission from the CC's analysis and should have been considered and quantified by the CC both in relation to the costs that will be imposed on insurers in dealing directly with non-fault drivers and in relation to the costs that consumers will incur in making good the loss of the assistance of the CHC/CMC in obtaining their full legal entitlement.

Failure to account for VAT effects

- 7.9 AX sent a request for clarification to the CC in relation to the inclusion (or otherwise) of VAT in direct hire rates (a copy of this correspondence is attached at Annex 3(a)). The CC responded to this clarification in a letter dated 31 January 2014 and stated:

"The average credit hire bill (£1,805) and average credit hire daily rates (second numerical column of Appendix 6.1/Table 6) include VAT. Due to an error, the insurer direct hire rates (third numerical column of Appendix 6.1/Table 6) exclude VAT. We are very grateful to you for drawing attention to this inconsistency which we will take into account in our future work." (See Annex 3(b).)

- 7.10 Therefore, in calculating the ratio between average daily hire rates for credit hire and for direct hire, the CC erroneously included VAT in its credit hire figures and excluded VAT from its direct hire figures.
- 7.11 This is a material error in the CC's calculation, which has inflated the multiple over which the CC considers credit hire to cost more than direct hire (2.5x). This error is crucial because it

has likely overstated the costs of credit hire when compared to direct hire by 17%⁴⁶. The implications of this on the comparison between credit hire and direct hire rates are considered at paragraphs 5.23 to 5.25 of Compass Lexecon's report which demonstrate that the CC has compared apples with oranges when considering the cost of direct hire and credit hire and has included a cost that would represent approximately 60% of the difference between the credit hire and direct hire net costs identified by the CC. On this basis alone the CC cannot conclude that the majority of the £300 difference between the costs of credit hire and direct hire is accounted for by frictional and transactional costs. Therefore, the CC is not in a position to conclude that there are significant effects on consumers from separation. Its provisional AEC is fundamentally flawed as a consequence.

- 7.12 In light of this fundamental error AX is seriously concerned that there may be other basic and material errors in the CC's data. Its request for access to the underlying data and calculations is, therefore, crucial to understanding the CC's findings, and being able to respond to the case against it.

The CC has overstated credit hire costs

- 7.13 The CC based its estimate of the credit hire average daily rate on data from seven large CHCs⁴⁷. Based on this sample of data, the CC estimated the average credit hire invoice to be £1,085. AX requested details of the CHCs which were used by the CC as part of its sample⁴⁸, a copy of this request is attached at Annex 4. The CC responded explaining that the same seven CHCs were used to calculate the average credit hire daily rate and the average credit hire bill, but it did not state what CHCs the CC used for compile this data⁴⁹ (a copy of this response is attached at Annex 5).
- 7.14 AX is concerned to know whether Enterprise was included or excluded from the CC's data sample. As Enterprise is one of the largest providers of credit hire, it can offer some of the lowest credit hire rates. Therefore, if Enterprise has been excluded from the CC's sample, this could overestimate the CC's calculations of credit hire. This is considered further at paragraph 5.29 of Compass Lexecon's Report.

⁴⁶ AX attaches data separating out VAT from its total revenue for the CC's information attached at Exhibit 1. This confirms that 17% of AX's billings in 2012 was attributable to VAT.

⁴⁷ Paragraph 32(b), Appendix 6.1, PFs.

⁴⁸ Email from Steve Evans (AX) to Sean Cornall (CC) dated 31 January 2014.

⁴⁹ Email from Sean Cornall (CC) to Steve Evans (AX) dated 3 February 2014.

Understated direct hire costs

Bias from only including three large insurers direct hire rates

- 7.15 In calculating the multiple of the average credit hire daily rate to the average direct hire daily rate, the CC obtained the direct hire rates from only three insurers⁵⁰. AX considers this to be an insufficient data set (particularly in light of the CC's findings that there is low concentration in the PMI market⁵¹). Data from only three insurers will only be representative of a small segment of a large market, and therefore would not be as reliable as data from 10 or 15 insurers. Moreover, the CC has used data from the 3 large insurers who will likely have the most economies of scale and buyer power, and therefore their direct hire rates are likely to be the lowest and would not reflect the market-wide average, but the lower end of the direct hire rate scale (this has not been considered by the CC). AX has requested access to this data in order to determine how the direct hire daily rate used by the CC has been calculated, but at the date of submission this has not yet been granted.
- 7.16 AX has provided evidence of direct hire rates from a range of insurers, and this is presented at paragraph 5.32 and Exhibit 2 of Annex 1. This data demonstrates that the CC's reliance on data from only the three large insurers is unsustainable, and will materially overstate the CC's calculations of direct hire average daily rates. As shown in Compass Lexecon's report, the entire £300 (after netting off referral fees) disappears at the point that the multiple of credit hire to direct hire is reduced to 1.7 (this is before considering VAT). Accordingly, a small reduction in the CC's 2.5 multiple (which already erroneously includes VAT and need to be revised by the CC) identified by the CC is likely to have a material impact on closing the gap between its estimated cost increase associated with credit hire.
- 7.17 Therefore, the CC should re-calculate the appropriate direct hire rate by taking into account direct hire rates for a wider range of insurers. The failure to do this leads to a likely overstatement of the direct hire rates used in the PFs and cannot support the provisional AEC.

Failure to reflect full costs of direct hire

- 7.18 AX understands that the credit hire rates used by the CC reflect additional charges for a range of additional services (i.e. charges above the standard credit hire daily rate), including charges for an automatic rather than manual car, charges for an estate car and for a car with a

⁵⁰ Paragraph 2(c), Appendix 6.1, PFs.

⁵¹ Paragraph 40, PFs.

satellite navigation device. The CC also included additional charges which are levied for non-standard drivers (i.e. younger or older drivers). Therefore, where the at-fault insurer pays additional amounts above the basic direct hire daily rate, these also need to be included as a cost of direct hire. It is not clear to AX whether the average daily rates for direct hire do, in fact, include these costs, and therefore it is impossible for AX to determine whether the CC is comparing "apples with apples". AX has not yet been granted access to the CC's underlying data and therefore it does not know how the CC has treated these costs. If these costs are only included for credit hire, the CC is likely to have materially understated the direct hire costs.

- 7.19 Paragraphs 5.35 to 5.38 of the Compass Lexecon Report contain further details of the implications of this omission from the CC's calculations. The Compass Lexecon Report also explains the evidence that has been provided by AX which details the additional services a CHC is able to provide (and charge for) under the GTA, and which provides a proxy for the costs that an at-fault insurer may pay over and above the direct hire rates. As can be seen, these costs are potentially substantial (i.e. the costs of an automatic at £5 per day for an average hire duration of 12.7 days would be approximately £63) and should have been calculated by the CC. Its failure to do so has likely led to an understated cost of direct hire.
- 7.20 Moreover, on the basis of AX's invoices, these add-on services and non-standard driver charges accounted for █% of AX's invoices in 2012 (including VAT, or █% excluding VAT). This amounts to £█ on average per credit hire bill, which is approx. █% of the £300 gap which the CC attributed to higher CHC costs (or around one fifth of the remaining 'gap' after adjusting for VAT).
- 7.21 Again, the CC's treatment of these costs in its analysis is crucial. If the CC has not adjusted its calculation of the average cost of direct hire in light of these costs, these will be understated.

Bias if the CC has used "bracketed" direct hire rates

- 7.22 AX understand that the CC has derived the difference between credit hire average daily rates and direct hire average daily rates by comparing direct hire rate card prices with credit hire average daily rates by grade of car.
- 7.23 AX understands that CHCs involved in providing direct hire to insurers provide "bracketed" rates. For example, rather than provide separate rates for each of S1, S2 and S3, the CHC may provide a single rate for the "bracket" S1 to S3 inclusive. Please see the evidence

provided by AX Annex 2, Exhibits 4 and 7 (referred to at paragraph 5.40 of Compass Lexecon's report).

- 7.24 AX understands that the CHCs are then free to choose the class of vehicle within this category (depending on what cars it has available). Accordingly, these CHCs are incentivised to supply the cheapest TRV, which is the lowest grade within the bracket.
- 7.25 It is not clear from the PFs how the CC has treated and accounted for bracketed direct hire rates. AX is concerned that if the CC has used an S1-S3 bracketed direct hire rate for each of S1, S2 and S3, it will have understated the costs of providing direct hire on a like for like basis with credit hire. The effect of this could be material. For further details see paragraph 5.39 to 5.42 of Compass Lexecon's report.

Omitted direct hire costs

Discounted direct hire rates

- 7.26 AX understands that most direct hire services provided to insurers are supplied by companies that also provide credit hire (i.e. CHCs). As a result, when CHCs set direct hire rates for at-fault insurers, it is very likely that they will take into account the benefits they would receive from securing or being better placed in the future to secure more credit hire referrals from those insurers. This gives them an incentive to set direct hire rates that are lower than they might otherwise be.
- 7.27 AX has therefore observed that direct hire rates set by companies which also in parallel provide credit hire services are lower and the direct hire rates reflect an implied discount. The economic consequences of this is explained at paragraphs 5.43 to 5.46 of Compass Lexecon's Report.
- 7.28 This is a cost which the CC must take into account as part of its analysis of the cost of direct hire. More generally, the CC appears not to have considered the sustainability of direct hire rates in isolation. Such an issue is capable of quantitative analysis and must be investigated by the CC before it can reach a robust conclusion on the existence or otherwise of an AEC.

Claims management services provided

- 7.29 AX understands that some insurers outsource aspects of the claims management process to CHCs/CMCs, including the claims management process for direct hire episodes where the insurer is on the at-fault side. AX understands that some CHCs/CMCs provide this services

at no cost as part of their overall commercial arrangement, on the basis that they hope to receive credit hire referrals from that insurer (in respect of non-fault drivers).

- 7.30 Absent credit hire, CHCs would not have the same incentive to provide this claims management service at no cost and therefore insurers would either (i) have to pay for this service from an alternative provider, or (ii) provide the service themselves (and bear the costs of that service). As detailed at paragraphs 5.47 to 5.49 of Compass Lexecon's report these services can be considered as an additional opportunity cost to insurers of providing direct hire that should have been quantified and taken account of by the CC in assessing the AEC.
- 7.31 The CC has carried out very little analysis of the nature of the commercial relationship between insurers and CHCs and this failure to understand the dynamic of the relationship is a flaw in its assessment of the effects of the features leading to its AEC. Again, the CC has not considered this cost, which is readily quantifiable, in its provisional calculation of the costs of direct hire. The CC must factor this into its conclusion on direct hire costs in order to calculate a reliable estimate of these costs, by which they can use to measure the AEC.

Payment timing

- 7.32 At-fault insurers are likely to settle credit hire invoices on average considerably later than direct hire invoices. Therefore, at-fault insurers have a timing benefit from credit hire. AX also understands that referral fees are also typically paid quickly thus giving insurers revenue before they pay their credit hire invoices.
- 7.33 The CC has, however, not considered these timing benefits, this is because it has implicitly treated all monetary flows as if they were contemporaneous (which factually is not the case). As detailed at paragraphs 5.50 to 5.53 of Compass Lexecon's Report, the quantification of this timing benefit is quite straight forward and the benefits associated with payment timing are likely to be material. The CC must undertake this quantification (which is a material omission in its analysis) and account for this benefit in its calculation of the difference between the costs of credit hire and direct hire. It is likely to materially affect the CC's assessment of the scale of the AEC.

Insurance risk

- 7.34 Under credit hire the at-fault insurer does not bear any risk of damage to the cars provided to the non-fault driver. AX understands that, however, under direct hire the fault insurer may

bear some risk of this type in particular in relation to non-fault drivers who are customers of the fault insurer.

- 7.35 This is another cost which the CC has failed to take into account as part of its calculation of the cost of direct hire. The effect of this cost is potentially material for larger insurers. This is also considered at paragraphs 5.54 to 5.55 of Compass Lexecon's Report.

Omitted relevant adjustments to the base year (2012) figures

GTA efficiency improvements

- 7.36 The CC has not considered the enhanced efficiency created by the GTA. Nor has the CC considered the likely future efficiencies that are to be created by future GTA-led innovations, AX understands that a project is underway which is aimed at improving services and efficiencies for the benefit of consumers. AX has provided details of the minimum expected cost savings arising out of the GTA (this information is detailed at paragraphs 5.56 to 5.58 and at Exhibit 9 of Annex 2).
- 7.37 AX understands that one of these cost savings is made up of the savings to be made on phone calls, postage and labour costs (which are all quantifiable) and AX has estimated that a CHC's savings per claim are in the region of £[REDACTED]. This is a material saving that has not been quantified or assessed by the CC.
- 7.38 This should be investigated by the CC as any measures which serve to reduce CHCs' costs would be likely to be reflected in higher referral fees, which, in turn, would reduce the CC's assessment of the net consumer harm allegedly caused by the provisional AEC.

Higher rate of GTA settlements

- 7.39 AX experienced a material increase in the rate of settlements in less than 30 days between 2012 and 2013, see paragraphs 5.59 to 5.60 of Compass Lexecon's report and Figure 2. Note AX's rate of GTA settlements within 90 days was broadly the same.
- 7.40 The CC has not taken into account the improved rate of settlements under the GTA even though the effects of this are readily quantifiable. More generally, it is clear that the CC's PF fails to consider the dynamics and the effect of the GTA. The CC should at least investigate the effect of the GTA on the rate of settlements and consider this in its analysis of the benefits of credit hire.

Corrections to provisions

- 7.41 AX submitted forecasted credit hire costs data for 2012 to the CC in May 2013. In order to provide these forecasts, AX had to estimate its revenue for 2012 and make an assumption on the amount it was likely to recover. AX now has actual data for this financial year and this is detailed at paragraphs 5.61 to 5.61 and Exhibit 10 of Annex 2). As can be seen from Exhibit 10, AX's average daily credit hire rate was actually █% █ forecasted data which was earlier provided to the CC. As a result, and if other CHCs experienced similar subsequent shortfalls in the amounts actually recovered, the CC's calculation of credit hire costs may have been materially overstated.
- 7.42 This data, together with the updated actual data of other CHCs (if like AX any others provided forecasted data), must be used by the CC in its assessment of the AEC, rather than the previous estimated data. The use of actual data, rather than forecasted data, could well show that credit hire rates were materially lower than that which the CC has provisionally concluded (this is the case at least in relation to AX). Again, this would reduce the £300 difference between direct hire and credit hire and reduce the CC's AEC. The CC should now recalculate its credit hire rates on the basis of actual data in order to ensure that its calculations are sufficiently accurate and robust.

Attribution of residual to frictional costs

- 7.43 The CC's main approach to identifying frictional costs is based on its residual approach which is described at paragraphs 5.16 to 5.20 of Compass Lexecon's Report. AX has a number of concerns with this treatment of frictional costs:
- 7.43.1 A residual approach is highly vulnerable to error. This is because the residual can be affected by any of the factors taken into account and after adjusting for the factors outlined above, the residual (if any) is likely to be very small relative to the components used to estimate it. Small errors in the inputs have a material effect on the residual.
- 7.43.2 The CC's claim that the residual is 'mostly' comprised of frictional and transactional costs is unreliable. This is because it is consistent with only half of the identified residual being frictional costs; nevertheless the CC treats 100% of the residual as being attributable to frictional and transactional costs. The CC has a duty to make it clear what proportion of the residual is accounted for by frictional and transactional costs (which is the basis of the CC's AEC) to enable

AX to determine whether any of the proposed remedies are proportionate relative to the scale of the AEC.

- 7.43.3 The CC has not separated the residual between that arising from the difference between credit hire costs and GTA costs, and that arising from the difference between GTA costs and direct hire costs (see paragraphs 5.16 to 5.20 of Compass Lexecon's Report). AX has repeatedly explained the importance of the GTA and the need for the CC to examine the efficiencies generated by it. This is a significant flaw in the CC's analysis of the AEC given its significance to the industry (approximately 80% of all claims are settled under the GTA).
- 7.43.4 Insofar as part of the residual relates to the difference between credit hire costs and GTA costs, these (at least in part) reflect the costs of CHCs/CMCs defending the rights of non-fault drivers against at-fault insurers who have no incentive to provide (or provide to a lower quality)TRVs.
- 7.43.5 As highlighted at paragraphs 7.10 above, a material proportion of the residual may be accounted for by the CC's VAT error.
- 7.43.6 The residual calculated by the CC does not factor in the effect of any benefits.
- 7.43.7 The CC's residual approach of estimating transaction and frictional costs appears to be inconsistent with its direct estimation of frictional costs elsewhere in the PFs. In Appendix 6.1, the CC finds that on average CHCs' frictional costs account for 10% of the average credit hire bill. Given the CC calculates the average credit hire bill to be £1,085, this implies that the estimate of frictional costs is at most £108.60 - this is only 36% of the CC's £300 residual (see paragraphs 5.71 and 5.72 of Compass Lexecon's Report for more detail). Accordingly, the CC has failed to explain what proportion of these frictional costs relate to repair and what proportion relates to credit hire, disputes on liability and/or recovery of uninsured loss.
- 7.44 These factors are considered in more detail in paragraphs 5.64 to 5.72 of Compass Lexecon's Report. The CC must revise and/or adjust its analysis of the AEC in light of these material omissions and errors highlighted above. Only then will the CC be in a position to reach an accurate figure on frictional costs, and therefore a reliable AEC.

8. THE CC'S FAILURE TO PROPERLY TAKE ACCOUNT OF THE QUALITY AND SERVICE DIFFERENCES AND BENEFITS TO CONSUMERS OF SEPARATION

- 8.1 The CC calculates the adverse effect of separation on consumers by comparing the average daily rates for credit hire and direct hire to calculate the effect of separation on subrogated costs (and provides an estimate for this of £193m)⁵², then nets off referral fees which are a revenue stream to insurers that reduce premiums (and provides an estimate for this of £98m)⁵³. Accordingly, the net AEC in relation to TRVs services is £95m⁵⁴.
- 8.2 The CC then considers making an adjustment to this net effect in light of the quality and service differences associated with separation, but concludes that the differences were small and therefore the CC did not consider them to affect its estimate of separation on consumers⁵⁵.
- 8.3 As explained below, AX has serious concerns in relation to the CC's approach to assessing quality and service differences, and indeed the benefits more broadly associated with separation. The CC could and should have quantified the benefits to consumers of the quality and service differences associated with separation. It should have done this by taking into account, when assessing the net effect on consumers, the cost to consumers of making good the loss of quality and service differences in its benchmark world. Having done so, this should have changed its conclusion in relation to the AEC because the CC should have recognised the impact on innocent drivers.
- 8.4 The CC concludes that the following quality and services differences are associated with separation:

8.4.1 **Quality of service** - the CC concludes that, while quality differences between claims managed by at-fault insurers, non-fault insurers and CMCs tend to be small, the evidence from the CC's non-fault survey indicates that quality of service is better in relation to TRVs for claims managed by non-fault insurers and CMCs⁵⁶. The CC also notes that the quality of service benefit associated with separation "*would be greater if account is taken of the impact that services offered by CHCs and CMCs have in improving the quality of service offered to*

52 Paragraph 6.71, PFs.

53 Paragraph 6.56, PFs.

54 This assumes equal pass through of costs and revenues. Although the CC contends the pass through rates would be different, the CC appears to consider that this difference would be small.

55 Paragraph 6.80, PFs.

captured claimants, i.e. if comparing the quality of service under a benchmark where all claims are captured rather than the current quality of service received by captured claimants"⁵⁷.

8.4.2 **Additional services** - the CC recognises that CMCs/CHCs provide additional services, beyond those which an at-fault insurer is required to provide under tort law⁵⁸.

8.4.3 **Willingness to provide TRV when liability in dispute** - the CC recognises the fact that some CMCs/CHCs provide a TRV when liability is uncertain or disputed and that this means that some claimants receive a TRV when they would not otherwise do so or would receive only a courtesy car.⁵⁹

8.5 The CC implicitly admits that these quality and service differences would be much larger absent the incentive effect of credit hire upon at-fault insurers to provide TRV services,

8.6 However, as previously explained above, the CC fails to investigate the implications even of the quality and service differentials that are observed or consider whether it affects the CC's quantification of the AEC. As set out further below, AX has serious concerns that (i) the quality and service differences identified by the CC when quantified should have led the CC to consider a substantial offset against the net cost it identified and to identify the impact on innocent drivers who are the victims of accidents as a separate group; and (ii) the CC has failed to consider and quantify a number of other fundamental benefits.

8.7 Furthermore, the CC's failure to consider these issues also impacts upon its analysis of the proportionality of any proposed remedies. These quality and service differences should also have been quantified and taken account of in relation to its approach to the possible remedies. The CC's failure to do so seriously undermines its Remedies Notice.

8.8 The CC has also omitted entirely to consider the following material benefits to consumers of separation (and credit hire):

Consumers avoiding frictional costs

⁵⁶ Paragraph 6.66, PFs.

⁵⁷ Paragraph 6.68, PFs.

⁵⁸ Paragraph 6.67, PFs.

⁵⁹ Paragraph 6.67, PFs.

- 8.9 The CC has failed entirely to consider the fact that frictional costs are currently borne by the at-fault insurer and the CMC/CHC and that under its proposed remedies, these costs will be transferred to consumers who will either (i) bear these costs privately, or (ii) conclude they are not in a position to assert their full legal entitlement because claiming from at-fault insurers is made too difficult. The CC acknowledges in Section 7 of the PFs that consumers are also likely to be ignorant of the full extent of their rights and this is likely to increase the frictional costs they will bear in trying to assert those rights that they are aware of.
- 8.10 In this respect, the CC's benchmark of a 'well-functioning market' is materially flawed. This is because the CC simply assumes that non-fault drivers would obtain their full legal entitlement from fault insurers without incurring any frictional costs. This is a wholly unrealistic assumption, as detailed at paragraphs 3.2 to 3.5 above, since the interests of innocent drivers and at-fault insurers are diametrically opposed, indeed at-fault insurers have no incentive whatsoever to provide non-fault claimants with the post-accident services they need. The frictional costs which would be borne by the individual non-fault driver would include time, energy, resources, ready cash and the risk of recovering personally from the at-fault driver's insurer (essentially a situation which the Courts have been trying to avoid, see paragraphs 3.9 to 3.12 above). A measure of consumer frictional costs is provided at paragraphs 6.20 to 6.23 of Compass Lexecon's report.
- 8.11 The CC has endeavoured to calculate consumer detriment (albeit based on calculations that are erroneous and incomplete), but has not endeavoured to calculate consumer benefits either overall or for the affected group of consumers. Indeed, a number of material benefits have been ignored and the CC has simply asserted that any other quality and service differences are small. These differences are in fact material and their omission vitiates the CC's calculation of a net detriment to consumers arising out of separation.
- 8.12 AX considers the CC has understated the following material benefits to consumers of separation and credit hire:

Understated benefits in relation to quality of TRV

- 8.13 The PFs fail to consider the extent to which the quality of TRVs under direct hire may be less than what the consumer is entitled to under its full legal entitlement. The CC has also ignored relevant evidence in this regard as it appears that without any justification it has failed to take account of the evidence relating to its review of a sample of 100 call records which showed a large difference in quality.

- 8.14 Furthermore, AX notes that in calculating the ratio of credit hire costs versus direct hire costs, the CC used the weighted average of like-for-like daily average charges by basic car grade . However, there are many more factors which go to determining whether the quality of TRV being provided is of a better or worse standard. Assessing the quality of TRVs provided by reference to basic car grade alone will not take account of whether the like for like replacement also reflects whether the TRV is replacing an estate car, an automatic and/or specially adapted vehicles. In assessing the quality of TRV being provided, these factors should also be taken into consideration. This is a material failure to take into account potentially relevant evidence and/or to base a provisional decision on an incomplete analysis.
- 8.15 These omissions and failures to gather the appropriate data in order to reach the conclusions on the difference of the quality of services between credit hire and direct hire are detailed more fully at paragraphs 6.24 to 6.32 of Compass Lexecon's report. The consequence of these omissions and failures is that the CC has failed to take into account potentially material benefits and/or understated benefits when quantifying and provisionally finding the AEC.

Understated benefits in relation to collision damage waiver ("CDW")

- 8.16 AX understands that non-fault drivers are sometimes required to pay to reduce their excess to zero on the insurance on the replacement car under direct hire, but not under credit hire. Again, this benefit to consumers should have been considered and quantified by the CC. See paragraphs 6.33 to 6.35 of Compass Lexecon's Report for further details of this issue.

Understated benefits in relation to uninsured loss recovery

- 8.17 The CC found that six out of nine CHCs provided uninsured loss recovery services, but did not proceed to quantify or measure this considerable benefit which is facilitated by CHCs. In the CC's benchmark of a 'well-functioning market', at-fault insurers would have no incentive to provide uninsured loss recovery as it would be contrary to their own interests. Again, the CC's benchmark takes no account of the reality of a world absent the features it has identified as leading to the provisional AEC. Moreover, there is no explanation from the CC anywhere as to how consumers would obtain uninsured loss recovery absent separation (or why insurers would provide direct hire absent separation) and no explanation from the CC as to how consumers would obtain their full legal entitlement without incurring their own frictional costs in doing so.
- 8.18 AX has collected evidence which suggests that if consumers were to purchase uninsured loss recovery services from a solicitor (rather than receiving this service as part of the package of

services offered by CHCs), solicitors' typical rates for providing assistance of uninsured loss recovery for a simple case would start at £100 per hour (increasing to £200 per hour for more complicated cases). This evidence is provided at Annex 2, Exhibit 12(b).

- 8.19 Alternatively, a consumer could obtain a similar benefit by purchasing legal expenses insurance (albeit subject to loss of excess if it used the policy). AX has collected evidence on the cost to consumers of obtaining uninsured loss recovery in the absence of CHCs/CMCs doing this on their behalf and this is provided at Annex 2, Exhibit 13. As can be seen, the evidence suggests that insurers offer legal expenses cover at £25-£30. This is also likely to be less effective than obtaining the assistance of a CHC/CMC since it would require the individual to deal with his/her insurer, who has no incentive to meet claims on the policy. The CC ought to have obtained similar data in order to measure the benefit of uninsured loss recovery provided by CHCs, and thereby adjust its estimate of the AEC accordingly.
- 8.20 This omission from the CC's calculation of the AEC is also discussed at paragraphs 6.35 to 6.40 of Compass Lexecon's report.

Understated the provision of TRVs when liability is uncertain

- 8.21 The CC concludes that some non-fault claimants received a better quality of service because CHCs provide TRV in situations where liability is uncertain⁶⁰. Again, the CC has failed to quantify the benefit to consumers of such early provision. The CC's non-fault survey shows that about 80% of respondents said that the other driver admitted liability at the scene of the accident⁶¹. This indicates that this benefit is likely to be material to at least 20% of victims.
- 8.22 The CC has failed to make an adjustment to take into account what it would cost the consumer to obtain a TRV. In addition to the cost of hiring a car, there will also be associated frictional costs (i.e. the finding and costs of dealing with a car hire company) and these have not been considered in the CC's findings.
- 8.23 Moreover, based on the CC's figures, liability is not admitted in 25% of cases where the claim was managed by the non-fault insurer, or around 75,000 cases (based on the CC's estimate of 301,000 credit hire episodes). The CC needs to quantify the service differential arising from early provision in these cases. We further note that data from AX suggests that liability is agreed less often by insurers than the CC's survey data suggests, therefore, in order to rely on

⁶⁰ Paragraph 6.67, PFs.

⁶¹ IFF Survey report, Figure 3.8.

this survey, the CC must reconcile the survey finding to the data on initial liability indicators recorded by CHCs and insurers. This is further detailed at paragraph 6.44 of Compass Lexecon's Report, Annex 2, Exhibit 15 and page 11 of the hearing transcript for evidence from Kindertons.

- 8.24 This omission is also considered in detail at paragraphs 6.41 to 6.44 of Compass Lexecon's report. Again, there is no explanation from the CC anywhere as to the value of this benefit to consumers, and the implications of the loss of this benefit in its benchmark.

Understated the benefits for the setting of insurance premiums of liability being resolved more often

- 8.25 The CC notes that credit hire could function to resolve liability in more cases and more quickly. Again, the CC did not perform any analysis to establish the materiality of this benefit. AX considers this benefit is, in fact, crucial to consumers. In the CC's benchmark where there is an absence of credit hire, insurers would not necessarily find it worthwhile to determine liability, resulting in both drivers paying the excess to their insurance.
- 8.26 The implications of this are considered fully at paragraphs 6.45 to 6.47 of Compass Lexecon's report. Again, there is no explanation from the CC anywhere as to the value of this benefit to consumers, and the implications of the loss of this benefit in its benchmark and therefore its calculation of the AEC must be flawed.
- 8.27 While the CC has acknowledged the quality and service differences described above, it has failed to quantify any of them. As can be seen, however, there are reasons to consider that they are likely to be material, and, therefore, AX has serious concerns that the CC's calculation of the AEC is fatally flawed.
- 8.28 It is clear that when comparing the status quo against the CC's benchmark, consumers will lose the benefit of these quality and service differences. Therefore, the CC must consider the cost to consumers of losing these quality and service differences in relation to the CC's benchmark (i.e. the cost of obtaining the quality and service differences which they currently enjoy, and which they do not currently obtain under direct hire). This cost to consumers should be quantified by the CC and offset against the net cost of credit hire in order to reach an accurate calculation of the alleged AEC. Moreover, while the CC has provisionally concluded that premiums are not cost reflective⁶², it has not considered the extent to which

⁶² Paragraph 6.84, PFs.

premiums are more cost reflective as a result of liability being established more often under separation. These quality and service differences are considered in detail at paragraph 7.19 of Compass Lexecon's Report.

- 8.29 The CC has also failed to consider whether the collection and delivery service under direct hire can be inferior to that under credit hire. For example, AX is aware that in some instances direct hire may not include delivery and collection. GTA rates (and therefore a large proportion of credit hire claims) include delivery and collection of the TRV, which is typically to and from the body shop. AX understands that in some instances direct hire may not include collection from the non-fault driver's home to the body shop, and that the consumer would have to pay extra for this service (if available) under direct hire. AX understands that Enterprise do not provide an individual service, but rather collect a number of customers in a minibus together, thereby causing the consumers to wait additional time, incur additional journey time and possibly additional drive time.

9. IMPLICATIONS FOR CONSUMERS OF SEPARATION

- 9.1 The CC sets out its analysis of the implications for consumers of separation at paragraphs 6.42 to 6.85 of the PFs. The CC's supporting analysis is contained in Appendices 6.4 and 6.6.

- 9.2 The CC states that the potential implications for consumers of its findings were "complex"⁶³, but essentially concluded:

9.2.1 In relation to the impact of higher costs for at-fault insurers on car insurance premiums, the CC considered a number of factors which affect the extent to which cost changes are passed through to consumers and concluded that it "*would expect the higher costs incurred by at-fault insurers to be reflected broadly pro-rata in higher premiums*"⁶⁴.

9.2.2 In relation to the impact of the revenue stream to non-fault insurers and brokers on car insurance premiums, the CC considered that the same factors were relevant to assessing the pass through of revenue streams as to the pass through of costs⁶⁵ and concluded that it "*considered that the revenue stream (from referral fees etc)*

⁶³ Paragraph 6.42, PFs.

⁶⁴ Paragraph 6.53, PFs.

⁶⁵ Paragraph 6.64, PFs.

to insurers is likely to reduce motor insurance premiums but the effect may be somewhat less than pro rata."⁶⁶

- 9.2.3 In relation to direct quality of service benefits to consumers, the CC ultimately concluded that the direct quality of service benefits to consumers "*tended to be small*"⁶⁷ (the CC's analysis of this is considered in detail at paragraphs 8.4 and 8.11 above).
- 9.2.4 In relation to the estimate of the effect of separation on consumers, the CC estimated that the total cost increase attributable to separation in relation to TRVs was £193m⁶⁸. The CC considered this would be reflected "pro-rata" in higher insurance premiums⁶⁹. The CC estimated the total revenue stream to insurers and brokers attributable to credit hire of TRVs to be £98m⁷⁰ and considered that this would be passed through somewhat less than pro rata⁷¹. In relation to benefits, the CC did not present any quantification on the basis that it considered the service differences to be "*small*"⁷².
- 9.2.5 In relation to the net effect on consumers, the CC considers this to be the difference between its estimate of the increased costs of at-fault insurers (in the case of TRVs £193m) and a number which appears to be less than the revenues (in the case of TRVs £98m). While the CC does not state this expressly, it is implicit in these findings that it considers the net effect of credit hire to be in the region of £95m (£193m-£98m).
- 9.2.6 In order to cross check this calculation of the net effect of separation on consumers, the CC (i) estimated the net cost of separation per claim (£300) is 27% of the average credit hire bill (27% = £300/£1,085) or 21% if the average credit hire bill is calculated using data from five insurers (21% = £300/£1400); (ii) scaled up its estimate of the net cost using 2011 data on total credit hire

⁶⁶ Paragraph 6.59, PFs.

⁶⁷ Paragraph 6.69, PFs

⁶⁸ Table 6.3, PFs.

⁶⁹ Paragraph 6.73, PFs.

⁷⁰ Table 6.4, PFs.

⁷¹ Paragraph 6.74, PFs.

⁷² Paragraphs 6.80, PFs.

revenues from the CHO (£663 million)⁷³. This led the CC to estimate the total net cost of separation for TRVs was to be in the range of £140m.

9.2.7 The CC then estimates the level of consumer harm on a per policy basis to be between £6 and £8. Although the CC does not expressly calculate the impact of credit hire on a per policy basis, its calculations imply the consumer harm of credit hire to would be between £4 and £7.

9.3 Further details of the CC's approach to these calculations are provided at paragraphs 7.1 to 7.17 of Compass Lexecon's Report.

9.4 AX's comments on the CC's approach are as follows:

Impact of higher costs for at-fault insurers on car insurance premiums (pass-through)

9.4.1 The CC's conclusion that the alleged increase in costs caused by credit hire would be passed through to final consumers to a greater extent than referral fees has a very small quantitative impact on the CC's calculations.

Direct quality of service benefits to consumers

9.4.2 As detailed at paragraph 8.3 above, the CC has (i) in some cases understated and in all cases failed to quantify benefits it has identified; and (ii) omitted entirely the benefit of delivery and collection (see paragraph 8.29 above). The CC also failed to take into account the difference between the (limited) consumers' fictional costs in the current market conditions in comparison to the CC's benchmark.

9.4.3 These benefits are clearly readily quantifiable. Indeed, Compass Lexecon's indicative analysis demonstrates that some of these benefits are likely to be material and could potentially eliminate any gap between the net cost of credit hire and direct hire. Accordingly, it is manifestly incorrect for the CC to conclude that any of the benefits of credit hire are "*small*" without properly investigating these benefits, and quantifying the benefits which could be material

⁷³ Paragraph 6.83, PFs.

to the CC's analysis (even if this is helpful to the AX's case, rather than the CC's own case).

- 9.4.4 As mentioned in paragraph 5.17 above, the CC has also not considered the distributional consequences of its own benchmark. In particular, the fact that some consumers would be worse off under the CC's benchmark than in the current market situation. This is a material omission from the CC's analysis.

Estimation of the effect of separation on consumers

- 9.4.5 The CC estimated the total cost increase attributable to separation in relation to TRVs and the total revenue stream to insurers and the total revenue stream to insurers and brokers attributable to credit hire of TRVs by multiplying the cost and revenue estimates with the estimate of the total number of claims in 2012⁷⁴.
- 9.4.6 While the CC's Terms of Reference defines the scope of its market investigation as covering PMI⁷⁵, the CC has not investigated whether the 301,000 claims were made against private or commercial insurance policies. AX understands that it is more common for credit hire that the TRV is provided to a private non-fault driver, but the at-fault driver has a commercial insurance policy than the reverse (i.e. that the TRV is provided for a commercial insurance policy holder and the claim is made against a private insurance policy). This implies that some of the referral fees received by "private" non-fault insurers do not have corresponding costs to the "private" at-fault insurers (as the costs are in fact borne by a commercial insurer).
- 9.4.7 In light of the fact that commercial motor insurance is outside the scope of the CC's Terms of Reference, the CC has failed to make an adjustment carving out commercial insurance in its calculation of the impact on consumers.

Net effect on consumers

- 9.4.8 AX understands that the figure the CC has used for credit hire revenues (£663) to derive the higher estimate of net detriment from TRVs (£140m-£180m) involved a large degree of estimation, does not have supporting calculations and that the

⁷⁴ Paragraph 6.73 and 6.74 of the PFs.

⁷⁵ See the Terms of Reference dated 28 September 2012.

CC has not asked the individual who provided that figure any more about it. Given these factors, the CC ought not to rely on that figure, or should conduct further inquiries to test its robustness and/or obtain additional corroborative evidence which supports the fact it yields a result by almost 90% than the base case.

10. REMEDIES

- 10.1 AX submitted a response to the CC's Remedies Notice on 17 January 2014. In its response, AX highlighted serious concerns about the fairness of the CC's administrative procedure in light of the CC requiring a response to the Remedies Notice prior to the deadline for responding to its PFs. In light of this, AX reserved the right to make further submissions on the Remedies Notice in its submissions on the PFs. These further (substantial) submissions are detailed below.
- 10.2 The CC's benchmark for assessing the AEC assumes that consumers' legal entitlements are maintained and delivered in an efficient way⁷⁶. This benchmark is based on a wholly idealised situation that is contrary to the standard approach set out in the CC's guidelines to which it must have regard (see paragraph 5.1 above). In this world, there would be provision of the same quality of direct hire services in the absence of credit hire, the adversarial relationship between innocent motorists and at-fault insurers would not exist, and innocent motorists would be able to extract their legal entitlement from at-fault insurers without incurring substantial or prohibitive frictional costs. For the reasons set out in the Response above, this benchmark is wholly unrealistic, unsustainable and therefore, flawed.
- 10.3 In so far as the CC is considering remedies which would alter consumers legal entitlements or lessen the degree to which these rights are asserted, these remedies are (i) not necessary in light of the CC's benchmark, and (ii) would not be supported by the body of analysis used by the CC in assessing the AEC and would require the CC to conduct an entirely difference economic analysis (as explained in section 9 of Compass Lexecon's report).
- 10.4 Any remedy which seeks to simply remove separation would not produce the CC's benchmark (as recognised by the CC at-fault insurers would have no incentive to supply direct hire⁷⁷) and so would not be effective in remedying the AEC.

⁷⁶ Paragraph 6.3, PFs.

⁷⁷ Paragraph 6.90, PFs.

- 10.5 As explained at paragraph 7.15 above, AX has serious concerns that the CC's conclusions on the costs of direct hire have been materially understated, and its conclusions on the cost of credit hire have been materially overstated. Therefore, AX considers the CC's calculation of the (£300) gap between credit hire costs and direct hire costs to be wrong. It is impossible for the CC to propose a proportionate remedy, when the CC's conclusions on the scale of the AEC are materially wrong and there are important gaps in its analysis.
- 10.6 The CC has also failed to make it clear what proportion of the net impact of separation is accounted for by transaction and frictional costs. It is therefore impossible to reach a conclusion as to whether the proposed remedies are proportionate or not.
- 10.7 Without prejudice to these general observations, AX makes the following brief observations on the specific remedies proposed by the CC.
- 10.8 AX supports any remedy which would (i) have the effect of improving consumers' understanding of their legal entitlements post-accident (Remedy A) or (ii) seeks to strengthen the application of already existing legal requirements, such as the requirement to reasonably mitigate the non-fault driver's loss and to demonstrate his need (Remedy 1F). AX notes that (on their own) Remedies A and 1F would not remedy the provisional AEC as they would not remove separation or frictional costs.

Proposed Remedy 1A: first party insurance for replacement cars

- 10.9 AX does not support this remedy and its reasons for this are as follows:
- 10.9.1 It would not remedy the CC's alleged AEC, as the CC's benchmark assumes consumers' legal entitlements are maintained.
- 10.9.2 It completely eradicates the legal entitlement of non-fault drivers under the common law of tort and the RTA 1988, in favour of tortfeasors and their insurers.
- 10.9.3 This remedy essentially transfers the entire costs of TRVs which currently fall upon the at-fault insurer (and ultimately on negligent motorists) to non-fault motorists.
- 10.9.4 This remedy would result in monopoly provision by insurers of TRV policies with the very real risk that this loss of competition for the provision of TRV services will lead to non-fault drivers facing either increased premium costs or a

poorer quality of service. These are significant implications which are not considered by the CC in its Remedies Notice.

- 10.9.5 This remedy will create frictional costs for non-fault motorists who will need to pursue their own insurer to acquire a TRV, in addition to arranging for their insurer to handle the subrogated claim for any repair costs and personal injury resultant from the accident. There is a risk that this increase in frictional costs might dis-incentivise non-fault drivers from pursuing their contractual entitlement under their mobility cover (to the benefit of insurers). The CC has failed to consider this risk to the non-fault driver.
- 10.9.6 Non-fault drivers may be deterred from making a claim for a TRV for fear of compromising their no-claims bonus. Most claims made through a CHC do not compromise no-claims bonuses because: (i) the CHC pursues the claim directly with the at-fault's insurer; and (ii) most insurance policies do not provide mobility cover; the insurance policy is not engaged when making a claim for damages for loss of use of a vehicle. Again, this potential consumer detriment has not been considered by the CC.
- 10.9.7 The scope for misinformed decision-making and mis-selling at point of sale of the TRV cover is considerable (not least because the insurer will have a point of sale advantage).
- 10.9.8 In light of all the factors above, Remedy 1A will leave innocent consumers worse off in a post-remedy world. There would be no benefit to the innocent victims if this were to be implemented and no proportionate justification for the CC to prefer the interests of the at-fault insurers and tortfeasors over the innocent motorist.
- 10.9.9 This remedy also directly contradicts the CC's findings in the PFs that policy additions have led to an AEC.⁷⁸
- 10.10 The CC has not demonstrated that this remedy would give rise to any net benefit and/or be effective in addressing either the frictional or transactional cost elements of the provisional AEC (it has simply stated that it envisages they would be reduced), nor has it made any

⁷⁸

Paragraph 10.11, Remedies Notice.

attempt to quantify or even analyse the detrimental consequences of its proposed remedy as highlighted above. Therefore this proposed remedy manifestly fails the test of proportionality.

Proposed Remedy 1B: at-fault insurer to be given the first option to handle non-fault claims

- 10.11 AX considers this remedy would ultimately result in monopoly provision of TRVs by at-fault insurers, diminish consumer rights and would inevitably result in a reduction of service provision to non-fault drivers.
- 10.12 This remedy would also result in a shift of frictional costs from at-fault insurers to non-fault drivers and therefore fails to remedy the alleged AEC.
- 10.13 AX's main objection to the Non-Compulsory Variant is that (and as the CC itself recognises) it would not remedy the AEC⁷⁹ (separation would still exist). Accordingly, the Non-Compulsory Variant fails the proportionality test at the first hurdle.
- 10.14 The CC proposes two different versions of the Compulsory Variant. AX considers that on either compulsory variant, the at-fault insurer will actually be or will *de facto* become a monopoly provider of TRV services, which would result in the elimination of CHCs and eventually the quality of direct hire (the CC recognise credit hire has an incentive effect on direct hire).
- 10.15 At-fault insurers and innocent motorists' interests are not aligned, therefore it is likely that the at-fault insurers will wait until the last minute to offer services to the non-fault driver, instead of the current situation where those needs are addressed immediately by CHCs. In practice a short period of delay by the at-fault insurer may cause serious detriment to the consumer, or even defeat the entitlement to a TRV altogether if by then a vehicle has been repaired. This detriment has not been quantified by the CC.
- 10.16 There is a risk that if at-fault insurers were forced to accelerate the speed of their initial claim review process, this could result in greater fraud being perpetrated on insurers. Alternatively, TRVs would be provided on a delayed basis. In either case, the cost to consumers is likely to increase because: (i) higher levels of fraud will necessarily be reflected in increased premiums, and (ii) the period during which the non-fault driver awaits an offer will be far

⁷⁹

See paragraph 38 of the Remedies Notice

greater than the current timeframe within which CHCs are able to operate. Neither risk of these two outcomes has been considered or quantified by the CC.

Proposed Remedy 1C: Measures to control the cost of providing a replacement car to non-fault claimants

- 10.17 AX is supportive of a remedy which aims to improve the *efficiency* of the settlement of claims. However, AX considers that this is capable of being achieved under the GTA. Tort law already imposes limitations on the hire durations and the quantum of claims. The remedy is, therefore, unnecessary.
- 10.18 In relation to hire duration, the CC has not identified an AEC. Therefore, to the extent that this remedy impacts hire duration, those elements are not necessary. Moreover, the metrics on hire duration would introduce new frictional costs and thereby diminish any effectiveness.
- 10.19 In relation to hire rates, as detailed in the Response above, AX refutes the CC's provisional conclusion that at-fault insurers costs were too high.
- 10.20 A price cap mechanism on its own would not incentivise insurers to settle claims efficiently (as they are incentivised to delay payments for as long as possible). Indeed, a price cap mechanism which removed the threat of increased cost to insurers (in the form of litigation costs) would provide even less incentive on insurers to settle claims efficiently.
- 10.21 The setting of daily hire rates could not take into account all the circumstances of any given case and it would, therefore, be almost impossible to achieve an appropriate rate. Moreover, the CC's proposals for price control risk causing significant harm to consumers without the prospect of achieving any corresponding consumer benefit.
- 10.22 The CC itself notes in its own guidance that defining "*the appropriate parameters for the control measure may be complex and, in some cases impractical, and the measure may therefore be vulnerable to specification risks*" and this "*is especially likely where any of the following conditions apply*: (emphasis added)
- (i) Pricing in the relevant market is ***naturally volatile***, for example because of variability in input costs.
 - (ii) Products or services are ***differentiated rather than homogeneous***; this may increase the complexity of any control in order to capture adequately the diversity of products offer.

- (iii) *Prices are individually negotiated, which may also increase the complexity of any control measure.*
- (iv) *Supply arrangements and products are subject to **significant on-going change**, which require the control measure to change to reflect new developments."*⁸⁰ (emphasis added)

- 10.23 The cost of providing a TRV by a CHC varies greatly depending on a multitude of variables. The class of vehicles on offer and duration of hire are not homogenous across vehicle hires and prices fluctuate naturally with demand.
- 10.24 AX submits that all of the above conditions set out in CC's guidance have been satisfied and so price control would not be an appropriate or proportionate remedy.
- 10.25 Moreover, AX notes that in *Barclays*, the CAT commented that a remedy that brings prices down to competitive levels, but does not enable a consumer to view their range of options, could have a net negative impact on consumer welfare.⁸¹ The CAT indicated that a simple price cap would be such a remedy.
- 10.26 The GTA (and its soon to be implemented online portal) provide flexibility in the settlement of claims and provide a framework for setting hire rates according to the circumstances of individual claims. AX considers that the CC has failed to analyse the likely reduction in frictional costs that this online portal could generate (and whether these would be sufficient to address the AEC). The benefits of the GTA (and future online portal) far outweighs the restricted and overcomplicated nature of implementing a daily hire rate cap and on this basis the proposed remedy is not necessary or the least onerous that could be imposed.
- 10.27 A daily hire price cap would need to be effective and consistent across the credit hire and direct hire markets. However, it is uncontested that credit hire can incur greater costs than direct hire. A cap would clearly have a greater detrimental effect on a CHC's profitability than on an insurer providing direct hire.
- 10.28 Reducing credit hire rates below current levels will erode CHCs' gross margins resulting in a reduced ability to offer referral fees thereby reducing CHCs' ability to attract customers, in turn (potentially) removing the incentive on insurers to provide direct hire services.

⁸⁰ CC3 at Annex B, paragraph 88

⁸¹ *Barclays v Competition Commission*, [2009] CAT 27, paragraph 147.

- 10.29 A price cap might, in the long term, provide a price level at which CHCs and direct hire providers gravitate towards, which in turn could lead to an arbitrary provision of service of poorer quality than that provided today, thereby creating a consumer detriment. This has not been considered by the CC. The CC considered this to be the case Final Report in the home credit market investigation⁸², and AX submits that this would also apply in the PMI market.
- 10.30 If price control is set by reference to unsubstantiated and potentially unsustainable direct hire rates (see paragraph 10.28), this will give rise to credit hire market failure, and the gradual elimination of CHCs. The CC has not considered the elimination or reduction of the availability of CHCs (which the CC has itself recognised produce an incentive effect on insurers to provide direct hire).
- 10.31 In the absence of a quantification of the benefit of this remedy and because of the above detriments that the CC has failed to consider, the proposed remedy fails the proportionality test insofar as it relates to hire rates.

Proposed Remedy 1G: Prohibition of referral fees

10.32 In summary, AX's comments on this remedy are as follows:

- 10.32.1 Referral fees compete away CHCs' gross profits and are passed back to consumers to a significant extent in the form of reduced premiums.
- 10.32.2 Referral fees are a mechanism to advertise and promote CHCs and are used as part of the competitive process to attract customers. In their absence, AX accepts that money could be spent on public advertising. However, that advertising will not have the same pass-through effect on consumers in the form of reduced premiums.
- 10.32.3 Removing referral fees would reduce the ability of CHCs to attract customers, which will in turn reduce the provision of credit hire and the incentive on insurers to provide direct hire.
- 10.32.4 Prohibiting referral fees would increase barriers to entry by eliminating an incentive for insurers, brokers, repairers etc from referring new customers to CHCs.

⁸²

Paragraph 9.139.

- 10.32.5 Referral fees are an income stream for many parts of the supply chain (including garages, repair and paint shops) and without which there would be a need to increase prices to make good the loss of income.
- 10.33 In the absence of a quantification of the benefit of this remedy and because of the above detriments that the CC has failed to consider, in particular the fact that the CC relies heavily on the existence of a £95 million quantification of the detriment caused by the AEC which only stands to increase upon the implementation of this remedy, the proposed remedy manifestly fails the proportionality test.

DLA PIPER UK LLP for an on behalf of Accident Exchange

7 February 2014

ANNEX 1

Private Motor Insurance Market Investigation
A submission for Accident Exchange Limited

Response to Provisional Findings

Neil Dryden, Zita Vasas and Keshav Parthasarathy
7 February 2014

Non-confidential

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Section 1

Introduction

Background

- 1.1 In its Issues Statement, the Competition Commission (“CC”) considered (as Theory of Harm 1 (“ToH1”)) that a separation of cost liability and cost control could give rise to an adverse effect on competition (“AEC”).¹
- 1.2 In its Provisional Findings Report (“Provisional Findings”) the CC provisionally concluded that this was the case:

“We have identified the following two features of the supply of motor insurance and related services which have, in combination, an adverse effect on competition:

(a) Separation – that is, that the insurer liable for the non-fault driver’s claim, ie the insurer to the at-fault driver is often not the party controlling the costs; and

(b) Various practices and conduct of the other parties managing such non-fault drivers’ claims which (i) were focused on earning a rent from control of claims rather than competing on the merits; and (ii) gave rise to an inefficient supply chain involving excessive frictional and transactional costs.

We provisionally conclude that these features distorted competition in the motor insurance market.”²

- 1.3 The CC stated that the nature of the distortion is that (i) motor insurance premiums are higher overall; (ii) insurer and brokers were not competing ‘on the merits’ (i.e. offering the lowest price and best quality of claims handling and other service to customers); and (iii) premiums to individual drivers are not fully reflective of their expected costs (in particular their relative riskiness).³

¹ Annotated Issues Statement, 5 July 2013, paragraph 8.

² Provisional Findings, paragraph 6.93. See also paragraph 10.6.

³ Provisional Findings, paragraphs 6.91 and 6.92. See also paragraph 10.7.

- 1.4 The CC's analysis of the effect of this AEC addressed temporary replacement vehicles ("TRVs"), repairs and write-offs separately.⁴ In relation to TRVs the CC provisionally concluded that the total cost increase resulting from the AEC was £193m against the total revenue increase (referral fees) of £98m.⁵

Instructions

- 1.5 We have been instructed by Accident Exchange Limited ("AX") to produce a report commenting on the CC's approach and analysis relating to the AEC in relation to ToH1 above, with specific reference to TRVs.

Sources of information

- 1.6 We have discussed the issues relevant to the matter with AX and their external advisers. The opinions expressed in this expert report are, however, our own.
- 1.7 In order to be able to comment fully on Provisional Findings access to data and supporting information collected by the CC and the calculations underlying Provisional Findings is essential. Such access is necessary in order to (i) review and assess redacted results; (ii) check for errors in the CC's calculations; (iii) check whether the data used by the CC are representative; (iv) assess the materiality of the potential issues identified in this report, including factors omitted by the CC; and (v) understand the caveats with which data have been provided by third parties to the CC and their implications for the CC's analysis. Furthermore, absent access to data, our comments are subject to the problem of 'unknown unknowns' (i.e. problems that are only evident when seeing the data).
- 1.8 As explained in this report, the CC's principal approach to assessing the alleged harm involves comparing average daily rates for credit hire and direct hire and then employing a residual approach (netting off referral fees and, in principle at least, adjustments for quality and service differentials) to identify the net cost increase. This approach is highly vulnerable to issues of non-comparability ('apples and oranges') and to apparently small adjustments having a large impact on the residual (especially, in proportional terms, as the residual becomes smaller). This means that access to relevant data is especially important in the present case.

⁴ Provisional Findings, paragraphs 6.71 and 6.72.

⁵ Provisional Findings, Tables 6.3 and 6.4. We have used these figures, as the CC's overall conclusions on the net cost of separation only cite figures for TRVs, repairs and write-off combined.

- 1.9 We have assisted AX in preparing a request for data room access.⁶ At the time of submitting this report the CC has declined to provide access to a data room.⁷ For the reasons given above, until we obtain adequate access to a data room the analysis we are able to carry out of the CC's Provisional Findings is necessarily limited. Therefore, this report cannot be considered to be complete and we understand that AX reserves the right to ask us to supplement this report with further analysis when the CC allows access to a data room.
- 1.10 Finally, we note that a rigorous assessment of a number of issues we have identified may require data that the CC has so far not collected and which AX is not itself in a position to collect. We consider that in these instances, before reaching a final conclusion, the CC must collect relevant data as the CC cannot dispose of the points we raise qualitatively. Among other reasons this is because the materiality of various effects will simply not be clear absent quantitative analysis and also, given the residual approach discussed below, apparently small factors may have a large proportionate impact on the net cost difference alleged by the CC, especially as that gap narrows due to other adjustments.

Summary of conclusions

- 1.11 In this section we set out our key observations in relation to the CC's assessment of the effect of separation of cost control and cost liability in relation to TRVs.
- 1.12 We have the following key observations regarding the CC's **conceptual approach**:
- The CC's benchmark for conducting the AEC analysis is extreme. It is an idealised world of no frictional costs and is neither shown to be a market outcome in general nor is it the specific market outcome that would arise if the features allegedly leading to the AEC were not present (since in that case fault insurers would have at best limited incentives to provide direct hire). The CC's adoption of this benchmark does not explain why at-fault insurers would provide direct hire absent separation or why consumers would not have to incur frictional costs themselves to receive their legal entitlement.
 - The CC should have included in its estimates of net impact the frictional costs incurred by consumers to realise their legal entitlement in the absence of separation. Alternatively, the CC should recognise that adopting such an extreme benchmark for the AEC assessment creates a bias towards finding an AEC and the imposition of remedies, which must be taken into account in any remedy assessment.

⁶ See letter from DLA Piper to the Competition Commission, 15 January 2014 (request for access to certain excised information and data) and letter from DLA Piper to the Competition Commission, 22 January 2014 (response to the CC's clarification questions re request for access).

⁷ See letter from Sean Cornall (Competition Commission) to Steve Evans (Accident Exchange), 31 January 2014.

- The CC has not correctly applied its conceptual benchmark (one of legal rights being maintained) in practice as the CC recognises that absent separation there will be a shortfall in quality and service provision but the CC does not adjust its quantification to account for this. In particular, when assessing the effects on competition of separation against its benchmark the CC has failed to consider the costs to consumers of making up the quality and service shortfall of direct hire compared to credit hire so that they do in fact realise their legal entitlement as postulated in the benchmark.
- Since the CC's benchmark assumes that consumers' legal entitlements are maintained, the CC's analysis of the AEC cannot form an adequate basis to assess any remedies that do change consumers' legal entitlements or the degree to which consumers would realise their legal entitlements.
- The AEC identified by the CC has distributional implications for consumers, i.e. there would be winners and losers in the *status quo* compared to the CC's benchmark, given quality and service differentials. In particular non-fault drivers may be worse off since they would suffer the quality and service differentials. The CC has failed to address this because it has only considered consumers in aggregate (i.e. it has conceptually averaged benefits across all consumers rather than only those who receive them). It is highly unusual for a competition authority to reach an AEC finding that creates winners and losers among different groups of consumers based on changing their legal entitlements since such a finding includes implicit value judgments (more usually AEC findings are based on features of the market that make at least some consumers worse off and no consumers better off).

1.13 We have the following key observations regarding the CC's assessment of the **effects of separation**:

- The CC's theory of harm embeds unfavourable assumptions in relation to CHCs/CMCs and favourable assumptions in relation to insurers and arises as a consequence of the CC failing to address key issues in relation to the effects of separation.
- The CC has failed within its theory of harm to consider *inter alia* the role of competition among CHCs/CMCs; the implications of the alignment of CHC/CMC incentives with the interests of non-fault drivers; and the implications of the non-alignment of at-fault insurers' incentives with the interests of non-fault drivers.

1.14 The appropriate **economic framework** for quantitative assessment, given the CC's approach of comparing the cost of direct hire and credit hire, should take into account:

- any quality shortfall between TRVs under direct hire and credit hire (beyond differences in hire duration or car category);
- the impact of the removal of credit hire on the level of at-fault insurers' direct hire costs;
- any direct payments non-fault drivers currently make to the at-fault insurer or the car hire company under direct hire;

- the cost non-fault drivers would need to incur to achieve the same benefit level under direct hire as the benefit level they currently obtain under credit hire; and
- the considerable level of frictional costs consumers would need to incur to obtain their legal entitlement absent credit hire.

1.15 We have the following key observations in relation to the CC's assessment of the effects of separation on **insurers' and brokers' costs and revenue**:

- The CC has made a material error in the treatment of VAT.
- The CC has not made clear the sample it used in estimating credit hire costs. It is possible this has led the CC to overestimate credit hire costs.
- The CC's estimate of direct hire costs using data from only three large insurers is likely to be unrepresentative and biased towards finding lower direct hire rates.
- The CC may not have reflected the full costs of direct hire (by excluding add-on items that are included in credit hire bills) and made other errors in estimating direct hire costs.
- The CC has not analysed the market dynamics around the provision of direct hire and not accounted for the commercial incentive of CHCs to offer lower direct hire rates in the light of their interests to obtain credit hire referrals.
- Relatedly, the CC has not considered or taken account of the extent to which insurers benefit from the provision of claims management services for direct hire because of CHCs' incentives to obtain credit hire business.
- The CC has not taken account of any situations where the fault insurer bears additional risks in respect of direct hire.
- The CC has not taken account of the implications of payment timing.
- The CC has conducted a static analysis that has not considered improvements in the efficiency of the GTA or the rate of claims settlement within the GTA.
- The credit hire costs for AX in 2012 were overstated. AX now knows that its realised revenue was actually materially lower than its forecast when it submitted data to the CC in 2013. This may apply to other CHCs.

1.16 We have the following key observations in relation to the CC's assessment of **quality and service differences** associated with separation:

- The CC has erred in not quantifying the costs for consumers of rectifying their quality and service differentials. This is especially so because such costs will be disproportionately important for non-fault drivers that take advantage of credit hire and are therefore key to understanding the impact of separation on different customer groups.
- The CC has omitted consumers' private frictional costs entirely. These are very substantial.

- The CC has failed to identify adequately or quantify at all the extent to which the quality of car under direct hire may be less than the consumers' legal entitlement or that consumers may actually in some cases be paying to receive the quality levels they do under direct hire.
- The CC has failed to quantify the benefits to consumers of uninsured loss recovery.
- The CC has failed to quantify the benefit to consumers of the provision of TRVs before liability is resolved.
- The CC has failed to consider the benefits for the setting of insurance premiums of liability being resolved more often.
- The CC has not considered that the collection and delivery service under direct hire may sometimes be inferior to that under credit hire.

1.17 We have the following key observations in relation to the CC's assessment of **implications for consumers** of separation:

- The CC's conclusion that the alleged increase in costs as a result of credit hire would be passed through to final consumers to a greater extent than referral fees has a very small quantitative impact on the CC's calculations (i.e. the difference in the pass-through rates implicitly assumed by the CC is small).
- The CC has not recognised that the costs associated with service and quality differentials affect consumers directly and therefore have a more direct effect on consumers than cost or revenue impacts on insurers.
- The impact of quality and service differentials and other benefits of separation are capable of quantitative analysis and the CC should have quantified them. Our analysis shows a range of quality and service differentials and other benefits which have the potential to be material and to reduce or eliminate any gap between the net cost of credit hire and direct hire on aggregate or for individual consumer groups.
- The CC should have considered that the benchmark it proposes has distributional consequences; in particular that some consumers are strictly worse off under the CC's benchmark than under the *status quo*.
- The CC has failed to take into account in its assessment that some costs are borne by commercial motor insurers, which fall outside of the CC's Terms of Reference.
- The CC's cross-check of its estimate of harm is based on a figure for total credit hire revenues which involved a large degree of estimation, does not have supporting calculations and about which the CC has not asked the author of the figure. Given these factors we do not think that the CC can rely on that figure, at least without substantial further work to test its robustness.

1.18 We have the following key observations in relation to the CC's assessment of **effects on competition**:

- The CC is inconsistent in stating that market players have an opportunity to earn a rent as a result of separation, given that elsewhere the CC acknowledges that neither insurers nor CHCs make more than normal profit.
- Given the CC's errors in estimating the net cost of credit hire, the CC does not have supporting evidence for the conclusion that the result of separation is an inefficient supply chain involving a high level of frictional and transactional costs.

1.19 We have the following key observations in relation to implications of the CC's AEC assessment for **remedies**:

- For conducting the AEC analysis the CC has adopted an extreme benchmark which is idealised and is not a market outcome. Adopting of such an extreme benchmark creates a bias towards finding an AEC and the imposition of remedies.
- As the CC's benchmark assumes that consumers' legal entitlements are maintained, the CC's analysis of the AEC cannot form an adequate basis to assess any remedies that do change consumers' legal entitlements or the degree to which consumers would realise their legal entitlements.
- In so far as the CC is considering remedies which would change consumers' legal entitlements, or the degree to which consumers can realise them, such remedies would not be supported by the body of analysis used by the CC in assessing the AEC and would require an entirely different economic analysis which considered the welfare implications of any such changes.
- A remedy which simply removes the feature of the market allegedly causing the AEC (i.e. separation) would not produce the CC's benchmark because, as the CC itself has acknowledged, at-fault insurers would not provide direct hire (at most provide direct hire to a lesser extent).
- Decomposition of the gap between credit hire and direct hire costs to the difference between direct hire and the GTA and difference between the GTA and credit hire is relevant for remedy design. Designing remedies without understanding where any frictional costs actually lie (i.e. whether inside or outside the GTA) is unlikely to satisfy the requirements for proportionate remedies as it is not possible to know what has been remedied and whether it has been remedied effectively and in the least onerous way.
- Given that any remedies would necessarily be forward looking, the CC should assess dynamic considerations concerning GTA settlement rates and whether settlement rates have changed across all CHCs in 2013 compared to 2012.
- The CC should comment on the margin of error around its results, so that this can be taken into account in considering the proportionality of remedies. As a result of the residual approach adopted by the CC, the margin of error is likely to be high.
- The CC should make it clear what proportion of the net impact of separation is accounted for by transaction and frictional costs, so that this can be taken into account in considering the proportionality of remedies.

- 1.20 **Overall**, we conclude that the CC's analysis relies on an extreme benchmark, and omits and/or underestimates several relevant costs and does not identify adequately or quantify at all the cost of service and quality differentials. The CC's approach has a bias towards the finding of an AEC and the adoption of remedies and is inconsistent with any remedies that change consumers' legal entitlements or the degree to which they realise those entitlements.
- 1.21 Due to a lack of access to a data room and lacking the CC's powers of inquiry, we are not able to quantify all of the factors we have identified. However, it is clear that after correcting for only some of the actual or potential errors set out in this report and accounting for quality and service differentials, the net cost difference between credit hire and direct hire (£300 per claim) would be materially reduced or eliminated. For instance, and purely illustratively the following combination of factors could have that effect:
- correcting for the error of the treatment of VAT in the CC's calculations decreases the difference by £181;⁸
 - correcting for the potential error of the treatment of additional charges of direct hire providers may account for another £■;⁹
 - correcting for the error of not taking into account timing benefits insurers obtain from paying credit hire bills later than direct hire bills could amount to a further £42;¹⁰
 - taking into account the time value of non-fault drivers and assuming that they need to spend only one hour more dealing with at-fault insurers than with CHCs to obtain their legal entitlement, the difference decreases with a further £37;¹¹ and
 - assuming that absent credit hire, drivers would need to take out legal expense cover in order to secure legal help in achieving their legal entitlement, the difference reduces with a further £25-£30.¹²

⁸ See paragraph 5.27 below.

⁹ See paragraph 5.37 below.

¹⁰ See paragraph 5.52 below.

¹¹ See paragraph 6.24 below.

¹² See paragraph 6.41 below. Here only take into account the cost of the legal expense cover for those drivers who become non-fault claimants.

- 1.22 This example shows that in combination errors and omissions in the CC's analysis can explain the difference between the cost of credit hire and direct hire that the CC has found in aggregate (even before considering, as the CC would have to, the impact on different customer groups). Note that absent access to data and supporting information collected by the CC and the calculations underlying Provisional Findings, we have been unable to quantify all the costs and benefits discussed in this report. Some of those factors we have not quantified may be as significant as or more significant than those listed above. For the avoidance of doubt, we consider that all the factors we have identified are potentially material and the CC should quantify all of them. The CC will need to take into account the combined effect of all of those factors and not only those which are the basis of the illustrative example above.

Structure of this report

- 1.23 For presentational ease, we have mirrored the structure of Section 6 of Provisional Findings in this report.
- 1.24 Section 2 sets out the CC's conceptual approach and our comments.
- 1.25 Section 3 sets out the CC's description of the effects of separation and our comments.
- 1.26 Section 4 sets out some background comments on the appropriate economic framework for the quantitative assessment in the following two sections.
- 1.27 Section 5 sets out the CC's analysis of the effects of separation on insurers' and brokers' costs and revenue and our comments.
- 1.28 Section 6 sets out the CC's analysis of quality and service differences associated with separation and our comments.
- 1.29 Section 7 sets out the CC's analysis of the implications for consumers of separation and our comments.
- 1.30 Section 8 sets out the CC's analysis of effects on competition and our comments.
- 1.31 Our analysis of the CC's AEC assessment also has some implications for the assessment of remedies. We summarise these in Section 9.

Credentials

- 1.32 Neil Dryden is an Executive Vice President in Compass Lexecon's European competition policy practice, based in the firm's London office. He has worked as a professional economist for over 17 years. His experience in market investigations includes groceries (OFT, CC, CAT), PPI (CC) and pay TV (CAT). His other recent UK cases include tobacco pricing practices (OFT, CAT), Asda/Netto (OFT) and Cineworld Picturehouse (OFT, CC).

- 1.33 Neil was educated at Oxford University where he obtained a B.A. in Philosophy, Politics and Economics (first class) and an M.Phil. in Economics. At King's College, London, he obtained a postgraduate diploma in EC competition law (with distinction). Neil co-authored "What makes firms perform well?" published in the European Economic Review.
- 1.34 Neil has been assisted in this matter by Zita Vasas, Economist, and Keshav Parthasarathy, Analyst. Zita previously worked at the Hungarian Competition Authority and joined Compass Lexecon in September 2010. She holds an MSc in Competition and Market Regulation from the Barcelona Graduate School of Economics in Spain, and an MSc in Economics from the Corvinus University of Budapest in Hungary. Keshav graduated in MSc Economics from London School of Economics and Political Science in 2012 and has been working for Compass Lexecon since January 2013.

Section 2

Conceptual approach

Introduction and summary

- 2.1 In this section, we set out and comment on the CC's conceptual approach. We also relate it to the CC's Guidelines for Market Investigations (the "Guidelines").¹³
- 2.2 The key points in this section are as follows:
- The CC's benchmark for conducting the AEC analysis is extreme. It is an idealised world of no frictional costs and is neither shown to be a market outcome in general nor is it the specific market outcome that would arise if the features allegedly leading to the AEC were not present (since in that case fault insurers would have at best limited incentives to provide direct hire). The CC's adoption of this benchmark does not explain why at-fault insurers would provide direct hire absent separation or why consumers would not have to incur frictional costs themselves to receive their legal entitlement.
 - The CC should have included in its estimates of net impact the frictional costs incurred by consumers to realise their legal entitlement in the absence of separation. Alternatively, the CC should recognise that adopting such an extreme benchmark for the AEC assessment creates a bias towards finding an AEC and the imposition of remedies, which must be taken into account in any remedy assessment.
 - The CC has not correctly applied its conceptual benchmark (one of legal rights being maintained) in practice as the CC recognises that absent separation there will be a shortfall in quality and service provision but the CC does not adjust its quantification to account for this. In particular, when assessing the effects on competition of separation against its benchmark the CC has failed to consider the costs to consumers of making up the quality and service shortfall of direct hire compared to credit hire so that they do in fact realise their legal entitlement as postulated in the benchmark.
 - Since the CC's benchmark assumes that consumers' legal entitlements are maintained, the CC's analysis of the AEC cannot form an adequate basis to assess any remedies that do change consumers' legal entitlements or the degree to which consumers would realise their legal entitlements.

¹³ Guidelines for market investigations: Their role, procedures, assessment and remedies, April 2013, CC3 (Revised).

- The AEC identified by the CC has distributional implications for consumers, i.e. there would be winners and losers in the *status quo* compared to the CC's benchmark, given quality and service differentials. In particular non-fault drivers may be worse off since they would suffer the quality and service differentials. The CC has failed to address this because it has only considered consumers in aggregate (i.e. it has conceptually averaged benefits across all consumers rather than only those who receive them). It is highly unusual for a competition authority to reach an AEC finding that creates winners and losers among different groups of consumers based on changing their legal entitlements since such a finding includes implicit value judgments (more usually AEC findings are based on features of the market that make at least some consumers worse off and no consumers better off).

The CC's approach

- 2.3 In Section 6 of Provisional Findings the CC considers its ToH1 "Separation of cost liability and cost control". The CC states that:

*"In this section, we first describe the nature and extent of separation. We then discuss how it affects insurers' costs and revenue streams. We consider whether separation is associated with differences in the quality of service received by claimants; then we discuss its effect on consumers. Finally, we set out our provisional view on the effect on competition."*¹⁴

- 2.4 The CC summarised its conceptual approach to analysing the effect on competition in paragraph 6.3 of Provisional Findings as follows:

¹⁴ Provisional Findings, paragraph 6.2.

“In assessing the effect on competition, we considered a benchmark ‘well-functioning market’ to be a market which delivered consumers’ legal entitlements in an efficient way. We therefore looked at two dimensions: (a) how separation affects insurers’ costs and revenue streams and ultimately its effect on the price paid by consumers; and (b) differences in the quality of service received by claimants that were associated with separation to understand any impact of separation on the quality of service received by consumers. We took both into account in reaching our provisional view on the effect on competition.”¹⁵

- 2.5 To implement this approach in Section 6, the CC effectively assumed a benchmark in which (i) there is no separation; (ii) all TRVs currently provided *via* credit hire are instead provided *via* direct hire; (iii) direct hire is provided for the same duration and basic vehicle class as under credit hire; (iv) at-fault insurers provide this increased direct hire without consumers incurring any frictional costs to extract their legal entitlement from the at-fault insurer;¹⁶ and (v) there is no impact (i.e. no difference between the *status quo* and the benchmark) on TRVs currently provided *via* direct hire.

The CC’s Guidelines for Market Investigations

- 2.6 Before we comment on the CC’s conceptual approach, we note below what the Guidelines state about the appropriate benchmark for assessing the existence or otherwise of an AEC.
- 2.7 Paragraph 30 of the CC’s Guidelines state the following:

“The Act does not specify a theoretical benchmark against which to measure an AEC. In its market investigation reports the CC uses the term ‘a well-functioning market’ in the sense, generally, of a market without the features causing the AEC, rather than to denote an idealized, perfectly competitive market.”¹⁷

- 2.8 Paragraph 320 of the CC’s Guidelines elaborate on the above:

¹⁵ Provisional Findings, paragraph 6.3 (emphasis added).

¹⁶ This assumption is implicit in the CC’s description of its benchmark. See Provisional Findings, Section 6, footnote 15.

¹⁷ CC’s Guidelines for Market Investigations, paragraph 30.

*“In the absence of a statutory benchmark, the CC defines such a benchmark as ‘a well-functioning market’ [...] ie one that displays the beneficial aspects of competition as set out in paragraphs 10 to 12 **but not an idealized perfectly competitive market. The market will generally be the market envisioned without the features.** But there may sometimes be reasons to depart from that general concept, for example, if features are intrinsic to the market but nevertheless have anticompetitive effects (as in the case of a natural monopoly) or if the nature of competition in the market is defined by arrangements put in place by Government, eg as in rolling stock leasing.”¹⁸*

- 2.9 Paragraphs 10 to 12 of the Guidelines in turn describe competition as a “process of rivalry” and states that “Markets work best when both the supply side (the firms) and the demand side (the customers) interact effectively”.¹⁹

Our comments

- 2.10 We are instructed that whether the CC’s conceptual approach in this case is consistent with the Act and whether the CC has complied with its Guidelines more generally, is a legal matter. We have not sought to address that. We have however a number of comments on the CC’s approach, and how it relates to the Guidelines, as a matter of economics.
- 2.11 Our comments on the CC’s conceptual approach fall into two broad categories. First, we comment on the implications of the CC’s conceptual approach of taking consumers’ legal entitlement as given. Second, we consider the implications of the CC’s approach of ‘assuming away frictional costs’ in the benchmark.

Taking consumers’ legal entitlement as given

- 2.12 As set out in paragraph 2.4 above, the CC’s conceptual approach appears to take consumers’ legal entitlements as given in the benchmark (since the CC refers to the delivery of “consumers’ legal entitlements in an efficient way”).²⁰ There are two important implications of this approach.

¹⁸ CC’s Guidelines for Market Investigations, paragraph 320 (emphasis added).

¹⁹ CC’s Guidelines for Market Investigations, paragraphs 10 to 12.

²⁰ Strictly, in practice, what the CC appears to consider is delivery of consumers’ legal entitlements to the same standard as under credit hire. See Provisional Findings, Section 6, footnotes 1 and 2. This distinction of no consequence for the points we make.

- 2.13 First, in so far as direct hire produces a shortfall in quality of service relative to credit hire (as the CC appears to concede, see Section 6 below) the CC should take this into account.²¹ Specifically, the CC should consider the costs to consumers for making up this shortfall so that the consumers' legal entitlement is delivered. However, the CC has not done this. If, hypothetically, the CC found that there was a service differential of direct hire compared to credit hire but that consumers did not value that differential highly, and concluded that this shortfall was effectively a 'price worth paying' for the alleged lower costs of direct hire that would be an incorrect approach as the CC would not be taking consumers' legal entitlement as given, contrary to the conceptual approach and the benchmark as established by the CC. (As a corollary, if the CC did not take consumers' legal entitlement as given and considered it was appropriate to accept some loss in consumers' realisation of their existing legal entitlements, the CC would have to identify the level of entitlement under tort law itself as one of the features causing the AEC.) (We discuss and elaborate on this point further in Section 4.)
- 2.14 Second, in so far as the CC is considering remedies which would change consumers' legal entitlements, or the degree to which consumers can realise them, such remedies are not consistent with the benchmark by which the CC has assessed the AEC, i.e. these remedies do not address the AEC identified. Aside from the legal issue of whether this can be justified, the economic evaluation of such remedies would require an entirely different economic analysis to that which is relevant for assessing the AEC, in particular an analysis of the welfare implications of any such changes to legal entitlements, including economic analyses to estimate the consumer surplus generated under current and any different level of entitlement (or the degree to which the same entitlement is realised). Estimating consumer surplus would require the CC to conduct demand estimation to understand consumers' valuation of different levels of service provision. It would therefore be erroneous in considering any such remedies for the CC to assume that they can be 'supported' by the body of analysis used by the CC in assessing the AEC; the relevant analysis would be different. (We discuss this further below in Section 9 on remedies.)
- 2.15 In addition, we note that the CC's benchmark describes "consumers" in aggregate and not different classes of consumers (in particular at-fault and non-fault drivers, and drivers more or less likely to cause an accident). The CC's application of its conceptual approach (which in practice fails entirely to consider the loss of benefits to non-fault drivers because the CC only considers such benefits in aggregate) is inadequate for identifying the distributional consequences of any proposed change to the operation of the market. (We discuss this further in paragraph 6.54.)

²¹ As explained further in Section 6, although the CC assumes that credit hire episodes that become direct hire episodes are provided for the same duration and basic vehicle class, there may be a quality shortfall for other reasons, e.g. direct hire may not provide collection and delivery.

- 2.16 Part 3, Section 3 of the CC's Guidelines describes a range of competition problems that could be the basis of AEC findings. Throughout this section of the Guidelines, the CC maintains the assumption that the problems identified make some consumers worse off and no consumers better off. This is fundamentally different from the present case where non-fault drivers who receive their legal entitlement as a result of separation of cost liability and cost control are strictly better off compared to the CC's benchmark since under that benchmark the CC acknowledges the possibility of lower quality and service levels.²² In addition, in paragraph 150 of the Guidelines (in the context of market definition), the CC says that it will "recognise" if the feature of the market affects different customer groups differently.

Implications of the CC's approach of 'assuming away frictional costs'

- 2.17 As explained in paragraph 2.5 above, the CC's benchmark in practice implicitly assumes that consumers receive their legal entitlement in a notional 'frictionless' world. However, the CC does not explain anywhere in its Provisional Findings how consumers can obtain their legal entitlement in a benchmark frictionless world in which there is no separation and where at-fault insurers would not have incentives to provide direct hire. It is self-evident and appears to be common cause with the CC that at-fault insurers do not have incentives to provide direct hire absent some external pressure being exerted upon them.²³ It is also notable that the CC's approach does not follow the normal approach as outlined in the CC's Guidelines.

²² The CC has calculated that the net effect of separation of cost control and liability (including the effect in relation to TRVs, repairs and write-offs) is 1.3-1.8% of the average premium or £6-£8 per motor insurance policy (see Provisional Findings, paragraph 6.84). This is certainly below the value of benefits non-fault drivers derive from credit hire and credit repair services.

²³ See for example, Provisional Findings, paragraph 3.73: "CMCs/CHCs said that the emergence of credit hire had improved replacement car services significantly for consumers. We did not hear views to the contrary" or paragraph 47 in Appendix 6.5 of Provisional Findings: "Third party capture or intervention, the process whereby the at-fault insurer captures and manages the non-fault driver's claim, did not take place prior to the introduction of credit hire. Instead, the motor insurers in our sample told us that third party capture was in direct response to the increased non-fault mobility costs incurred by them (as the at-fault insurer) following the introduction of credit hire".

- 2.18 First, as conceded in Provisional Findings, absent separation there would be no credit hire²⁴ and absent credit hire at-fault insurers would have limited or no incentives to provide direct hire.²⁵ This means that if we take the current market and remove separation, at-fault insurers would not provide direct hire (or, at most, would do so to a lesser extent). The CC's benchmark (in which direct hire is provided despite the absence of separation) therefore does not describe the outcome of the market with that feature (i.e. separation) removed. The CC's benchmark departs from the standard approach described in paragraph 320 of the Guidelines that the benchmark is "the market envisioned without the features [potentially causing an AEC]". In other words, the benchmark does not amount to a "but for" world of the market without separation.²⁶ It follows that comparison of the *status quo* to the CC's benchmark does not identify the effects of separation compared to the current world with separation removed.
- 2.19 Second, although the CC has described its benchmark as a "market" (and although the CC's Guidelines refer to the benchmark as a "market") the CC's benchmark does not describe a market equilibrium. As noted in the previous paragraph, it would not be the actual outcome observed in the market absent separation. The CC therefore only asserts its benchmark to be a "market" in which at-fault insurers supply direct hire to all current non-fault recipients of TRVs without any description of any underlying market mechanism that would deliver the outcome envisaged.

²⁴ See, for example, Provisional Findings, paragraph 6.81: "[...] the existence of CMCs and CHCs (which only occurred when there was separation) [...]".

²⁵ See for example, Provisional Findings, paragraph 3.73: "CMCs/CHCs said that the emergence of credit hire had improved replacement car services significantly for consumers. We did not hear views to the contrary" or paragraph 47 in Appendix 6.5 of Provisional Findings: "Third party capture or intervention, the process whereby the at-fault insurer captures and manages the non-fault driver's claim, did not take place prior to the introduction of credit hire. Instead, the motor insurers in our sample told us that third party capture was in direct response to the increased non-fault mobility costs incurred by them (as the at-fault insurer) following the introduction of credit hire".

²⁶ Since when separation is removed, the associated frictional costs (i.e. those allegedly imposed by CHCs/CMCs) are also removed, the benchmark also does not identify the effect of separation and frictional costs compared to the current world without separation and frictional costs.

- 2.20 Third, although the CC's Guidelines state that the relevant benchmark should not be an idealised one, the benchmark that the CC adopts is highly idealised: it postulates a world in which non-fault drivers obtain their legal entitlement from at-fault insurers on a direct hire basis without incurring any costs themselves, or without anyone doing so on their behalf, despite the incentives of at-fault insurers being diametrically opposed to these consumers. The CC thus compares the *status quo* in which CHCs/CMCs act on behalf of non-fault drivers and attempt to secure their legal entitlement (at some cost) with a notional world in which at-fault insurers provide this entitlement effectively of their own volition and without the non-fault driver incurring any cost in obtaining their entitlement. The CC's benchmark is therefore "idealised" (indeed extremely so), contrary to the standard approach in the Guidelines. The consequence of proceeding with such an idealised world is that the CC's approach excludes costs that might be required to produce this outcome; e.g. (likely substantial) frictional costs borne by consumers in an effort to obtain their legal entitlement in the absence of CHCs/CMCs and also borne by at-fault insurers having to deal with these consumers directly.²⁷ The omission of these costs is a serious defect in the CC's AEC analysis.
- 2.21 Fourth, the CC's approach also has a degree of circularity. By assuming separation in combination with frictional costs are the features causing the AEC, and then assuming that the frictional costs do not exist under the CC's benchmark, it is natural that the CC can hypothesise a "better" outcome. However, that result could be obtained in any market with non-aligned interests. The economy is full of activities that are only required because economic actors cannot be assumed to act consistently with laws, regulations and contracts without some external discipline and monitoring (just as at-fault insurers cannot be assumed to deliver consumers' legal entitlement left to their own devices). Under the CC's approach it would be possible to identify an AEC in any such market by assuming that the relevant actors acted as they ought to in an idealised world with the frictional costs that currently encourage them to act in accordance with their obligations removed.
- 2.22 As stated above, we are instructed that it is a legal matter whether the CC's approach provides an appropriate basis for identifying an AEC. In any event, CC has erred in ignoring in the benchmark (and subsequent quantitative analysis) the frictional costs that consumers would themselves have to incur to obtain their legal entitlements.
- 2.23 In addition, the points in paragraphs 2.18 to 2.21 have very significant implications for the assessment of remedies.

²⁷ In practice, as well as having large frictional costs of securing their legal entitlement, many consumers are unlikely to be aware of this entitlement in the first place.

- 2.24 First, it follows from paragraph 2.18 above that a remedy which simply removes the feature of the market allegedly causing the AEC (i.e. separation) would not produce the CC's benchmark because, as the CC itself has acknowledged, at-fault insurers would not provide direct hire (at most provide direct hire to a lesser extent) (or in the alternative would only do so if consumers incurred substantial frictional costs themselves). This means that even if the CC ultimately concludes that separation causes an AEC, there would be no presumption that removing separation in itself cures the AEC. Indeed, it introduces a problem that the CC has simply assumed away in the AEC analysis: the lack of incentives of an at-fault insurer to provide a TRV.
- 2.25 Second, the benchmark the CC has adopted for assessing the AEC creates a low bar for identifying an AEC and creates an asymmetry between the AEC and remedy assessment resulting in a tendency to identify the need for remedies. In particular, if the AEC is assessed against some notional 'frictionless' world and the remedy is then assessed to any lesser standard an asymmetry arises. Properly assessed, remedies that confer more power to at-fault insurers are likely to be inefficient (relative to the same benchmark) since at-fault insurers have an incentive to underprovide compared to those legal entitlements and/or more frictional costs would need to be incurred to extract the same level of TRV provision against consumers' legal entitlements. This would create a new class of frictional costs on the part of consumers seeking to obtain their rights. Thus an asymmetry arises if the CC (i) finds an AEC compared to an idealised frictionless world but then (ii) sets out to remedy that AEC as completely as possible while not fully taking into account the frictions caused by the remedy itself. This asymmetry can be illustrated as follows: suppose that the *status quo* was one in which at-fault insurers had control of costs (such that there was not separation); in such a world the CC might have found an AEC because at-fault insurers have control but their interests are not aligned with consumers; and the remedy to this could be separation (i.e. the *status quo*). The CC's approach of identifying an AEC compared to an idealised benchmark is therefore susceptible to recommending remedies whatever the starting point, provided the starting point included non-aligned interests. (See Section 9 on remedies.)

Conclusions

- 2.26 Please refer to the key point summarised in paragraph 2.2 above.

Section 3

Effects of separation

Introduction and summary

- 3.1 In this section, we set out and comment on the CC's description of the effects of separation.
- 3.2 As we show in this section, the CC's point of departure (i.e. description of the theory of harm) appears to be unfavourable towards CHCs/CMCs and favourable to insurers. The CC has failed within its theory of harm to consider *inter alia* the role of competition among CHCs/CMCs; the implications of the alignment of CHC/CMC incentives with the interests of non-fault drivers; and the implications of the non-alignment of at-fault insurers' incentives with the interests of non-fault drivers.

The CC's approach

- 3.3 The CC has described the effects of separation in paragraphs 6.4 to 6.11 of Provisional Findings. The content of these paragraphs is key to the CC's ToH1.
- 3.4 The CC has stated that there is an incentive for companies to seek to manage claims:

"[...] the company managing the claim is able to earn a rent by increasing its bill above actual costs incurred towards the maximum level that a court would consider reasonable [...]"

"(a) At-fault insurers have an incentive to 'capture' a claim so that they can control costs effectively [...]"

"(c) Non-fault insurers also have an incentive to manage claims themselves because they can make a profit by doing so."²⁸
- 3.5 The CC goes on to describe "a number of ways that separation could lead to higher costs for at-fault insurers". In relation to TRVs, the CC notes that the costs of a CHC imposed on a fault insurer are higher than the costs of direct hire.²⁹
- 3.6 The CC has also stated that:

²⁸ Provisional Findings, paragraph 6.5.

²⁹ Provisional Findings, paragraph 6.6.

“In addition to paying out more for claims than if they had managed them, at-fault insurers also incur costs in dealing with and seeking to reduce the subrogated bills sent to them by non-fault insurers, CMCs and CHCs. [...] We describe the resulting costs for both sides as transactional and frictional costs”.³⁰

- 3.7 The CC has also addressed the effect of separation in giving rise to bilateral agreements between insurers in paragraphs 6.8 to 6.11 of Provisional Findings. The CC has provisionally found that bilateral agreements are essentially positive as they “represent an attempt to deal with the consequences of separation”.³¹

Our comments

- 3.8 The CC’s description of the theory of harm associated with separation is highly incomplete and portrays without justification CHC/CMCs’ behaviour as implicitly malign, while portraying at-fault insurers’ behaviour as benign. The CC effectively ignores the very important point that it has accepted elsewhere that in the current market at-fault insurers have no incentives to provide direct hire, and only do so given a ‘threat’ of credit hire. The failure to take this into account leads to a flawed comparison of the current world with the CC’s benchmark and an unreliable analysis of the effects of separation and frictional costs.
- 3.9 Moreover, the CC’s approach fails to explain the dynamics of competition among CHCs/CMCs and the associated benefits for consumers. In particular, the bills of CHCs are determined by the legal entitlements of the non-fault drivers whose claims are subrogated to CHCs. A competitive equilibrium exists whereby CHCs compete using the referral fee. Since a CHC with lower costs can pay a higher referral fee, CHCs have incentives to reduce their costs and the competitive process will drive out higher cost CHCs and drive up referral fees. CHCs have incentives to reduce not only their costs of providing TRVs but also their frictional and transactional costs.
- 3.10 Elsewhere in its Provisional Findings the CC acknowledges that competition between CHCs is intense because they make no rents.³² However, the CC fails to acknowledge this within its description of the effects of separation and fails to mention that the *status quo* is characterised by intense competition which is likely to have static and dynamic effects of reducing the costs of TRV provision including frictional costs of CHCs and thereby increasing referral fees.

³⁰ Provisional Findings, paragraph 6.7.

³¹ Provisional Findings, paragraph 6.11.

³² Provisional Findings, paragraph 6.17.

- 3.11 Furthermore, the CC fails to consider in its analysis of the effects of separation that the interests of CMCs/CHCs are aligned with the interests of the non-fault party at the point of the accident. Its analysis therefore does not capture the benefit to the non-fault drivers under separation of having someone ‘on their side’ which leads them to receive their entitlement under law at lower frictional costs than if they pursued their entitlement themselves.
- 3.12 By contrast, when analysing the effects of separation, the CC appears to attribute to at-fault insurers a wholly benign motive for cost control, but without acknowledging the point the CC concedes elsewhere that absent separation and the influence of CMCs/CHCs at-fault insurers have little incentive to provide non-fault drivers with their legal entitlement. At-fault insurers (like CMCs/CHCs; see paragraph 3.9) have incentives to minimise costs, but unlike CMCs/CHCs they have an incentive to underprovide (i.e. not provide the non-fault driver with his/her legal entitlement). The CC’s benchmark is, therefore, unrealistic and idealised as it postulates a world in which at-fault insurers provide non-fault drivers with their legal entitlement despite their lack of incentive to do so.
- 3.13 The CC also appears to impugn the motives of non-fault insurers for seeking to manage claims themselves “because they can make a profit from doing so”. However, in a competitive insurance market (which the CC elsewhere concedes)³³ it would be expected that insurers would compete for referral fees in order to be able to offer lower premiums (an insurer that did not do this would be less able to compete in the insurance market). The CC has taken no account of this in its analysis of the effects of separation.
- 3.14 Overall, the CC’s description of the effects of separation in paragraphs 6.4 to 6.11 make no reference to and take no account of (i) the alignment of CHCs/CMCs’ interests with the non-fault party; (ii) the non-alignment of at-fault insurers’ interests with the non-fault party; (iii) the process of competition among CHCs/CMCs or insurers and its implications; and (iv) the role of referral fees. It is not a valid response for the CC to say that it has considered the incentives of at-fault insurers to underprovide under Theory of Harm 2 (“ToH2”). That theory of harm assessed underprovision in a world in which there is separation and CHCs/CMCs exist. What the CC has failed to consider in ToH1 is the degree of underprovision when there is no separation (i.e. as postulated in the benchmark).

33

Provisional Findings, paragraph 6.49.

- 3.15 The CC's analysis of bilateral agreements between insurers again treats insurers' incentives as benign. The CC appears to suggest that these bilateral agreements are only relevant to the issue of controlling costs, on the assumption that consumers' legal entitlement is maintained. However, the CC has failed to consider the highly relevant evidence of AX that bilateral agreements between insurers have been used by insurers to agree mutually not to provide consumers with their legal entitlement.³⁴ Such behaviour would be cartel-like and would plainly disadvantage non-fault drivers relative to their legal entitlement, yet the CC has not investigated this at all. Its analysis of the effects of separation, therefore, fails to take into account this important issue.

Conclusions

- 3.16 As noted above, the CC's theory of harm embeds unfavourable assumptions in relation to CHCs/CMCs and favourable assumptions in relation to insurers and arises as a consequence of the CC failing to address key issues in relation to the effects of separation. The CC has failed within its theory of harm to consider *inter alia* the role of competition among CHCs/CMCs; the implications of the alignment of CHC/CMC incentives with the interests of non-fault drivers; and the implications of the non-alignment of at-fault insurers' incentives with the interests of non-fault drivers.

³⁴ See, for example, Accident Exchange's Response to Statement of Issues, 11 January 2013, paragraph 3.2.2.

Section 4

Economic framework for quantitative analysis

Introduction

- 4.1 In this section, we provide some background comments on the appropriate economic framework for conducting an economic assessment of the effects of separation. We take as given (as the CC's conceptual approach states) consumers' legal entitlement and relate the appropriate framework to the CC's actual approach.
- 4.2 The next two sections (Section 5 and Section 6) then address in turn the CC's analysis of (i) the effects of separation on insurers' and brokers' costs and revenue and (ii) the quality and service differences associated with separation; and, in respect of each, the flaws in the analysis and the consequences of those flaws for the CC's AEC.

Economic framework for quantitative analysis

Stylised description of credit hire and direct hire outcomes

- 4.3 To illustrate the appropriate economic framework that the CC should have adopted in assessing the effects of separation we provide the following stylised description of credit hire and direct hire outcomes. Suppose that in the *status quo* there are N episodes of TRVs being provided to non-fault drivers in a given period of time. These episodes split into n_{CH} episodes where the TRV is provided under credit hire and n_{DH} episodes where the TRV is provided under direct hire ($N = n_{CH} + n_{DH}$).
- 4.4 Let us define the gross benefit level obtained by a non-fault driver obtaining a TRV under credit hire as B^* and the gross benefit level obtained by a non-fault driver obtaining a TRV under direct hire as B . Let us suppose that $B \leq B^*$. For example B could be less than B^* because in some instances the car is provided before liability is established under credit hire but not under direct hire. We refer to "gross" benefit level because it is before accounting for any payments the consumer may make directly (i.e. other than indirectly through insurance premiums).
- 4.5 Suppose that under credit hire the consumer receives B^* without making any payments but under direct hire the consumer may need to make some payments to the at-fault insurers and/or the car hire company to realise benefit level B (e.g. under direct hire they pay for upgrades to realise benefit level B).

- 4.6 The CC's analysis effectively assumes that in the benchmark (absent separation) the n_{CH} episodes become direct hire episodes. The CC states that it assumes in its benchmark that consumers receive their legal entitlement in these cases (see paragraphs 2.4 and 2.5 above). This means that in the CC's benchmark under direct hire consumers should obtain benefit level B^* .³⁵

Analysing the effects of separation on insurers' and brokers' costs and revenue

- 4.7 In its analysis of the effects of separation on insurers' and brokers' costs and revenue, the CC effectively assumes that the n_{CH} episodes become direct hire episodes without any change in duration or the basic vehicle class and that the average daily direct hire costs to at-fault insurers of providing these episodes are the same as their average daily direct hire costs for providing the current stock of direct hire episodes (n_{DH}). However, as explained further in Section 6, although the CC assumes that credit hire episodes that become direct hire episodes are provided for the same duration and basic vehicle class, there may be a quality shortfall for other reasons, e.g. the car may not be provided under direct hire before liability is established. Therefore the costs modelled by the CC are associated with providing some benefit level B^\sim that is higher than B (in so far as direct hire underprovides duration and/or basic vehicle class) but which may be less than B^* (i.e. $B < B^\sim < B^*$).
- 4.8 Therefore the CC's analysis of the effects of separation on insurers' and brokers' costs and revenue does not in fact implement the CC's concept of positing a benchmark in which consumers receive the legal entitlement (B^*). This must therefore fall to be assessed in the next part of the CC's analysis of quality and service differentials. However, as explained below, the CC does not take account of the shortfall in the benefit level obtained by consumers properly in that analysis (and more generally does not undertake any quantification of this shortfall at all).
- 4.9 We also note that the CC's analysis includes an unstated assumption that the removal of credit hire has no impact on the level of costs of at-fault insurers in providing direct hire. That is, the CC implicitly assumes that the costs of providing direct hire for the current direct hire episodes (n_{DH}) in the presence of credit hire is a good proxy for the costs of providing direct hire both to these episodes and also the n_{CH} episodes which become direct hire episodes. As set out in Section 5, there are reasons to believe this assumption (which the CC has not recognised or tested) is not valid. In particular, the existence of credit hire suppresses direct hire costs.

Analysing the quality and service differences associated with separation

- 4.10 Now we consider the appropriate approach to addressing quality and service differences associated with separation.

³⁵ For these purposes, we can assume that the gross benefit delivered under credit hire (B^*) is equivalent to the consumers' legal entitlement.

- 4.11 The first point to make is that if the consumer has made a payment to the at-fault insurer or the car hire company under direct hire in order to obtain benefit level B (i.e. a payment to upgrade the car or service level in any way), that payment is a cost to the consumer that needs to be recognised in the CC's analysis. The CC has not considered this. As set out in Section 6, we understand there are reasons to believe that consumers are making such payments and the CC therefore must thoroughly investigate all revenue streams to at-fault insurers and direct hire providers associated with direct hire.
- 4.12 Now we consider how to deal with any shortfall in the benefits consumers obtain under direct hire compared to credit hire after taking into account differences in duration and the basic car category (i.e. the gap between B^* and B^\sim). Since the CC's conceptual approach assumes that non-fault drivers obtain benefit level B^* in the benchmark, it is necessary to include the costs for consumers of achieving B^* . What is the appropriate measure of these costs? The relevant costs are the costs (if known) that the consumer would have to incur to close the gap, e.g. the price to the consumer of obtaining collection and delivery if offered. It is unreasonable to assume that the relevant cost is the cost to the at-fault insurer of providing it. This is because the at-fault insurer is not providing it at present and would have even weaker incentives to do so absent separation. If the CC took the approach of using the at-fault insurers' costs its benchmark would be doubly idealised: it would be assuming not only that at-fault insurers continue to provide direct hire absent separation but that they do so to a higher standard than they do presently.
- 4.13 It would be incorrect to assume that consumers would 'make do' with benefit level B^\sim and work out the loss of consumer surplus from a reduction in the level of benefits from B^* to B^\sim net of associate cost savings. The reason is that such an approach would not take consumers' legal entitlement as given and would therefore be contrary to the CC's conceptual approach. Further, if the CC did take this approach, in so far as it identified an AEC it would have to identify the level of entitlement itself as a feature of the market causing the AEC (which is not what the CC is doing). It is only by holding the level of benefit provision constant (at B^*) that the CC can reach an AEC finding in respect of separation in isolation from the level of legal entitlement currently provided under tort law.
- 4.14 The CC has not actually conducted any quantification of quality and service differences associated with separation. Therefore the approach it would adopt if it were to attempt quantification (which as stated in paragraph 6.3 below is necessary) is not clear. The CC has at one point in Provisional Findings given the impression that it would be minded to assess the consumer welfare implications of a reduction in benefits from B^* to B^\sim (or B)³⁶ (although it has not performed any quantification of consumer impact at all). This would be incorrect. For the reasons given above, the CC should have considered the costs to consumers of rectifying any shortfall in their legal entitlement under direct hire but it has not done so.

³⁶ See in particular Provisional Findings, paragraph 6.77.

- 4.15 The correct approach should also recognise that in achieving even benefit level B (or B^{\sim}) under direct hire, absent credit hire, consumers would have to incur very large frictional costs. This applies not only to the set of credit hire consumers who now are supposed to obtain direct hire (n_{CH}) but also to all existing direct hire consumers (n_{DH}) who are worse off absent separation due to the fact they would no longer receive direct hire without incurring frictional costs on their own behalf.

Failure to include all benefits

- 4.16 We note that the two elements of the CC's analysis identified above are drawn too narrowly to include all relevant benefits of separation. In particular, they exclude the benefits of separation in resolving liability more often. The CC has not considered this. This benefit is that insurers are able to make premiums more risk reflective. It therefore has to be quantified and set against the CC's concerns that premiums do not reflect risks under separation.

Section 5

Effects of separation on insurers' and brokers' costs and revenue

Introduction and summary

- 5.1 In this section, we first set out and then comment on the CC's approach to assessing the effects of separation on insurers' and brokers' cost and revenue.
- 5.2 The key points in this section are as follows:
- The CC has made a material error in the treatment of VAT.
 - The CC has not made clear the sample it used in estimating credit hire costs. It is possible this has led the CC to overestimate credit hire costs.
 - The CC's estimate of direct hire costs using data from only three large insurers is likely to be unrepresentative and biased towards finding lower direct hire rates.
 - The CC may not have reflected the full costs of direct hire (by excluding add-on items that are included in credit hire bills) and made other errors in estimating direct hire costs.
 - The CC has not analysed the market dynamics around the provision of direct hire and not accounted for the commercial incentive of CHCs to offer lower direct hire rates in the light of their interests to obtain credit hire referrals.
 - Relatedly, the CC has not considered or taken account of the extent to which insurers benefit from the provision of claims management services for direct hire because of CHCs' incentives to obtain credit hire business.
 - The CC has not taken account of any situations where the fault insurer bears additional risks in respect of direct hire.
 - The CC has not taken account of the implications of payment timing.
 - The CC has conducted a static analysis that has not considered improvements in the efficiency of the GTA or the rate of claims settlement within the GTA.
 - The credit hire costs for AX in 2012 were overstated. AX now knows that its realised revenue was actually materially lower than its forecast when it submitted data to the CC in 2013. This may apply to other CHCs.

- 5.3 The lack of transparency of the CC's report and lack of access to a data room has hampered a fuller analysis of the issues set out in this section. However, these issues are all clearly items that should have been investigated by the CC as they are potentially material to the quantification of the effects of separation. Absent such investigation, we consider that the CC's estimate of gross frictional costs must be considered unreliable.

The CC's approach

- 5.4 The CC has set out its approach to assessing the effects of separation on insurers' and brokers' TRV costs and revenue in paragraphs 6.12 to 6.18 and 6.28 of Provisional Findings. The CC has presented supporting analysis in Appendix 6.1 and Appendix 6.6.
- 5.5 We describe the CC's approach below and also extend it slightly using some basic arithmetic combinations of the figures presented by the CC, as this facilitates subsequent analysis of the CC's approach.

Credit hire versus direct hire

- 5.6 The CC's approach involves the following key steps:³⁷
- the CC calculated a figure for the average credit hire charge of £1,085;³⁸
 - the CC concluded that the ratio of credit hire daily rates to direct hire daily rates was 2.5x;
 - the CC effectively assumed (i) direct hire for the same duration as credit hire and (ii) direct hire for the same vehicle class as credit hire; and
 - imputed the cost that a fault insurer would have incurred to source a TRV under direct hire to be £445.³⁹
- 5.7 On this basis, the CC identified an increase in fault insurers' costs of credit hire compared to direct hire of £640 (= £1,085 - £445).

³⁷ Provisional Findings, Appendix 6.1, paragraph 35.

³⁸ Provisional Findings, paragraph 6.14(c) refers to "about £1,100". However, the exact figure is £1,085 as indicated in paragraph 6.16 (see footnote 16) and in Appendix 6.1, paragraph 35.

³⁹ In Provisional Findings, Appendix 6.1, paragraph 35, the CC states that "we estimated the average credit hire bill to be approximately £1,085. Since credit hire rates are 2.5 times higher than direct hire rates, under direct hire the same services could be provided for about £445". However, dividing £1,085 by 2.5 gives £434, not £445. The multiplier that results in £445 is 2.44 if the £1,085 figure is used and 2.47 if the rounded up £1,100 figure is used.

- 5.8 The CC estimated that the average referral fee paid to insurers was £340 per episode.⁴⁰
- 5.9 This implies a net increase to insurer costs of £300 (= £640 - £340).
- 5.10 We note that the referral fee is an opportunity cost to insurers in aggregate arising from credit hire episodes changing into direct hire episodes.⁴¹ We can therefore express the total cost of insurers under direct hire (including both direct costs and the opportunity cost) as £785 (= £445 + £340).⁴²

GTA versus direct hire

- 5.11 In addition to the 2.5x factor by which average credit hire daily rates exceed average direct hire daily rates, the CC has stated that GTA daily rates exceed direct hire daily rates by a multiple of 2.1x.⁴³
- 5.12 Based on this, we can impute an average GTA bill in the same way as the CC imputed the average direct hire bill. The imputed GTA bill is £911 (= £1,085 / 2.5 x 2.1). (This is not something that the CC has done itself, but for the reasons set out in paragraph 5.18 below is necessary for a complete analysis of the AEC and of remedies.)

Summary of key figures

- 5.13 The key figures above are summarised diagrammatically in Figure 1 below.

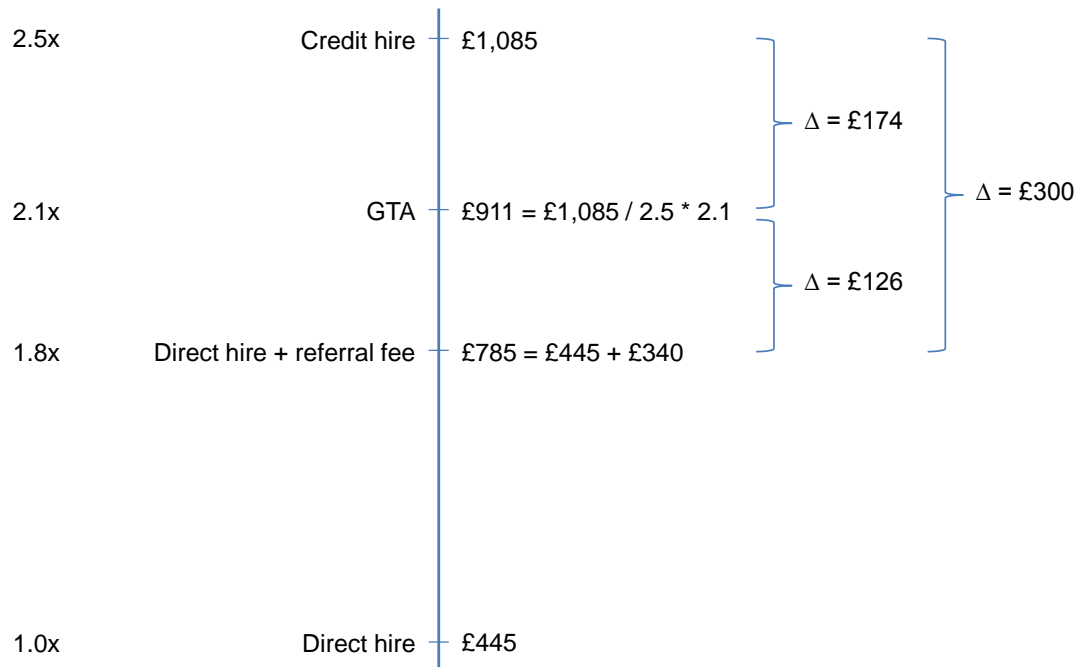
⁴⁰ Provisional Findings, paragraph 6.17. The CC notes in footnote 17 of the same paragraph that the £340 figure relates to referrals by insurers and that the position for referrals by brokers and other companies is slightly different. Based on data in Appendix 6.6, Table 9, we calculate that the weighted average referral fee received by insurers and brokers is £327. The CC calculates the total revenue from referral fees to be £98m (by multiplying the average referral fee received by insurers (£339) and brokers (£308) with the number of claims managed by insurers (184,000) and brokers (117,000), respectively) using the data shown in Table 9.

⁴¹ Our view that the foregone referral fee can be treated as an opportunity cost of direct hire is consistent with the CC's observation that the referral fee can be treated as a reduction in insurers' marginal costs (see Provisional Findings, paragraph 6.56(a)).

⁴² We note that the CC considers that the net increase in costs and the referral fee income may be subject to different rates of pass-through. However the difference assumed by the CC in practice appears to be very small (see Provisional Findings, paragraph 6.82). Therefore we refer to a net gap identified by the CC of £300. We address pass-through in Section 7 below.

⁴³ Provisional Findings, Appendix 6.1, Table 6. See also Provisional Findings, paragraph 6.16, footnote 16, which provides 2.1x as an alternative multiple.

Figure 1: Key cost and revenue figures



Interpretation of findings

- 5.14 The CC considers that the £300 figure above “is mostly due to frictional costs”, including those both inside and outside the GTA.⁴⁴
- 5.15 The CC has also stated that the transactional and frictional costs of at-fault insurers are likely to be higher under credit hire than under direct hire and therefore the £300 figure (which relates only to CHCs) underestimates the total frictional costs (and hence the extra net cost) arising from separation.⁴⁵

Decomposition of residual

- 5.16 As noted above, the CC has focused its analysis on the overall difference between the costs of credit hire and direct hire (which, net of referral fees, is £300). However, as shown in Figure 1 above, this residual can be notionally decomposed into:
- A difference of £126 between the cost of claims being paid at average daily GTA rates rather than direct hire rates (taking into account referral fees); and
 - A difference of £174 between the cost of claims being paid at average daily credit hire rates rather than average daily GTA rates.

⁴⁴ Provisional Findings, paragraph 6.17.

⁴⁵ Provisional Findings, paragraph 6.18.

- 5.17 The CC should have assessed the “decomposed” difference, but it has not done so.
- 5.18 The decomposition exercise is relevant for the following reasons:⁴⁶
- First, to the extent that the CC’s figures suggest that a large part of the difference between direct hire and credit hire is explained by the difference between direct hire and GTA, the CC’s interpretation of the difference as frictional would lack plausibility (given that the GTA is relatively frictionless and is indeed designed to avoid friction) – the CC therefore needs to analyse the decomposed figures to check the plausibility of its findings in relation to the existence and amount of frictional costs.
 - Second, the difference between the cost of claims under credit hire and the GTA may arise mostly because at-fault insurers resist paying for providing the non-fault drivers’ legal entitlement – the CC therefore needs to perform the decomposition as this would indicate the proportion of the residual that may be attributable to at-fault insurer resistance to claims outside the GTA and the CC should also study insurer behaviour to assess the extent to which such behaviour explains this element of the residual (something it has not done).
 - Finally, decomposition is relevant for remedy design, e.g. the difference between the cost of claims under credit hire and GTA could be remedied by subjecting all claims to the GTA. Designing remedies without understanding where any frictional costs actually lie (i.e. whether inside or outside the GTA) is unlikely to satisfy the requirements for proportionate remedies as it is not possible to know what has been remedied and whether it has been remedied effectively and in the least onerous way.
- 5.19 We note that the CC would also have to quantify the quality and service differentials that arise between (i) direct hire and the GTA and those that lie between (ii) the GTA and credit hire so that these amounts, when quantified, could be set off against the relevant costs.
- 5.20 In the remainder of this section we have focused on errors the CC has made in quantifying the overall residual (i.e. the £300) and in the next section we focus on its overall failure to identify and quantify service and quality differences. These sections identify many sources of actual and potential errors. Given the degree of uncertainty around the CC’s figures and given our lack of access to data we have not sought to perform the decomposition itself. However, that does not imply that we consider the decomposition exercise as unimportant; on the contrary we consider it is a necessary one – both for assessing the AEC and for any subsequent remedy assessment – for the reasons set out above. The CC could and should have carried out this exercise.

⁴⁶ The CC has recognised that the GTA provides an efficient framework for negotiation and settlements of claims and that frictional costs in relation to non-GTA claims are higher than those in relation to GTA claims (see paragraph 66 in Appendix 6.1 of Provisional Findings). However, the CC has not considered the implications of these on its calculations of the net cost of credit hire.

Credit hire versus direct hire costs

- 5.21 In this section we have considered the reliability of the CC's identification of a difference of £640 on average per claim between the average credit hire bill and the imputed average direct hire bill.
- 5.22 As set out below, we consider that the CC has or may have (i) made a material error in the treatment of VAT; (ii) overestimated credit hire costs; (iii) understated direct hire costs; (iv) omitted relevant direct hire costs; and (v) omitted relevant adjustments to the base year (2012) figures.
- 5.23 We note that some of the factors we identify below may be specific to certain operators and not reflect universal or uniform market practice. That does not matter. The CC's assessment needs to consider the *status quo* as it is including any material differentiation within the market.

Omission of consumers' frictional costs

- 5.24 Absent CHCs/CMCs, consumers would need to incur private frictional costs of realising their legal entitlement. These costs are incorrectly entirely omitted from the CC's analysis. We have chosen to deal with these costs in the following section (see paragraphs 6.21 to 6.24) since they represent a cost of the consumer achieving his/her legal entitlement. However, we note that when consumers were required to obtain their legal entitlement themselves and chose to do so that would also impose costs on insurers since consumers are likely to be much more costly to deal with than CHCs/CMCs. That cost is also missing from the CC's analysis.

Failure to account for VAT effects

- 5.25 In response to a request for clarification by AX, the CC has confirmed that in deriving the ratio between average daily hire rates for credit hire and for direct hire it included VAT in the credit hire figures and erroneously excluded VAT from the direct hire figures.⁴⁷
- 5.26 The CC's error has inflated the multiple (2.5x) and the CC's claimed costs of credit hire.

⁴⁷ Letter from Sean Cornall (Competition Commission) to Steve Evans (Accident Exchange), 31 January 2014. Although the CC did not refer to it, we note that the GTA rates in Table 6 of Appendix 6.1 of Provisional Findings are exclusive of VAT.

5.27 This error is highly material. VAT of 20% on a credit hire bill of £1,085 would amount to around £181, or around 17% of the credit hire bill. This is consistent with our analysis of AX's billings in 2012, which show that 17% was comprised of VAT.⁴⁸ Further, £181 would represent around 60% of the difference between credit hire and direct hire net costs identified by the CC. This alone would mean that the CC's statement that the majority of the £300 gap is accounted for by frictional and transactional costs is not correct and is highly overstated. In the alternative if the CC were to apply VAT to direct hire rates it would have to recognise that some of any residual identified would be attributable to VAT. However, given that the direct hire bill is an imputed figure and subject to numerous errors as set out below, it would not be reliable for the CC to apply a VAT adjustment to its direct hire figures as they stand and we have not attempted to perform this calculation. In any event, it is clear that the effects of separation on consumers are overstated.

Overestimate of credit hire costs

5.28 The CC based its estimate of the credit hire average daily rate based on data from seven large CHCs.⁴⁹ The CC stated that it estimated the average credit hire bill of £1,085 based on the CHCs in its sample.⁵⁰ AX wrote to the CC in an attempt to clarify the CHCs the CC used in its computation of the average credit daily hire rate and the average credit hire bill.⁵¹ From the CC's response,⁵² we understand that the CC used the same seven CHCs to calculate the average credit hire daily rate and the average credit hire bill but it is not clear what CHCs the CC actually used for these two calculations

5.29 If Enterprise has lower credit hire bills than other CHCs and in the event that the CC excluded Enterprise, this would have the effect of biasing upwards both the credit hire average daily rates (and hence the CC's estimate of the multiple to direct hire) and the CC's estimate of the average credit hire bill. Given that Enterprise is one of the largest providers of credit hire,⁵³ this could have a material effect on the calculations. The exclusion of Enterprise would not be justified given that it provides credit hire and is part of the *status quo*.⁵⁴ Were the CC to have excluded Enterprise, that would amount to excluding benefits currently delivered under credit hire.

⁴⁸ As part of its response to the CC's Provisional Findings, AX has provided the CC with data separating out VAT from its total revenues (see Exhibit 1 in Annex 2 to AX's Response to Provisional Findings).

⁴⁹ Provisional Findings, Appendix 6.1, paragraph 32(b).

⁵⁰ Provisional Findings, Appendix 6.1, paragraph 35.

⁵¹ Email from Steve Evans (Accident Exchange) to Sean Cornall (Competition Commission), 31 January 2014.

⁵² Email from Sean Cornall (Competition Commission) to Steve Evans (Accident Exchange), 3 February 2014.

⁵³ Provisional Findings, paragraph 2.36.

⁵⁴ The CC has described Enterprise as providing credit hire in paragraph 11 of Appendix 6.1 of Provisional Findings.

Understated direct hire costs

Understated direct hire costs (1) – bias from only including three large insurers' direct hire rates

- 5.30 In computing the multiple of credit hire average daily rates to direct hire average daily rates, the CC has used direct hire rates from only three large insurers.⁵⁵ This is striking in light of the finding in paragraph 40 of Provisional Findings that there is low concentration on the PMI market. This implies that data from three insurers are unlikely to account for a large proportion of the market and that the figure used by the CC is subject to a large margin of uncertainty as an estimate of average daily direct hire rates in the market as a whole. AX's request for data room access included a request for information that would help it assess this point,⁵⁶ but as noted above in paragraph 1.9, AX has not been granted access to a data room.
- 5.31 In addition, we understand that AX considers that even in the presence of low concentration larger insurers are likely to have buyer power relative to smaller ones in acquiring direct hire services. They are therefore not reflective of market-wide average direct hire rates, which are the relevant figures for a market-wide assessment. The CC's direct hire rates are, therefore, unreliable and incapable of substantiating the CC's calculations of the effect of separation. The CC has also not justified why it did not use data on direct hire rates from CHCs given this would have allowed the CC to obtain estimates covering a larger proportion of all direct hire cases.
- 5.32 As part of its response to the CC's Provisional Findings, AX has provided the CC with evidence on direct hire rates from a range of insurers (see Exhibit 2 in Annex 2 to AX's Response to Provisional Findings). We have summarised the multiples of credit hire average daily rates and GTA daily rates (as reported by the CC) over the direct hire costs obtained from this wider range of insurers in Table 1 below.

⁵⁵ Provisional Findings, Appendix 6.1, paragraph 32(c).

⁵⁶ See request with reference to PF6-24/6.49(a) in letter from DLA Piper to the Competition Commission, 15 January 2014 (request for access to certain excised information and data) and letter from DLA Piper to the Competition Commission, 22 January 2014 (response to the CC's clarification questions re request for access).

Table 1: Comparison of the CC's average multiple of credit hire rates over direct hire rates with multiples calculated using AX data on direct hire rates^{57, 58}

Car Category	CC multiple	Average AX multiple	Lowest and highest AX multiples	CC multiple	Average AX multiple	Lowest and highest AX multiples
	Credit hire multiple over direct hire			GTA multiple over direct hire		
Standard	2.56	2.29	1.79 – 2.61	2.07	1.83	1.44 – 2.11
MPV	2.47	1.81	1.53 – 2.16	2.29	1.62	1.36 – 1.94
4x4	2.51	1.95	1.45 – 2.49	2.30	1.75	1.33 – 2.18
Prestige	2.35	1.88	1.44 – 2.48	2.25	1.76	1.41 – 2.28
Sports	2.49	1.88	1.55 – 2.46	2.24	1.69	1.40 – 2.28
Simple average	2.47	1.97		2.24	1.74	

Source: Compass Lexecon calculations based on data from Appendix 6.1, Table 6 of the CC's provisional findings and data provided by AX

Notes: Based on the data on daily rates provided in Table 6 of Appendix 6.1, we calculate the GTA and credit hire multiples for the different subcategories of cars. To calculate the multiple for each car category, we take a simple average of the multiples for the subcategories within that category. To calculate the overall multiple, we take a simple average across all subcategories of cars. We perform a similar exercise using data on direct hire rates provided by AX for 16 insurers (using the CC's data on GTA and credit hire daily rates). In this case we carry out an additional step of averaging multiples across insurers.

- 5.33 While the data provided by AX may not be wholly representative (and we are unable to produce weighted averages due to lack of access to the CC's weightings) the figures are informative enough to show that the CC's reliance on data from only three large insurers makes its results unreliable and, based on the AX data, potentially materially understated. Moreover the potential scale of effects is highly material. As shown in Figure 1 above, the entire gap identified by the CC after referral fees (£300) disappears at the point that the multiple of credit hire to direct hire is reduced to 1.8 (and that is before considering VAT). Therefore, relatively modest reductions in the multiples identified by the CC are capable of closing a large part of the alleged cost difference between credit hire and direct hire (or eliminating it entirely).

⁵⁷ We note that some of the direct hire rates provided by AX are dated 2013. However, excluding these data has only a minor impact on the results. The data AX is providing to the CC allows the CC to confirm this.

⁵⁸ Note that the CC multiples presented in Table 1 are based on simple average of multiples and hence will differ from the multiples presented in Provisional Findings, Appendix 6.1, Table 6, which are based on weighted average of multiples.

- 5.34 The CC has not taken account of the likelihood that direct hire rates reflect buyer power or examined the market for direct hire in any detail if at all. As it stands the CC's quantitative assessment is conflating large insurer buyer power. That is part of the £300 residual identified by the CC is attributable to buyer power within direct hire rather than the difference between credit hire and direct hire costs (net of referral fees) This issue is capable of quantitative analysis and in our view needs to be examined rigorously by the CC before it reaches a final conclusion.

Understated direct hire costs (2) – failure to reflect full costs of direct hire

- 5.35 The credit hire rates used by the CC reflect additional charges for a range of items including automatics and estate cars. They also include additional charges for non-standard drivers, including drivers who are particularly young or old, have limited driving experience, or too many points on their driving licence. Where the at-fault insurer pays additional amounts over and above the basic direct hire rate, this needs to be included as a cost of direct hire.⁵⁹ (Where the consumer pays, this also needs to be included as a cost of direct hire: see paragraph 6.31 below.) It is not, however, clear whether the average daily rates for direct hire used by the CC include charges for similar items paid by at-fault insurers to car hire companies. AX has requested information on this from the CC⁶⁰ but has not, at the time of submitting this report, received a response.

⁵⁹ As part of its response to Provisional Findings, AX has submitted evidence that under direct hire fault insurers are responsible for additional charges that are not included in the basic hire rate. See, for example, (i) Exhibit 4 in Annex 2 to AX's Response to Provisional Findings that shows that the at-fault insurer is required to pay an age premium per day for drivers under the age of 20 and above the age of 70; (ii) Exhibit 5 in Annex 2 to AX's Response to Provisional Findings where the insurer informs the non-fault driver that the insurer will be responsible for additional costs (i.e. beyond the hire rate), such as insurance and collection and delivery; (iii) Exhibit 6 in Annex 2 to AX's Response to Provisional Findings that highlights that the automatic vehicles are subject to an additional charge of £5 per day; and (iv) Exhibit 7 in Annex 2 to AX's Response to Provisional Findings that notes under the direct hire rates of Enterprise that auto and estate cars have an uplift of £5 per day on their proposed rate. It appears clear from the context of these documents that the additional charges are borne by the at-fault insurer. In case any of these charges would be paid directly by the non-fault driver, that needs to be included as a cost of direct hire to consumers (see paragraph 6.31 below).

⁶⁰ See letter from DLA Piper to the Competition Commission, 27 January 2014 (Request for direct hire add-ons data).

- 5.36 As part of its response to the CC's Provisional Findings, AX has provided the CC with evidence on what additional services a CHC is allowed to charge for under the GTA (see Exhibit 3 in Annex 2 to AX's Response to Provisional Findings). This provides a proxy for the costs that an at-fault insurer might be paying over and above basic direct hire rates (we understand from AX that it would expect an at-fault insurer to pay a car hire company similar amounts for the various services as the amounts provided for under the GTA; i.e. the proxy is a reasonable one). The costs are potentially substantial. For example, the costs of an automatic at £5 per day for an average hire duration of 12.7 days⁶¹ would be about £63.
- 5.37 As a further indication of materiality, we have calculated that charges for automatics, estate cars, SatNav, tow bar and for non-standard drivers accounted for █% of AX's bills in 2012 (including VAT, or █% excluding VAT).⁶² This amounts to £█ on average per credit hire bill (£█ = £1,085 x █%) which is about █% of the gap that the CC has identified between the net cost of credit hire and direct hire (█% = £█ / £300).
- 5.38 If the CC's analysis of direct hire costs is missing any additional payments from at-fault insurers to car hire companies then the CC's analysis is undermined by the exclusion of a relevant cost of direct hire. Due to a lack of access to a data room we have been unable to assess whether the CC obtained any such information or what it would show.

Understated direct hire costs (3) – bias if the CC has used “bracketed” direct hire rates

- 5.39 We understand that the CC has derived the difference between credit hire average daily rates and direct hire average daily rates by comparing direct hire rate card prices with credit hire average daily rates by grade of car.

⁶¹ Provisional Findings, Appendix 6.1, Table 5.

⁶² As part of its response to the CC's Provisional Findings, AX has provided the CC with data separating out these charges from its total revenues (see Exhibit 1 in Annex 2 to AX's Response to Provisional Findings). These data correspond to the data AX submitted to the CC on 12 May 2013 (subject to changes in the status of certain claims/charges in the system between the date when the data were submitted to the CC and the date when AX re-generated it for these purposes; i.e. some charges became non-billable and some other claims were settled outside of the GTA while originally AX expected them to settle within the GTA).

- 5.40 We understand from AX that car hire companies involved in providing direct hire to insurers often provide “bracketed” rates.⁶³ For example, rather than providing separate rates for each of S1, S2 and S3, the car hire company may provide a single rate for the “bracket” S1 to S3 inclusive. We understand that the car hire company may then be free to choose the class of vehicle within this category (if not contractually at least in practice through its determination of what cars are available) and, given this, would have incentives to supply (or make available) the cheapest car (the lowest grade in the bracket).
- 5.41 It is not clear what approach the CC followed to dealing with bracketed direct hire rates (and absent access to a data room we are not in a position to assess it). If, in an example such as that provided above, the CC used an S1-S3 bracketed direct hire rate for each of S1, S2 and S3, it would have effectively understated the costs of providing direct hire on a like-for-like basis with credit hire because, for example, the credit hire cost of an S3 would reflect the cost of that model whereas the direct hire costs of an S3 would reflect the cost of an S1. In particular, the multiple it derives of credit hire to direct hire costs would be too high reflecting a comparison of ‘apples and oranges’. Alternatively, if the CC has used an S1-S3 bracketed direct hire rate only for S1 direct hire costs then the CC’s analysis concedes the existence of a service differential (e.g. consumers entitled to an S3 actually get an S1) which would have to be taken account of at the next stage of the analysis.
- 5.42 The CC has not commented on this issue in its analysis at all or assessed the impact of adjusting to a like-for-like basis on its results. It is clear however that the effects could be material. For example, (as a proxy) using the difference in GTA rates for an S1 and an S3 (£6.34) multiplied by the average direct hire duration reported by the CC (12.7 days)⁶⁴ would provide a cost difference of about £81 per direct hire claim, i.e. meaning that the modelled costs of an S3 under direct hire would be understated by that amount.

⁶³ As part of its response to Provisional Findings, AX has submitted evidence that direct hire companies use bracketed rates. See, for example, (i) Exhibit 4 in Annex 2 to AX’s Response to Provisional Findings that shows that CCL Accident Support Limited charges bracketed rates, e.g. it combines M1 and M2 into small MPV category and charges a rate of £31.50 for this category; and (ii) Exhibit 7 in Annex 2 to AX’s Response to Provisional Findings that shows that Enterprise (the direct hire provider) charges Tesco (the insurer) bracketed rates, e.g. it combines M, M1 and M2 into MMPV category and charges a rate of £39.99 for this category.

⁶⁴ Provisional Findings, Appendix 6.1, Table 5.

Omitted direct hire costs

Omitted direct hire costs (1) – discounted direct hire rates

- 5.43 We understand from AX that most direct hire is provided to insurers by companies that also provide credit hire (i.e. CHCs) and that when CHCs set direct hire rates for a particular at-fault insurer they would also typically take into account the benefits they would receive from actually securing or being better placed in the future to secure more credit hire referrals from that insurer, leading them to set lower direct hire rates than they would in the absence of credit hire.
- 5.44 Thus observed direct hire rates in the presence of credit hire are lower than the direct hire rates that would prevail absent credit hire. Put another way, observed direct hire rates reflect an implicit discount. This amount is an additional component of the opportunity cost to insurers in aggregate of providing direct hire.⁶⁵
- 5.45 However, this is a cost which the CC needs to take into account as part of its analysis of the cost of direct hire. More generally, the CC appears to have carried out very little if any analysis of how direct hire rates are determined or considered the sustainability of direct hire rates in isolation. This issue is capable of quantitative analysis and in our view needs to be examined rigorously by the CC before it reaches a final conclusion.
- 5.46 Given AX's more limited direct hire business than other CHCs', other CHCs are likely to be better placed than AX to provide the CC with relevant data to quantify this item. This point applies to a number of the other items below, and we have not always repeated it for the sake of brevity.

Omitted direct hire costs (2) – claims management services provided

- 5.47 We understand from AX that some insurers outsource aspects of the claims management process that they would otherwise conduct themselves to CHCs/CMCs (although given AX's more limited direct hire business than other CHCs' it is naturally a point for the CC to investigate with other players). This includes the claims management process for direct hire episodes where the insurer is on the at-fault side. We understand that some CHCs/CMCs provide this service at no cost as part of an overall commercial arrangement whereby they also receive or hope to receive credit hire referrals from the same insurers in respect of their non-fault drivers.
- 5.48 Absent credit hire, CHCs would not have the same incentive to provide this claims management service at no cost and therefore insurers would either have to pay a service provider or bear the costs of undertaking the activities themselves. Their costs of handling direct hire would be correspondingly higher. These services can be considered as an additional opportunity cost to insurers of providing direct hire.

⁶⁵ This effect is expected as a matter of economics. If a buyer has a tendency to procure two services (A and B) from one supplier, the supplier has an incentive to cut the price of A to increase its sales of B and *vice versa*.

- 5.49 This is a cost which the CC needs to take into account as part of its analysis of the cost of direct hire. The CC appears to have carried out very little if any analysis of the overall commercial relationship between insurers and CHCs. This issue is capable of quantitative analysis and in our view needs to be examined rigorously by the CC before it reaches a final conclusion.

Omitted direct hire costs (3) – payment timing

- 5.50 We understand from AX that at-fault insurers are likely to settle credit hire invoices on average considerably later than direct hire invoices. At-fault insurers therefore have a timing benefit under credit hire that would partially mitigate the higher bills. We also understand from AX that referral fees are typically paid relatively quickly.
- 5.51 The CC has not addressed the associated timing effects because it has implicitly treated all monetary flows as if they were contemporaneous, which we understand is not the case.
- 5.52 Such adjustments would be easy to make in practice. We can assess the potential materiality of this issue using the CC's figures of an average credit hire invoice of £1,085, the imputed average direct hire invoice of £445 and the average referral fee of £340 (implying a "delta" between credit hire and direct hire of £300). The example below shows the potential benefits of payment timing and is based on inputs that AX considers to be reasonable. Assuming that (i) the credit hire invoice was paid after six months;⁶⁶ (ii) the direct hire invoice was paid after one month; (iii) the referral fee was also received after one month; and (iv) the at-fault insurer has a weighted average cost of capital of 10%, the delta of £300 would be reduced by £42 to £258.^{67,68} This would be a significant adjustment, especially in the light of other adjustments (such as to VAT) which would reduce the £300 delta for other reasons.
- 5.53 The fact that the CC has not taken any account of timing issues is material and needs to be analysed rigorously by the CC.

Omitted direct hire costs (4) – insurance risk

- 5.54 Under credit hire, the fault insurer does not bear any risk of damage to the cars provided to the non-fault drivers. We understand from AX however that under direct hire the fault insurer may bear some risk of this type in particular in relation to non-fault drivers who are customers of the fault insurer.

⁶⁶ AX's debtor days for the period 1 November 2011 to 1 November 2012 were 192 days. See Exhibit 8 in Annex 2 to AX's Response to Provisional Findings.

⁶⁷ To isolate the timing difference, we did not discount the direct hire costs or the referral fee but we discounted the credit hire costs by five months (i.e. the difference in effective payment terms compared to direct hire and receipt of the referral fee).

⁶⁸ The payments in question are part of the insurance companies' accounts payables which in turn are a part of their working capital. A company's financing costs associated with working capital is determined by the company's WACC. The calculations are therefore performed using an estimated WACC.

- 5.55 This is a cost which the CC needs to investigate across all CHCs and take into account as part of its analysis of the cost of direct hire. While limited to the customers of the fault insurers, this effect could be material for larger insurers. More generally the CC appears to have carried out very little if any analysis of the overall commercial relationship between insurers and CHCs. This issue is capable of quantitative analysis and in our view needs to be examined by the CC before it reaches a final conclusion.

Omitted relevant adjustments to the base year (2012) figures

Omitted relevant adjustments to the base year (1) – GTA efficiency improvements

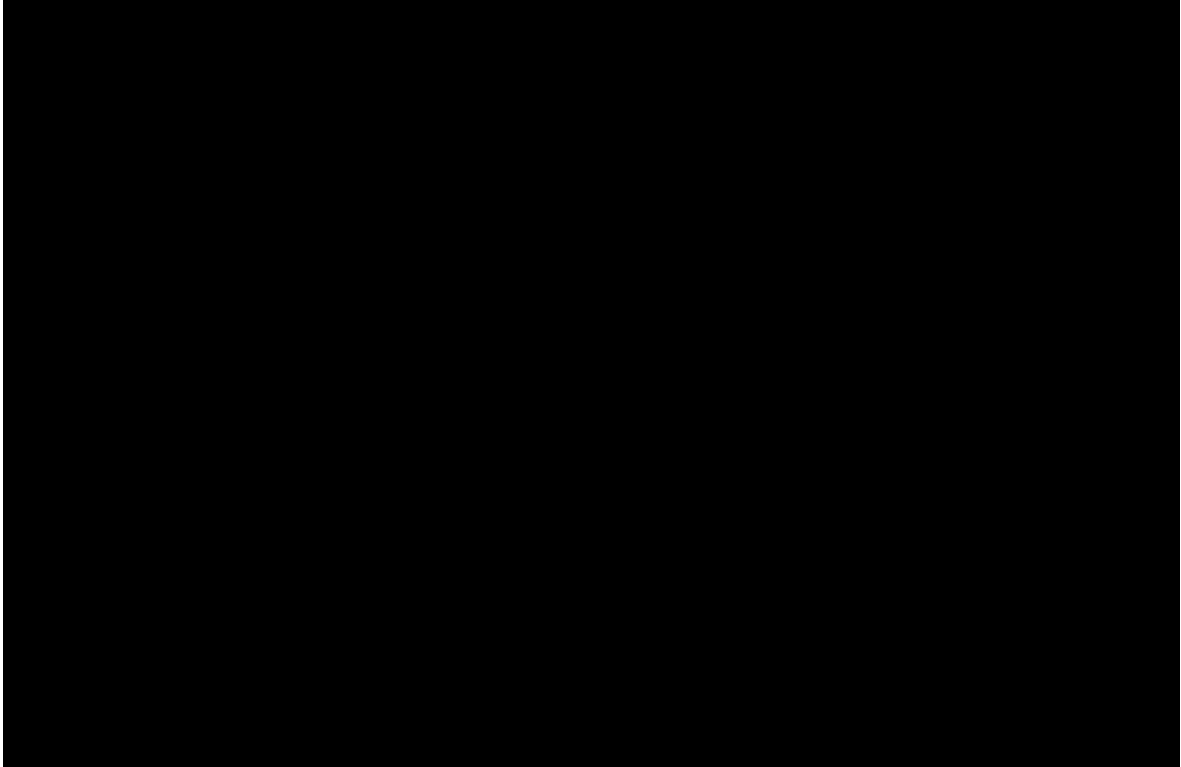
- 5.56 The CC has not performed any analysis of the efficiency of the GTA or taken into account any change to its efficiency historically (as an indication of any trend) or prospectively.
- 5.57 We understand from AX that a project has been underway to improve the efficiency of the GTA that is likely to have been slowed down by the CC's market investigation. AX has provided details of the minimum expected cost savings in its response to Provisional Findings (see Exhibit 9 in Annex 2 to AX's Response to Provisional Findings). We understand from AX that one of the sources of these cost savings (which is readily calculable) are savings on phone calls and postage (including savings on labour costs of employees), and that CHCs' per claim savings are estimated to be £[REDACTED]. These costs savings are highly material in the context of the difference identified by the CC.
- 5.58 The CC appears not to have conducted a general inquiry into steps taken or being taken to improve the efficiency of the GTA.⁶⁹ The CC should thoroughly investigate prospective GTA efficiency improvements (including but not limited to that identified above) since any improvements reducing CHCs' costs would be likely to be reflected in higher referral fees prospectively.

Omitted relevant adjustments to the base year (2) – higher rate of GTA settlements

- 5.59 [REDACTED]

⁶⁹ The CC has noted that there is a feasibility study into the establishment of a GTA portal which would reduce frictional costs for both insurers and CHCs (see paragraph 9 in Appendix 6.1 of Provisional Findings) but has not taken this into account in its assessment.

Figure 2: AX's rate of GTA settlement, January 2005 to September 2013



Source: AX

- 5.60 The CC has not taken into account the improved rate of GTA recovery although the effects of this should be readily calculable (in the limit the credit hire rate would converge on the imputed average GTA bill). More generally, the CC's analysis has ignored any dynamic considerations concerning GTA settlement rates. The CC should at least investigate whether settlement rates have changed across all CHCs in 2013 compared to 2012 and also consider adding in an adjustment for anticipated future changes, given any remedies would necessarily be forward looking.

Omitted relevant adjustments to the base year (3) – corrections to provisions

- 5.61 AX submitted its data for 2012 to the CC in May 2013. AX's estimate of its revenue for 2012 had to make an assumption about the amount it would recover. AX has now checked the actual revenue it recovered for 2012 and included this information in its response to the CC's Provisional Findings (see Exhibit 10 in Annex 2 to AX's Response to Provisional Findings). Compared to the data submitted to the CC, AX's average daily credit hire rate was actually █% █ that using the earlier data.⁷⁰
- 5.62 Because of the timing of its request for data for 2012, AX considered that it is possible that data submitted to the CC by other CHCs could also be subject to material revisions and the CC needs to remove this uncertainty by basing its calculation on actuals rather than estimates.

Attribution of residual to frictional costs

- 5.63 The CC's primary approach to identifying frictional costs is based on the residual approach described above. We have the following observations on this treatment of frictional costs.
- 5.64 First, a residual approach is highly vulnerable to error as (i) the residual could be affected by any of the factors taken into account and (ii) after adjusting for the factors outlined above, the residual (if any) is likely to be small relative to the components used to estimate it. The latter point means that even small errors in the inputs could have very large impacts on the residual. In turn this means that the CC should rigorously quantify all relevant factors and not rely on unreasoned qualitative judgments that any factors are "small". The CC has erroneously failed to comment on the margin of error around its results, although this is necessary information for considering the proportionality of remedies.
- 5.65 Second, the CC's claim that the residual is "mostly" comprised of frictional and transactional costs is a weak one (in the sense that it is consistent with only half of the identified residual being frictional and transactional costs). However, the CC proceeds to treat 100% of the residual as being attributable to transactional and frictional costs. Since the AEC is predicated on the existence of frictional and transactional costs and the proportionality of remedies must be assessed relative to the scale of any identified AEC, the CC should make clear the proportion of the residual that is accounted for by frictional and transactional costs; and what amount of frictional and transactional costs it is seeking to remove.

⁷⁰ AX has provided data on its 2012 realised revenue as of 27 January 2014. The total revenue received across all car categories and including GTA and non-GTA claims was approximately £█ and the total number of hire days was █. Dividing the total revenue by the number of hire days we obtained the average credit hire daily rate of AX of £█. The data submitted by AX to the CC in May 2013 show the total revenue received as £█ and the number of hire days as █ days. Dividing the total revenue by the number of hire days we obtained the average credit hire daily rate of AX of £█.

- 5.66 Third, the CC has not decomposed the residual between that arising from the difference between credit hire costs and GTA costs and that arising from the difference between GTA costs and direct hire costs (see paragraphs 5.16 to 5.20 above). AX has repeatedly explained to the CC the importance of the GTA and the need for the CC to examine the operation of the GTA but the CC has not done this.⁷¹ This is a major flaw in its analysis of the AEC given the importance of the GTA to the industry (approximately 80% of claims are settled under the GTA). In so far as a proportion of the residual arises from the difference between GTA costs and direct hire costs, the CC must consider that the GTA is an efficient way to resolve claims between parties with non-aligned interests; yet it has erroneously not analysed that. Importantly, we note that the CC's VAT error should be attributed to the difference between credit hire and GTA costs since the GTA rates used by the CC exclude VAT (and therefore the residual between GTA costs and direct hire costs is unaffected). The CC will need to consider this together with an appropriate decomposition of all of the other factors we have identified to identify the locus of any frictional costs.
- 5.67 Fourth, in so far as part of the residual relates to the difference between credit hire costs and GTA costs, these at least in part reflect the costs of CHCs/CMCs defending the rights of non-fault drivers against at-fault insurers who have incentives not to provide or to underprovide TRVs. These costs are required for consumers to obtain their legal entitlement.
- 5.68 Fifth, as noted in paragraphs 5.25 to 5.27 above, a material proportion of the residual may be accounted for by VAT.
- 5.69 Sixth, the residual calculated by the CC does not include any costs arising from quality and service differences or benefits more generally. We address this issue in the next section.
- 5.70 If after taking into account all points above there remains any residual that can be reliably attributed to frictional costs, the CC should determine whether this level of frictional costs is material.
- 5.71 Finally, we note that the CC's residual approach of estimating transactional and frictional costs appears to be inconsistent with its direct estimation of frictional costs elsewhere in Provisional Findings. In Appendix 6.1, the CC finds that on average across all claims CHCs' frictional costs account for 10% of the average credit hire bill excluding (and 5% including) offsetting income received from insurers.⁷² Given that the CC calculates the average credit hire bill to be £1,085 this implies that the direct estimate of frictional costs is at most £108.5 – which is only about a third of the estimate obtained using the residual approach (£300).

⁷¹ See, for example, Accident Exchange's Response to Statement of Issues, 11 January 2013, Section 4 and Section 10.3.

⁷² Provisional Findings, Appendix 6.1, Table 12 and Table 14. Offsetting income received from insurers includes late payment penalties and reimbursement of legal fees by the at-fault insurer. See Provisional Findings, Appendix 6.1, paragraph 68.

- 5.72 The CC provided very little explanation of these figures. In particular, the CC failed to set out what proportion of these frictional costs relate to disputes around resolution of liability and/or recovery of uninsured losses. As set out in paragraph 5.18 above a proportion of the frictional costs may be attributable to at-fault insurer resistance to claims outside the GTA and the CC should thus study insurer behaviour to assess the extent to which such behaviour explains frictional costs.

Conclusions

- 5.73 Please refer to the key points summarised in paragraph 5.2 above.

Section 6

Quality and service differences associated with separation

Introduction and summary

- 6.1 In this section, we first set out and then comment on the CC's approach to assessing quality and service differences (and benefits more broadly) associated with separation. We note that the CC did not ultimately quantify any benefits to set against the net costs alleged by the CC. However, as set out in this section there are multiple material differences that are capable of being quantified.
- 6.2 The key points in this section are as follows:
- The CC has erred in not quantifying the costs for consumers of rectifying their quality and service differentials. This is especially so because such costs will be disproportionately important for non-fault drivers that take advantage of credit hire and are therefore key to understanding the impact of separation on different customer groups.
 - The CC has omitted consumers' private frictional costs entirely. These are very substantial.
 - The CC has failed to identify adequately or quantify at all the extent to which the quality of car under direct hire may be less than the consumers' legal entitlement or that consumers may actually in some cases be paying to receive the quality levels they do under direct hire.
 - The CC has failed to quantify the benefits to consumers of uninsured loss recovery.
 - The CC has failed to quantify the benefit to consumers of the provision of TRVs before liability is resolved.
 - The CC has failed to consider the benefits for the setting of insurance premiums of liability being resolved more often.
 - The CC has not considered that the collection and delivery service under direct hire may sometimes be inferior to that under direct hire.

- 6.3 The lack of transparency of the CC’s report and lack of access to a data room has hampered a fuller analysis of the issues set out in this section. However, these issues are all clearly items that should have been investigated by the CC as they are potentially material to the quantification of the effects of separation, especially in aggregate. Absent such investigation, we consider that the CC’s estimate of the alleged net detriment to consumers must be considered unreliable and not proven to be material.

The CC’s approach

- 6.4 The CC addressed quality and service differentials in relation to TRVs in paragraphs 6.30 and 6.31 of Provisional Findings. The CC then addressed some evidence on this issue from CHCs/CMCs in paragraphs 6.36 to 6.38, before setting out its conclusions in paragraphs 6.39 and 6.40. The CC has presented supporting analysis in Appendix 6.5.

Quality of car

- 6.5 The CC cited survey evidence that 15% of respondents said that the replacement car fell short of their needs (in most cases slightly) and that this proportion was six percentage points higher for claims managed by at-fault insurers than for claims managed by the non-fault insurer. This difference was statistically significant. The CC said this showed that “respondents’ average experience of the quality of replacement car received was somewhat lower when the claim was managed by the at-fault insurer”.⁷³
- 6.6 The CC referred in a footnote to its review of a sample of 100 call records, which the CC says shows that a lower proportion of claimants whose claims were managed by fault insurers (70%) than of claimants whose claims were managed by non-fault insurers or CHCs/CMCs (92%) received a replacement car similar to their own. According to the CC, this is “also suggesting that [the] quality of replacement cars received may be lower for claims managed by fault insurers”.⁷⁴
- 6.7 The CC concluded that there was “only a small difference in quality of service associated with separation” (specifically citing the survey result, but not the call record result).⁷⁵

⁷³ Provisional Findings, paragraph 6.30.

⁷⁴ Provisional Findings, paragraph 6.30, footnote 25.

⁷⁵ Provisional Findings, paragraph 6.39.

Duration

- 6.8 According to the CC, the non-fault survey found that “nine in ten respondents had their replacement car as long as they needed it and there was no significant difference in this proportion depending on which party handled the claim”. The CC also stated (referring to evidence from Admiral) that it “did not see much evidence of differences in the speed of replacement car provision under credit hire and direct hire once liability is determined”.⁷⁶
- 6.9 The CC did not refer to duration in its provisional conclusions on quality and service differences associated with separation.

Better or additional services

- 6.10 The CC found that one out of nine CHCs/CMCs provided extra insurance on credit hire but not on direct hire replacement cars and that six out of nine provided uninsured loss recovery services.⁷⁷
- 6.11 The CC concluded that “certain CMCs provided some additional services to consumers”.⁷⁸

Provision of replacement car when liability was uncertain

- 6.12 The CC noted that four out of nine CHCs/CMCs said they provided replacement cars to non-fault drivers when liability was uncertain or disputed by the at-fault insurer. The CC considered it was unlikely that an at-fault insurer would do this.⁷⁹
- 6.13 The CC concluded that as a result “some non-fault claimants received a better quality of replacement car services than in the absence of separation”.⁸⁰

Resolution of liability

- 6.14 The CC noted that CHCs/CMCs had submitted that liability was resolved more often and more quickly due to the availability of credit hire.⁸¹
- 6.15 The CC did not make any observations on this point in Section 6 of Provisional Findings but discussed it in Appendix 6.5.⁸² In paragraph 53 of this appendix the CC concluded that “motor insurers are incentivized to settle liability promptly, in order to progress a non-fault claim to settlement and minimize the credit hire costs incurred” and that “the application of GTA late payment penalties was punitive, which encouraged early resolution of claims.”

⁷⁶ Provisional Findings, paragraph 6.31.

⁷⁷ Provisional Findings, paragraph 6.36.

⁷⁸ Provisional Findings, paragraph 6.40.

⁷⁹ Provisional Findings, paragraph 6.37.

⁸⁰ Provisional Findings, paragraph 6.40.

⁸¹ Provisional Findings, paragraph 6.38.

⁸² Provisional Findings, Appendix 6.5, paragraphs 51 to 53.

Role of credit hire in incentivising direct hire

- 6.16 The CC noted that CHCs/CMCs said that in the absence of separation at-fault insurers would not have any incentives to provide non-fault claimants with a quality TRV or indeed a TRV at all. The CC appeared to accept this point.⁸³
- 6.17 The CC concluded that “the existence of credit hire was likely to act as a deterrent to at-fault insurers providing a poor quality of replacement car services”.⁸⁴

Difference between benefits under credit hire and direct hire

- 6.18 In this section we comment on the benefits that need to be offset against the net cost of credit hire in the previous section.
- 6.19 As set out below, we consider that the CC has failed to take into account the difference between consumers’ frictional costs under the *status quo* and the CC’s benchmark of a “well-functioning market” (see paragraphs 6.21 to 6.24). As we also set out the CC has (i) in some cases qualitatively understated and in all cases failed to quantify benefits it has identified (see paragraphs 6.25 to 6.48 below); and (ii) omitted the benefit of delivery and collection (see paragraphs 6.49 to 6.53 below).
- 6.20 We note that some of the factors we identify below may be specific to certain operators and not reflect universal or uniform market practice. That does not matter. The CC’s assessment needs to consider the *status quo* as it is including any material differentiation within the market.

Omitted consumer frictional costs

- 6.21 As set out in Section 2, the CC’s approach to assessing the effects of separation effectively assumes away frictional costs in the benchmark. In particular, it assumes that non-fault drivers obtain their legal entitlement from fault insurers without incurring any effort, i.e. the efforts on behalf of CHCs/CMCs are conceived by the CC as an entirely wasted cost compared to a benchmark in which consumers’ achieve their legal entitlements without any resources being required to extract these entitlements from at-fault insurers. As explained above, the CC has erred in not including the frictional costs that consumers will bear in obtaining their full legal entitlement in its benchmark. This has led to the CC overstating the alleged consumer detriment arising from separation. By not including these costs the CC’s benchmark is highly idealised and (if nevertheless adopted as the AEC benchmark) has a bias towards finding an AEC and proposing remedies. Further, the CC’s analysis does not account for the fact that consumers are risk averse and the effect of the CC’s benchmark is to shift costs from risk neutral players (CHCs) to risk averse entities (final consumers).

⁸³ Provisional Findings, paragraph 6.38.

⁸⁴ Provisional Findings, paragraph 6.40.

- 6.22 In fact, the scale of frictional costs that would be incurred by consumers is likely to be substantial. In the alternative (as set out in paragraphs 6.23 and 6.24 below) it seems likely that absent CHCs/CMCs, frictional costs would be prohibitive for most consumers, who would therefore not achieve their legal entitlement (further all consumers ignorant of their legal entitlement would be unlikely to receive a TRV).⁸⁵ Thus the CC has either omitted relevant frictional costs or omitted the costs of underprovision.
- 6.23 In order to provide a possible measure of consumers' frictional costs, we have considered consumers' time value of money. Consumers' frictional costs per claim is a product of two components: (i) consumers' time value; and (ii) the extra time it takes a consumer to recover his claim from the at-fault insurer compared to the time it takes to contact and coordinate with the CHC. Multiplying the first and second component gives us a monetary value for the extra time the consumer has to spend in recovering the claim under direct hire compared to credit hire, i.e. a proxy for consumers' frictional costs per claim.
- 6.24 We take the average value of working time per person per hour to be £36.66.⁸⁶ This implies that if non-fault drivers would need to spend only one hour more dealing with at-fault insurers than with CHCs, more than 10% of the £300 net cost of credit hire would be offset by consumers' increased frictional costs under the CC's benchmark. If the difference in time is around four hours, half of the net cost of credit hire is offset and if the difference is more than eight hours (which could very easily be the case if non-fault claimants had to claim their legal entitlements back at court), consumers' frictional costs would exceed what the CC has identified as the net cost of credit hire. The CC could and should have quantified these costs and taken them into account when considering the effect of separation and the alleged net cost of credit hire.

Understated benefits and failure to quantify benefits identified

Understated benefits / failure to quantify (1) – quality of car

- 6.25 We summarised the CC's approach to quality in paragraphs 6.5 to 6.7 above. The CC concluded that there was a "small" quality difference between direct hire and credit hire based on the survey but did not quantify it.

⁸⁵ This is likely to be a material issue given the CC's evidence that claimants tend "not to be fully aware of their legal rights under tort law" (see paragraph 7.7 of Provisional Findings).

⁸⁶ Based on "Values of time and Vehicle operating costs", TAG UNIT 3.5.6, Department for Transport, Transport Analysis Guidance October 2012. The original estimate in the report (£34.12) is based on 2010 prices and values and hence we adjust it by annual inflation rate for 2011 and for 2012 (4.5% in 2011 and 2.8% in 2012; source: Office of National Statistics). The report also provides an estimate of average value of non-working time. However, since a consumer is most likely to be in contact with the at-fault insurer during work hours, we take the average value of working time per person.

- 6.26 We note that the CC's approach of deriving the ratio of credit hire costs to direct hire costs by using the weighted average of like-for-like daily average charges by car grade should eliminate any quality differences associated with basic car grades (subject to our concern about "bracketing" as set out in paragraphs 5.39 to 5.42 above).
- 6.27 However, aside from the basic grade of the car as set out in Table 6 of Appendix 6.1 of Provisional Findings, there are a range of other factors that influence the quality of a TRV including factors such as whether the TRV is an estate or an automatic. For a complete list see AX response to Provisional Findings (see Exhibit 3 in Annex 2 to AX's Response to Provisional Findings).
- 6.28 For the general reasons given in paragraph 2.13 above, the CC should have quantified the benefits associated with the superior quality of car hire under direct hire in order that its analysis is like-for-like and consistent with its conceptual approach of ensuring that the consumer achieves his/her legal entitlement under the benchmark.
- 6.29 Moreover, the CC has failed to take into account the call records, which show a big difference in quality, in reaching its conclusion that the difference in quality is "small". This is a significant flaw in the CC's analysis as the results show a large difference in quality and are the more relevant data than the survey given (i) the CC's conceptual approach of ensuring that consumers reach their legal entitlement and (ii) the call records should provide an objective factual indication of whether this was the case. The CC should have used this information and (especially having obtained *prima facie* evidence as it did of a quality difference) conducted a far larger exercise to produce a more robust finding.⁸⁷ That the CC has not done so is hard to understand.
- 6.30 Having done so, the CC should have then calculated the costs to consumers of achieving the same level of quality as what CHCs/CMCs provide and should have factored this into its analysis of the cost of credit hire vs the cost of direct hire and its analysis of the effects of separation. (In so doing the CC would need to avoid double counting given that the approach to calculating the ratio of credit hire to direct hire costs does, at least, control for the grade of vehicle. If a car is too small because it is not an estate car, an adjustment needs to be made as part of the adjustment described here.)

⁸⁷ The CC only considered 100 calls in total. The individual sample sizes are actually much smaller: 37 for claims managed by the non-fault insurer or a CMC/CHC and 33 for claims managed by the fault insurer (the CC could not establish the type of the replacement car from the other calls). See Provisional Findings, Appendix 6.5, paragraphs 64 to 69.

6.31 In addition to these issues, there is a further problem with the CC's analysis of quality of service provision. That is that the quality gap between credit hire and direct hire may be reduced because consumers are paying for some elements of the service provision under direct hire, e.g. paying for an automatic or an upgrade to the class of vehicle to which they are actually entitled. We consider that the CC must thoroughly investigate all revenue streams obtained by all CHCs and consider whether any revenue is attributable to consumers paying for any elements of their legal entitlement and as such should be taken account of in the analysis of the effects of separation.

6.32 These consumer payments are a cost of direct hire and correspondingly a benefit to consumers from separation. The CC should have and could have assessed such consumer payments and included them as a cost to consumers under direct hire.

Understated benefits / failure to quantify (2) – collision damage waiver

6.33 We summarised the CC's assessment of extra insurance in paragraphs 6.10 to 6.11 above.

6.34 We understand from AX that non-fault drivers are sometimes required to pay CDW to reduce their excess to zero on the insurance on the replacement car under direct hire but not under credit hire.⁸⁸

6.35 For the general reasons given in in paragraph 2.13 above, the CC should have quantified this benefit of credit hire when assessing the effects of separation.

Understated benefits / failure to quantify (3) – uninsured loss recovery

6.36 We summarised the CC's assessment of uninsured loss recovery in paragraphs 6.10 to 6.11 above. The CC found that six out of nine CHCs provided uninsured loss recovery services.

6.37 However, the at-fault insurer has no incentives to provide uninsured loss recovery as it would be working directly against its own interests.

6.38 For the general reasons given in in paragraph 2.13 above, the CC should have quantified this benefit of credit hire when assessing the effects of separation.

⁸⁸ As part of its response to Provisional Findings, AX has submitted evidence that the non-fault driver may be required to pay CDW under direct hire. See, for example, (i) Exhibit 4 in Annex 2 to AX's Response to Provisional Findings that shows that CCL charges £2 per day to reduce excess to zero; and (ii) Exhibit 11 in Annex 2 to AX's Response to Provisional Findings which states that if the driver wishes to reduce the excess to zero, he/she "may be able to take out additional insurance with the hire company" at his/her own cost.

- 6.39 31% of respondents of the CC's non-fault survey made a claim on their own insurance policy, and 41% of those who made a claim were required to pay excess. 77% of those who paid an excess said that themselves or the organisation managing the claim claimed back the excess from the at-fault insurer.⁸⁹ The survey report does not provide sufficient information to understand what proportion of these excess claims was managed by CHCs. However, the results do provide an indication that the scale of this effect could be material. In particular, the survey results imply that potentially 10% (= 31% x 41% x 77%) of all non-fault drivers are benefitting from the services provided by CHCs. This benefit should have been quantified by the CC and factored into its analysis.
- 6.40 AX has submitted evidence as part of its response to Provisional Findings on the cost to consumers of obtaining uninsured loss recovery in the absence of CHCs/CMCs doing this on their behalf (see Exhibit 12 in Annex 2 to AX's Response to Provisional Findings). This evidence suggests that solicitors' rates for the simplest case of providing assistance for uninsured loss recovery would start at £100 per hour but may be around £150 per hour for more complicated cases and that, assuming solicitors were prepared to engage on such low value work, total irrecoverable expenses may run into hundreds of pounds.⁹⁰
- 6.41 Alternatively, the consumer could obtain the same benefit by obtaining legal expenses insurance. AX has submitted evidence as part of its response to Provisional Findings on the cost to consumers of obtaining uninsured loss recovery through legal expenses insurance in the absence of CHCs/CMCs doing this on their behalf (see Exhibit 13 in Annex 2 to AX's Response to Provisional Findings). This evidence suggests that insurers offer legal expenses cover at £25-£30. This is also likely to be less effective than obtaining the assistance of a CHC/CMC since it would require the individual to deal with his/her insurer, who has incentives not to provide on the policy if possible. The CC should have sought and analysed this or similar data to compute the benefits of uninsured loss recovery.

Understated benefits / failure to quantify (4) – provision of replacement car when liability was uncertain

- 6.42 We summarised the CC's assessment of the provision of a replacement car when liability was uncertain in paragraphs 6.12 to 6.13 above. The CC concluded that some non-fault claimants received a better quality of service than in the absence of separation due to this factor. This is to be expected, given the lack of incentives of at-fault insurers to provide TRVs to non-fault drivers.
- 6.43 For the general reasons given in in paragraph 2.13 above, the CC should have quantified the benefits associated with earlier provision in these instances and factored them into its assessment of the effects of separation.

⁸⁹ IFF Survey report, Figures 3.28, 3.29 and 3.30.

⁹⁰ We assume here that the CC's benchmark continues to apply and that the relevant question is the costs that the consumer would have to incur to obtain their full legal entitlement, which includes the recovery of uninsured losses.

- 6.44 The CC's non-fault survey shows that about 80% of respondents said that the other driver admitted that the accident was their fault at the scene of the accident.⁹¹ This is not sufficient in itself to establish how often liability is uncertain / disputed by the fault insurer⁹² but it provides an indication that this benefit is likely to be material. We also note that the proportion of respondents who said that the other driver admitted that the accident was their fault was lower among those whose claim was managed by the non-fault insurer (75%) than among those whose claim was managed by the at-fault insurer (85%)⁹³. Based on these figures, liability is not admitted in 25% of cases where the claim was managed by the non-fault insurer, or around 75,000 cases (based on the CC's estimate of 301,000 credit hire episodes). The CC needs to quantify the service differential arising from early provision in these cases. We further note that data from AX suggests that liability is agreed less often by insurers than what the CC's survey data suggests.⁹⁴ In order to rely on the survey, the CC should reconcile the survey finding to the data on initial liability indicators recorded by CHCs and insurers.
- 6.45 In our view the CC needs to make an adjustment to take into account what it would cost the consumer to self-provide a replacement car until liability is established. Beyond the cost of hiring a car, the consumer is likely to face significant transactional and frictional costs (e.g. finding and dealing with the retail hire company). These costs should be factored in to the CC's assessment of the effects of separation.

Understated benefits / failure to quantify (5) – resolution of liability

- 6.46 As stated in paragraph 6.14 above, the CC noted that credit hire could function to resolve liability in more cases and more quickly but did not consider the implications of this as a benefit. The CC commented on the speed of liability resolution but not on the number of cases where liability would not be resolved but for credit hire. It did not carry out any empirical analysis to establish the materiality of this benefit. This is an important benefit which CHCs have an interest in delivering and the expertise to do so.

⁹¹ IFF Survey report, Figure 3.8.

⁹² In particular, we understand from AX that drivers may revoke admission of liability later in the process.

⁹³ IFF Survey report, Figure 3.8. This difference is statistically significant.

⁹⁴ See Exhibit 15 in Annex 2 to AX's Response to Provisional Findings, which shows AX's initial liability flag on its claims. See also page 11 of the hearing transcript for evidence from Kindertons.

- 6.47 Despite the brief treatment by the CC, this benefit is in fact fundamental. As set out in Compass Lexecon's submission on behalf of the CHO it is our understanding that in the absence of credit hire insurers would not necessarily find it worthwhile to determine liability, resulting in both drivers paying the excess. This has three implications. First, if there is incomplete pass-through of excess payments, credit hire is good for consumers by reducing excess payments. Second, credit hire involves a transfer of value from risky to less risky drivers. As the purpose of an excess is to reduce moral hazard by making drivers at least somewhat liable if they cause an accident, this is likely to be desirable. Finally, resolving liability makes it possible for future premiums to be set taking into account more information on the riskiness of drivers, which is desirable.⁹⁵
- 6.48 In our view, the CC should have examined these factors and factored them into its assessment of the effects of separation. This omitted factor would lead to premiums being more risk reflective. The CC has not shown that this factor does not dominate its conclusion that premiums may not be cost reflective due to separation.

Omitted benefits – collection and delivery

- 6.49 GTA rates (and therefore a large proportion of credit hire claims) include delivery and collection of the TRV, which is typically to and from the bodyshop where a car is being repaired or to and from the non-fault driver's home when his or her car is a write-off. This reflects non-fault drivers' entitlement under law.
- 6.50 We understand from AX that in some instances direct hire may not include collection and delivery to the bodyshop or to the non-fault driver's home and that the consumer would have to pay for such a service (if available) under direct hire.
- 6.51 In particular, according to AX, Enterprise typically collects the non-fault drivers from the bodyshop and takes them to their depot and provides the TRV there. Typically this is in a minibus which will often wait to collect several not at fault drivers for one "run". The same would then apply in reverse at the end of the direct hire period. The consumer therefore incurs additional waiting time and journey time to obtain the TRV and possibly additional driving time if the depot is in an inconvenient location (and the same in reverse).
- 6.52 We understand from AX that [REDACTED] charges AX a wholesale rate of £[REDACTED] for collection and the same for delivery. These charges are applicable for deliveries within 20 miles of a [REDACTED] Depot, beyond which an additional charge of £[REDACTED] per mile becomes applicable. (Note that each of collection and delivery entails the car hire company carrying out an outward and a return leg.) AX has provided further evidence on retail rates charged for collection and delivery by a number of hire companies and these rates vary by geographic location (see Exhibit 14 in Annex 2 to AX's Response to Provisional Findings).

⁹⁵ Compass Lexecon, "Credit hire and its effects on consumer welfare", 13 May 2013.

- 6.53 The CC has erred in not addressing the benefits arising out of credit hire such as the collection and delivery services offered by the CHC in its Provisional Findings. This issue is capable of quantitative analysis and in our view needs to be examined by the CC before it reaches a final conclusion. In so doing the CC should gather data on retail rates for collection and delivery.

Distributional considerations

- 6.54 As explained in paragraph 2.15 above, the CC has erred in treating consumers in aggregate. Even if the CC was correct (which, based on the above, we disagree with) that the implications of service and quality differences were small in aggregate (i.e. when averaged across all consumers) it does not follow they are small for drivers who are the non-fault parties to accidents. For that reason the CC should not dismiss the factors above as “small” but rather quantify their significance both in aggregate and also to separate classes of consumer.

Conclusions

- 6.55 Please refer to the key points summarised in paragraph 6.2 above.

Section 7

Implications for consumers of separation

Introduction and summary

- 7.1 In this section, we set out and comment on the CC's approach to assessing the implications for consumers of separation.
- 7.2 The key points in this section are as follows:
- The CC's conclusion that the alleged increase in costs as a result of credit hire would be passed through to final consumers to a greater extent than referral fees has a very small quantitative impact on the CC's calculations (i.e. the difference in the pass-through rates implicitly assumed by the CC is small).
 - The CC has not recognised that the costs associated with service and quality differentials affect consumers directly and therefore have a more direct effect on consumers than cost or revenue impacts on insurers.
 - The impact of quality and service differentials and other benefits of separation are capable of quantitative analysis and the CC should have quantified them. Our analysis shows a range of quality and service differentials and other benefits which have the potential to be material and to reduce or eliminate any gap between the net cost of credit hire and direct hire on aggregate or for individual consumer groups.
 - The CC should have considered that the benchmark it proposes has distributional consequences; in particular that some consumers are strictly worse off under the CC's benchmark than under the *status quo*.
 - The CC has failed to take into account in its assessment that some costs are borne by commercial motor insurers, which fall outside of the CC's Terms of Reference.
 - The CC's cross-check of its estimate of harm is based on a figure for total credit hire revenues which involved a large degree of estimation, does not have supporting calculations and about which the CC has not asked the author of the figure. Given these factors we do not think that the CC can rely on that figure, at least without substantial further work to test its robustness.

The CC's approach

- 7.3 The CC has set out its analysis of the implications for consumers of separation in paragraphs 6.42 to 6.85 of Provisional Findings. The CC has presented supporting analysis in Appendices 6.1 and 6.6.
- 7.4 The CC has stated that the potential implications for consumers of its findings were “complex”.⁹⁶ The CC analysed in turn (i) the impact of higher costs for at-fault insurers on car insurance premiums; (ii) the impact of the revenue stream to non-fault insurers and brokers on car insurance premiums; (iii) direct quality of service benefits to consumers; (iv) the quantitative impact of each of these elements; and (v) the net effect on consumers.

Impact of higher costs for at-fault insurers on car insurance premiums

- 7.5 The CC identified four factors which affect the extent to which cost changes are passed through into price changes for consumers. One of these (factor (d)) is “whether the change in cost affects all firms in the market equally, or whether there are differences in the effect on different firms”.⁹⁷
- 7.6 The CC considered all four factors and concluded that they suggested a high degree of pass-through. The CC concluded that “we would expect the higher costs incurred by at-fault insurers to be reflected broadly pro rata in higher premiums”.⁹⁸

Impact of the revenue stream to non-fault insurers and brokers on car insurance premiums

- 7.7 The CC considered that the same factors were relevant to assessing the pass-through of revenue streams as the pass-through of costs.⁹⁹
- 7.8 The CC considered all four factors. Its analysis of three of the factors was essentially the same as in the case of costs but its analysis of factor (d) (symmetry of impact across firms) differed from its analysis of costs. The CC concluded “There is more difference between insurers in the revenue stream than there is in the impact of higher costs [...] On balance, our view is that pass-through of the revenue stream into lower premiums is likely to be somewhat lower than for costs (which we considered would be fully passed through [...])”.¹⁰⁰

⁹⁶ Provisional Findings, paragraph 6.42.

⁹⁷ Provisional Findings, paragraph 6.43.

⁹⁸ Provisional Findings, paragraph 6.53.

⁹⁹ Provisional Findings, paragraph 6.56. We have summarised the CC's conclusions in relation insurers. The CC concluded that the effect on premiums of the revenue stream to brokers was similar to that of the revenue stream to insurers, but subject to additional uncertainties. See Provisional Findings, paragraph 6.63.

¹⁰⁰ Provisional Findings, paragraph 6.56(d).

- 7.9 The CC's overall conclusion was that "we considered that the revenue stream (from referral fees etc) to insurers is likely to reduce motor insurance premiums but the effect may be somewhat less than pro rata".¹⁰¹

Direct quality of service benefits to consumers

- 7.10 The CC ultimately concluded that the direct quality of service benefits to consumers "tended to be small" based on the analysis we have discussed in Section 6.¹⁰²

Estimation of the effect of separation on consumers

- 7.11 The CC estimated that the total cost increase attributable to separation in relation to TRVs was £193m (= £640 x 301,000 credit hire episodes).¹⁰³ It considered this would be reflected "pro rata" in higher insurance premiums.¹⁰⁴
- 7.12 The CC estimated the total revenue stream to insurers and brokers attributable to credit hire of TRVs to be £98m (by multiplying the average referral fee received by insurers (£339) and brokers (£308) with the number of claims managed by insurers (184,000) and brokers (117,000), respectively).¹⁰⁵ The CC considered that this would be passed through somewhat less than pro rata.¹⁰⁶
- 7.13 In relation to benefits, the CC did not present any quantification on the basis that it considered the service differences to be "small".¹⁰⁷

Net effect on consumers

- 7.14 The CC stated that the net effect on consumers was the difference between its estimate of the increased costs of at-fault insurers (which in the case of TRVs is £193m) and a number somewhat less than the revenues (which in the case of TRVs is £98m). The CC does not state it explicitly in Provisional Findings but this implies a net effect of credit hire of £95m (= £193m - £98m).¹⁰⁸

¹⁰¹ Provisional Findings, paragraph 6.59.

¹⁰² Provisional Findings, paragraphs 6.66 to 6.69.

¹⁰³ Provisional Findings, Table 6.3.

¹⁰⁴ Provisional Findings, paragraph 6.73.

¹⁰⁵ Provisional Findings, Table 6.4.

¹⁰⁶ Provisional Findings, paragraph 6.74.

¹⁰⁷ Provisional Findings, paragraph 6.80.

¹⁰⁸ Assuming perfect pass-through of both costs and revenues. In practice, the CC has assumed a high degree of pass-through for both cost and revenues. However, the CC may view the net effect as slightly larger.

- 7.15 The CC also used another approach to cross-check its estimation of the net effect of separation on consumers (see paragraphs 6.83 and 6.84 of Provisional Findings). First, the CC estimated that the net cost of separation per claim (£300) is 27% of the average credit hire bill ($27\% = £300 / £1,085$) or 21% if the average credit hire bill is calculated using data from five insurers ($21\% = £300 / £1,400$). The CC then scaled up its estimate of the net cost using using 2011 data on total credit hire revenues from the CHO (£663 million).¹⁰⁹ This led the CC to estimate that the total net cost of separation for TRVs was in the range of £140m ($= 21\% \times £663m$) to £180m ($= 27\% \times £663m$) in 2011.
- 7.16 The CC has done analogous exercises of estimating the costs and revenues to insurers in relation to repairs and write-offs. Aggregating the impact of credit hire, repairs and write-offs, the CC stated that the total net effect on consumers was between £150m and £200m.¹¹⁰ We understand that the £150m is the result of the CC's main calculation, and that the £200m is obtained from the CC's additional calculations (cross-check).
- 7.17 The CC then stated that given the total number of policies was 25m, the level of consumer harm on a per policy basis was between £6 ($= £150m / 25m$) and £8 ($= £200m / 25m$). Although the CC does not calculate the impact of credit hire on a per policy basis, this implies that the consumer harm of credit hire was between around £4 ($= £95m / 25m$, given the CC's main calculations) and around £7 ($= £180m / 25m$, given the upper bound of CC's cross-check).

Our comments

Pass-through

- 7.18 The CC's conclusion that the alleged increase in costs as a result of credit hire would be passed through to final consumers to a greater extent than referral fees has a very small quantitative impact on the CC's calculations (i.e. the difference in the pass-through rates implicitly assumed by the CC is small). Given this and the lack of evidence to assess pass-through empirically, we have not assessed in this report whether the CC is correct in claiming that there is a (implicitly very small) difference between pass-through of costs and revenues. However, we note that consumers would experience the effects of any service and quality differentials directly (i.e. an issue of pass-through does not arise). This is a further reason why the CC has erred in not quantifying quality and service differences because they are, in fact, the effects most directly experienced by consumers.

¹⁰⁹ Provisional Findings, paragraph 6.83.

¹¹⁰ Provisional Findings, paragraph 6.84.

Risk-reflectivity

- 7.19 As noted in paragraphs 6.46 to 6.48 above, the CC has not considered the extent to which premiums are more risk-reflective as a result of liability being established more often under separation. Given this, it cannot sustain a finding that separation causes premiums to be less risk-reflective overall.

Direct quality of service benefits to consumers

- 7.20 As we set out in paragraph 6.19 above, we consider that the CC has or may have (i) in some cases understated and in all cases failed to quantify benefits it has identified; and (ii) omitted entirely the benefit of delivery and collection. The CC also failed to take into account the difference between consumers' frictional costs under the *status quo* and the CC's benchmark of a "well-functioning market".
- 7.21 These benefits are capable of quantitative analysis and the CC should have quantified them. Our analysis in Section 6 shows a range of quality and service differentials and other benefits which have the potential to be material and to reduce or eliminate any gap between the net cost of credit hire and direct hire on aggregate or for individual consumer groups.
- 7.22 As noted, the CC has not considered that the benchmark it proposes has distributional consequences. In particular, some consumers are strictly worse off under the CC's benchmark than under the *status quo* (see paragraph 2.15 above).

Estimation of the effect of separation on consumers

- 7.23 As discussed in paragraphs 7.11 to 7.12 above, the CC estimated the total cost increase attributable to separation in relation to TRVs and the total revenue stream to insurers and brokers attributable to credit hire of TRVs by multiplying the cost and revenue estimates with the estimate of total number of claims in 2012 (301,000).
- 7.24 The CC's Terms of Reference defines the scope of the investigation as covering private motor insurance.¹¹¹

¹¹¹ Terms of Reference, 28 September 2012.

- 7.25 However, the CC has not investigated whether the 301,000 claims were made against private or commercial insurance policies. We understand from AX that it is more common for credit hire that the TRV is provided to a private non-fault driver but the at-fault driver has a commercial insurance policy than the reverse (i.e. that the TRV is provided for a commercial insurance policy holder and the claim is made against a private insurance policy). For example, if a bus and a car are involved in an accident, a replacement credit hire car might well be provided to the driver of the car if he/she was not at fault but it is most unlikely that a replacement credit hire bus would be provided if the bus driver was non-fault. This implies that some of the referral fees received by “private” non-fault insurers do not have corresponding costs to the “private” at-fault insurers (as the costs are born by a “commercial” insurer); i.e. essentially the private motor insurance sector which is the scope of the CC’s inquiry captures a higher proportion of the benefits than of the costs of credit hire.
- 7.26 Given that commercial motor insurance is outside of the CC’s Terms of Reference, the CC would need quantitatively to adjust for the above asymmetry in its estimation of impact on consumers.

Net effect on consumers

- 7.27 We understand from AX (see its response to Provisional Findings) that the figure the CC has used for credit hire revenues (£663m) to derive the higher estimate of net detriment from TRVs (£140m-£180m) involved a large degree of estimation, does not have supporting calculations and that the CC has not asked the author of the figure about it. Given these factors we do not think that the CC can rely on that figure, at least without substantial further work to test its robustness. It is otherwise, at best, an extremely flimsy basis to increase by almost 90% the CC’s base case estimate of the net cost associated with the AEC.

Section 8

Effects on competition

Introduction

- 8.1 In this section, we first set out and then comment on the CC's approach to assessing the effects of separation on competition.

The CC's approach

- 8.2 The CC has set out its assessment of the effect of separation on competition in paragraphs 6.86 to 6.90 of Provisional Findings.
- 8.3 The CC has stated that "in the majority of claims (around two-thirds), cost liability is separate from cost control", and as a result "the third party handling the claim has the opportunity to earn a rent on the non-fault claim (by charging the at-fault insurer more than the cost incurred)".¹¹²
- 8.4 The CC has provisionally found that this opportunity to earn a rent leads to (i) disputes between the claim handler and the at-fault insurer; and (ii) insurers and brokers "competing to find ways of earning a rent from their control of non-fault claims, rather than simply 'competing on the merits' (ie offering the lowest price and best quality of claims handling and other service to customers)"; which in turn result in an inefficient supply chain involving a high level of frictional and transactional costs.¹¹³
- 8.5 The CC has noted that these effects were the greatest for TRVs and smaller for repairs and write-offs.¹¹⁴
- 8.6 The CC has also noted that "since the greatest effect is on drivers with the most adverse risk factors, prices to individual drivers are not fully reflective of expected costs".¹¹⁵

¹¹² Provisional Findings, paragraph 6.86.

¹¹³ Provisional Findings, paragraphs 6.87 and 6.88.

¹¹⁴ Provisional Findings, paragraph 6.89.

¹¹⁵ Provisional Findings, paragraph 6.88.

- 8.7 Finally, the CC has stated that it considered service differentials as a result of separation and found them to be small. The CC has added that “the current existence of alternative providers as a result of separation is likely to provide at-fault insurers with an incentive to provide a good quality of service” and that “this can be appropriately taken into account in our assessment of remedies.”¹¹⁶

Our comments

- 8.8 We have already commented on the points above in the preceding sections of this report. We do not repeat all of our comments here. We note the following brief high level observations on the CC’s assessment of the effect of separation on competition.
- 8.9 First, the CC’s observation that the claim handler has an opportunity to earn a rent as a result of separation (see paragraph 8.3 above) is inconsistent with its view stated elsewhere in Provisional Findings that CHCs compete effectively and do not earn more than normal profit.¹¹⁷ As explained in paragraph 3.9 above, CHCs compete they profit away in the form of referral fees paid to insurers.
- 8.10 Second, the CC’s observation that non-fault insurers and brokers have an opportunity to earn a rent (see paragraph 8.4 above) is inconsistent with its view stated elsewhere in Provisional Findings that there is intense competition in the private motor insurance market and that motor insurers do not earn economic profit.¹¹⁸ As acknowledged by the CC insurers pass revenues from referral fees onto drivers in the form of lower insurance premium at only somewhat less than pro rata basis.¹¹⁹
- 8.11 Third, as shown in Section 5 and Section 6, the CC has made several material errors in the estimation of frictional costs. As such, the CC does not have supporting evidence for the conclusion that the result of separation is an inefficient supply chain involving a high level of frictional and transactional costs (see paragraph 8.4 above).
- 8.12 Fourth, as we have pointed out in paragraph 2.2, the CC’s benchmark has distributional consequences. In particular, under the CC’s benchmark non-fault drivers would likely to be worse off. It is inappropriate for the CC to consider which group of consumers are disadvantaged in the current world (see paragraph 8.6 above) without considering whether any consumers would be disadvantaged under its benchmark.

¹¹⁶ Provisional Findings, paragraph 6.90.

¹¹⁷ Provisional Findings, paragraph 6.17.

¹¹⁸ Provisional Findings, paragraph 6.49.

¹¹⁹ Provisional Findings, paragraph 6.59.

- 8.13 Finally, we disagree with the CC that the role of alternative providers in incentivising direct hire can be included in the remedies assessment as an alternative to including it in the AEC assessment (see paragraph 8.7 above). The AEC assessment should include benefits that arise to consumers from alternative providers because it is a key feature of the *status quo*. Also, as set out in paragraph 7.21 above, we disagree with the CC that such benefits are small and we believe they are capable of quantitative assessment.

Section 9

Remedies

9.1 Throughout this report we have pointed out implications of the CC's analysis of the net cost of separation on remedies. In particular, we have set out the following points.

- For conducting the AEC analysis the CC has adopted an extreme benchmark which is idealised and is not a market outcome. Adopting of such an extreme benchmark creates a bias towards finding an AEC and the imposition of remedies. (See paragraph 2.2 above.)
- As the CC's benchmark assumes that consumers' legal entitlements are maintained, the CC's analysis of the AEC cannot form an adequate basis to assess any remedies that do change consumers' legal entitlements or the degree to which consumers would realise their legal entitlements. (See paragraph 2.2 above.)
- In so far as the CC is considering remedies which would change consumers' legal entitlements, or the degree to which consumers can realise them, such remedies would not be supported by the body of analysis used by the CC in assessing the AEC and would require an entirely different economic analysis which considered the welfare implications of any such changes. Estimating consumer surplus would require the CC to conduct demand estimation to understand consumers' valuation of different levels of service provision. Demand estimation could be based on choice modelling (this is useful technique when consumers do not currently pay for or have the option to choose services), econometric demand estimation where data on consumers' consumption as a function of price are available and/or a bounds approach (inferring minimum willingness to pay) (e.g. inferring from the fact that someone has paid a premium for an estate car their minimum valuation of this feature of the car). Given that consumers need a TRV in circumstances where they have been unexpectedly deprived of a vehicle, their valuation of replacement mobility is likely to be higher than in the event that they expected not to have a car, and any demand estimation methods would need to take account of this. (See paragraph 2.14 above.)
- A remedy which simply removes the feature of the market allegedly causing the AEC (i.e. separation) would not produce the CC's benchmark because, as the CC itself has acknowledged, at-fault insurers would not provide direct hire (at most provide direct hire to a lesser extent). (See paragraph 2.24 above.)

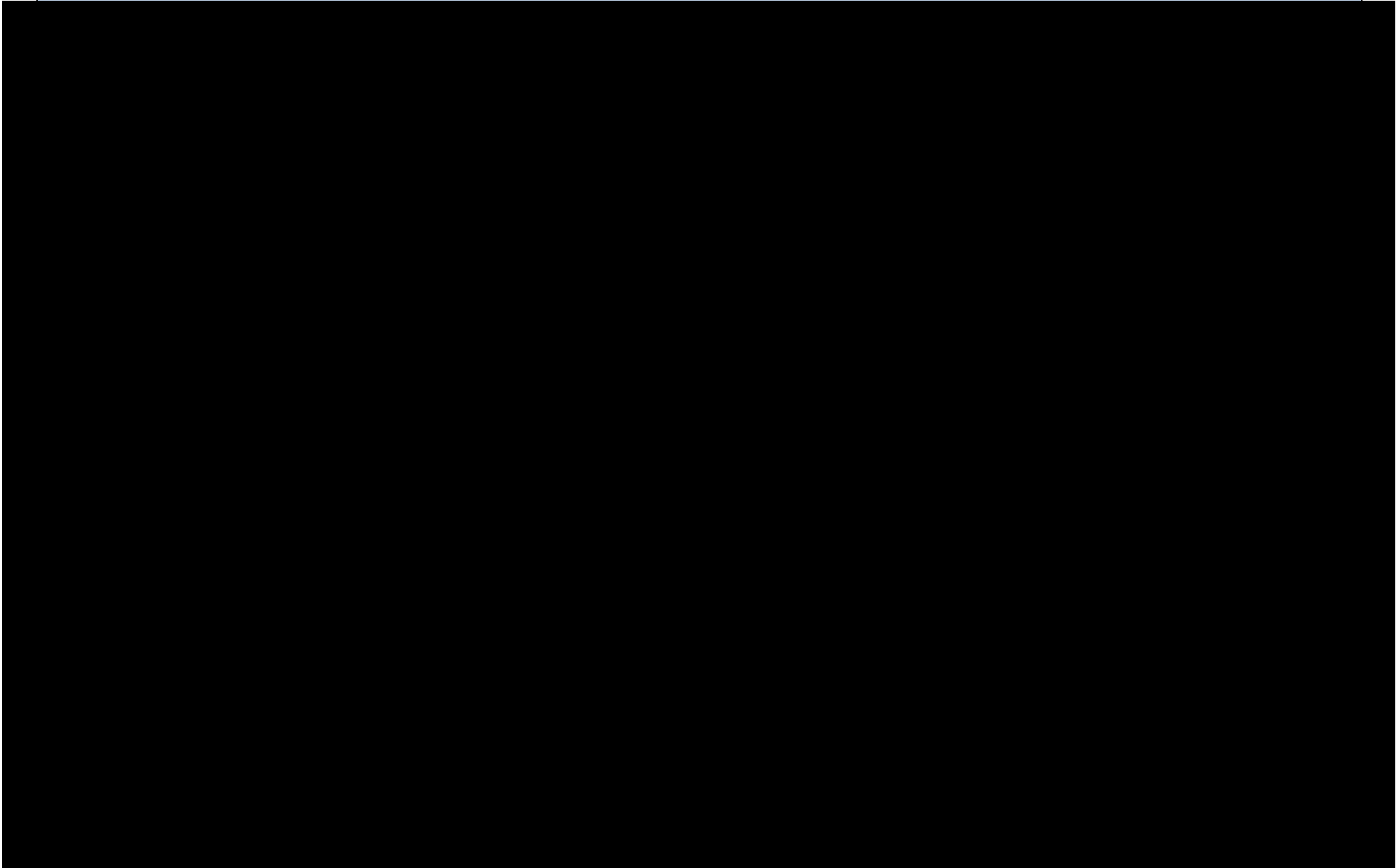
- Decomposition of the gap between credit hire and direct hire costs to the difference between direct hire and the GTA and difference between the GTA and credit hire is relevant for remedy design. Designing remedies without understanding where any frictional costs actually lie (i.e. whether inside or outside the GTA) is unlikely to satisfy the requirements for proportionate remedies as it is not possible to know what has been remedied and whether it has been remedied effectively and in the least onerous way. (See paragraph 5.18 above.)
- Given that any remedies would necessarily be forward looking, the CC should assess dynamic considerations concerning GTA settlement rates and whether settlement rates have changed across all CHCs in 2013 compared to 2012. (See paragraph 5.60 above.)
- The CC should comment on the margin of error around its results, so that this can be taken into account in considering the proportionality of remedies. As a result of the residual approach adopted by the CC, the margin of error is likely to be high. (See paragraph 5.64 above.)
- The CC should make it clear what proportion of the net impact of separation is accounted for by transaction and frictional costs, so that this can be taken into account in considering the proportionality of remedies. (See paragraph 5.65 above.)
- We disagree with the CC that the role of alternative providers in incentivising direct hire can be included in the remedies assessment as an alternative to including it in the AEC assessment (see paragraph 8.13 above). The AEC assessment should include benefits that arise to consumers from alternative providers because it is a key feature of the *status quo*.

ANNEX 2

(CONSISTING OF 15 EXHIBITS)

ANNEX 2 EXHIBIT 1

				GTA and non GTA												
All data for 2012 credit hire services				Revenue Billed (excluding VAT)												
Vehicle Type	Example car			Hire Charges	Sat Nav	Auto	Estate	Tow Bar	Non Standard Driver	Admin Fee	Credit Repair Admin Fee	D&C	Excess Waiver	Late Payment Penalties	VAT	Total



ANNEX 2 EXHIBIT 2

ABI Group	ABI Rates	Haven Rates ex CDW (2012)	Zenith Rates (2012)	MarkerStudy Rates (7CDW) (2012)	Traded Rates (7CDW) (2012)	1st Central Rates (7CDW)(2012)	KGM Rates (7CDW) (2012)	InsureTheBox Rates (7CDW)(2012)	CIS Rates (7CDW)(2013)	Enterprise Insurance rates (7CDW)(2013)	Allianz Rates (7CDW)(2013)	ERAC Rates (7CDW)(2012)	Direct Line Rates (7CDW)(2012)	Churchill Insurance (7CDW)(2012)	Tesco Insurance (7CDW)(2013)	Admiral AX Rates(2012)	Octagon Insurance (7CDW)(2012)	Description (per GTA)		
Mainstream																				
S1	£30.28	£16.99	£14.34	£13.99	£20.00	£14.99	£14.25	£14.99	£20.00	£15.50	£15.00	£14.25	£15.56	£15.56	£14.49		£14.99	Vauxhall Agila (1.0) / Citroen C1 (1.0) / Peugeot 107 (1.0) / Nissan Micra (1.0) / Toyota Yaris (1.0), Fiat Scioento (889cc)		
S2	£34.33	£18.99		£15.39	£15.99	£20.00		£17.99	£15.99	£16.99	£20.00	£15.15	£15.99	£16.08	£16.08	£16.49		£16.99	VW Polo (1.2) / Renault Clio (1.2) / Vauxhall Corsa (1.2) / Ford Fiesta (1.2), Smart ForFour (1.1), Smart Pulse Coupe 600cc,Suzuki Wagon 1229cc	
S3	£36.62	£21.99	£18.44	£17.99	£25.00	£20.99	£20.99	£18.99	£22.00	£21.00	£18.35	£20.99	£19.63	£19.63	£18.49		£20.99	Vauxhall Astra (1.4) / Ford Focus (1.4) / Peugeot 307 (1.4) / Toyota Corolla (1.4) / VW Polo (1.4) / Honda Civic (1.4), Smart Peugeot 307 (1.6) / Renault Megane (1.6) / Vauxhall Astra (1.6) / Ford Focus (1.6), Smart ForFour (1.5), V W Beetle 1.4, Ford		
S4	£39.26	£22.99	£20.49	£19.99	£25.00	£20.99	£20.99	£20.99	£24.00	£23.00	£19.40	£20.99	£20.99	£20.99	£20.25		£20.99	Peugeot 407 (1.8) / Vauxhall Vectra (1.8) / Ford Mondeo (1.8) / Renault Laguna (1.8), V W Beetle 1.4 convertible, Ford		
S5	£41.54	£25.99	£21.35	£21.35	£35.00	£25.99	£23.99	£25.99	£25.00	£26.00	£22.50	£23.99	£22.60	£22.60	£23.99		£25.99	Vauxhall Vectra (2.0) / Ford Mondeo (2.0) / Peugeot 407 (2.0) / Renault Laguna (2.0), MG XT 2.0 diesel, Rover 75 2.0, Honda		
S6	£44.25	£29.99	£22.64	£22.64	£40.00	£31.99	£25.99	£29.99	£30.00	£31.00	£25.50	£25.99	£28.51	£28.51	£28.99		£29.99	Vauxhall Signum (2.8) / Peugeot 607 (2.2) / Skoda Superb (2.5), Chrysler PT Cruiser 2.4 Touring Cabriolet 2.4, Vauxhall Astra		
S7	£62.06	£29.99	£24.50	£24.50	£40.00				£40.00											
MPV																				
M	£48.38	£29.03	£28.19	£28.19	£45.00			£18.99	£38.99							£39.99		£39.99	Citroen Berlingo Multispace X 1.4, Renault Scenic FIDJI 16v 1.4L, Vauxhall Meriva Life 1.4, Vauxhall Meriva 1.6.(old model)	
M1	£55.91	£33.55	£28.19	£28.19	£45.00	£42.99	£41.49	£38.99		£35.00	£29.00	£31.50		£34.50	£34.50	£39.99		£39.99	Citroen Picasso (1.8) / Ford Focus C-Max (1.6/1.8), Renault Scenic (1.6) / Vauxhall Zafira (1.8), Citroen Picasso 1.6, Mazda	
M2	£63.75	£42.99	£31.91	£31.91	£45.00			£38.99	£40.00	£38.00			£41.99			£39.99		£39.99	Citroen Picasso (2.0) / Ford Focus C-Max (2.0) / Renault Scenic (1.9) / Vauxhall Zafira (2.0/2.2), Honda FR-V 2.0, VE Golf	
M3	£74.94	£42.99	£47.66	£46.50	£45.00	£52.98	£46.50	£47.00	£47.00	£45.00	£47.00	£38.50	£46.50	£51.91	£51.91	£47.99	£51.23	£54.99	Ford Galaxy (1.9) / Toyota Previa (2.0) / VW Sharan (1.8), VW Touran 2.0 TD 7 seats, Volkswagen Touran 7 seats 1.9tdi, KIA	
M4	£95.07	£50.99	£47.66	£46.50	£60.00			£101.36	£70.00									£62.80	£62.80	Chrysler Voyager (2.8) / Mercedes-Benz Viano (2.0) / Mitsubishi Grandis (2.4) / Renault Grand Espace (2.0), Ford Galaxy 2.3,
M5	£142.59	£85.55	£67.80	£67.80	£65.00					£86.00								£84.27	£84.27	Mercedes-Benz Viano (2.2) / Renault Grand Espace (3.0)
M6	£180.62	£108.37	£85.88	£85.88	£70.00													£121.43	£121.43	Mercedes-Benz Viano (3.5), Chrysler Grand Voyager 3.3,
4 x 4																				
F1	£93.94	£56.36	£46.27	£46.27	£55.00	£69.99	£51.40	£62.00					£51.40	£53.47	£53.47	£69.99	£67.13	£67.13	Land Rover Freelander (1.8) / Mitsubishi Outlander (2.4) / Toyota RAV4 (2.0) / Nissan Terrano (2.7), Kia Sportage 2.0,	
F2	£100.66	£60.40	£59.23	£49.00	£55.00			£62.00	£60.00	£49.00								£67.13	£65.00	Land Rover Freelander (2.0)/Td4 / Kia Sorrento (2.5) , Mitsubishi Shogun Sport 2.5, Honda CRV CDTI SE 2.2, Subaru Forester
F3	£108.49	£65.09	£53.18	£53.18	£55.00				£75.00	£80.00	£56.00	£55.00						£73.66	£73.66	BMW X3 (2.0) / Land Rover Discovery (2.5) , Mitsubishi Warrior L200 2.5, Nissan x-trail SVE Auto 2.4, Honda CRV VTEC Exec
F4	£133.10	£79.86	£76.00	£76.00	£76.96	£81.99		£75.00		£68.00			£63.57	£63.57	£79.99	£93.80	£80.00	£80.00	Mitsubishi Shogun (3.5), Jeep Grand Cherokee (3.0), Lexus RX300 (3.0), BMW X3 (2.5), VW Touareg (2.5), Volkswagen	
F5	£178.93	£107.36	£120.00	£120.00	£100.76	£101.99	£80.00	£86.76		£100.00	£75.00		£140.00	£84.99	£84.99	£99.99	£115.17	£115.17	Mercedes-Benz ML270 (2.7) / BMW X5 (3.0) / Land Rover Discovery (4.4) / 2.7D V6 SE/ TD V6 HSE, Stationwagon 5d auto,	
F6	£201.31	£120.79	£130.00	£130.00	£100.76			£86.76		£108.00								£128.67	£95.00	Mercedes-Benz ML350 (3.5), Porsche Cayenne (3.2), Lexus RX400, Volvo XC90 2.9SE, Audi Q7 Tdi Quattro 3.0 (7 seats),
F7	£234.86	£140.92	£155.00	£155.00	£149.47					£125.00			£200.00					£163.67		Porsche Cayenne S (4.5) / BMW X5 V8 (4.4) / Mercedes-Benz ML500 (5.0) / Range Rover (3.0), Audi Q7 Fsi Quattro 4.2 (7
F8	£251.64	£150.98	£160.00	£160.00	£149.47					£132.00			£230.00					£180.50		Range Rover V8 (4.4) / Range Rover Sport Supercharged (4.2), BMW X5 4.8 Sport 5 door auto, VW Touareg 5.0, BMW X5
F9	£307.56	£184.54	£180.00	£180.00	£167.12					£165.00								£201.73		Porsche Cayenne Turbo (4.5) / Range Rover Vogue Supercharged (4.2)
Prestige																				
P1	£78.28	£46.97	£39.79	£38.82	£40.00			£25.99		£41.00	£39.50							£44.57		Mercedes-Benz A150 (1.5) / Audi A3 (1.6) / BMW 116 (1.6), Alfa Romeo 147 Lusso 1.6, Mercedes A140 1.4,
P2	£87.24	£52.34	£44.16	£43.08	£45.00					£60.00								£48.75		BMW 118 (1.8) / Audi A3 (1.8) / Mercedes-Benz A170 (1.7), Volvo S40 1.6SE, Mercedes A160, Alfa Romeo 147 2.0, Volvo
P3	£92.82	£55.69	£46.88	£45.74	£53.14	£67.99	£42.00	£60.00		£50.00	£41.50	£65.00	£64.33	£64.33	£62.99	£55.80	£60.00	£60.00	BMW 120 (2.0), Mercedes-Benz B180 (1.8) / Audi A4 (1.8) / Mercedes-Benz C180 (1.8), Saab 9-3 1.8t, Audi A3 1.9SE, Volvo	
P4	£112.95	£65.99	£70.00	£70.00	£53.14	£67.99	£50.00	£60.00		£58.00	£43.50		£64.33	£64.33		£67.38		£67.38	BMW 320 (2.0) / Audi A4 (2.0) / Mercedes-Benz C200 (2.0), Jaguar X type 2.2, BMW 318 (2.0), Jaguar X type, Saab 9-5	
P5	£140.92	£89.99	£76.00	£76.00	£76.96		£60.00	£75.00	£80.00	£70.00	£53.50		£91.07	£91.07	£79.96	£84.27	£82.00	£82.00	BMW 325 (2.5) / BMW 520 (2.0) / Audi A4 (2.5) / Audi A6 (2.0) / Mercedes-Benz C230 (2.3) / E200 (2.0) / C280 3.0, Jaguar X-	
P6	£167.76	£89.99	£100.00	£100.00	£90.42	£81.99	£78.00		£115.00	£100.00	£86.00		£91.07	£91.07		£110.10		£110.10	BMW 330 (3.0) BMW 525 (2.5) Audi A4 (3.2) Audi A6 (2.5) /Mercedes-Benz C320 (3.2) Audi A8 Road (2.5) Mercedes-Benz	
P7	£195.72	£89.99	£105.00	£105.00	£104.54	£81.99	£90.00			£100.00			£135.00			£115.99		£115.99	BMW 530 (3.0) / Audi A6 (3.2 - 3.5) / Mercedes E350 (3.5) / BMW 535 (3.5), Audi A4 Cabriolet 1.8t, Lexus GS300 SE 3.0,	
P8	£223.66	£109.99	£130.00	£130.00	£118.62		£110.00	£95.00		£110.00	£98.00		£155.00	£171.24	£171.24	£108.99	£152.50	£105.00	£105.00	BMW 540 (4.0) BMW 550 (5.0) BMW 730 (3.0) / Audi A6 (4.2), Audi A8 (3.0), Mercedes CLS320/R320/E500 (5.0)/S280 (2.8)
P9	£257.23	£109.99	£160.00	£160.00	£130.53	£109.99	£118.00			£152.00			£180.00				£173.43		£173.43	Mercedes-Benz S350 (3.5), Audi A8 (3.7 - 4.2), BMW 735/ 740 (3.5 - 4.0) / Mercedes-Benz E55 AMG, Audi RS6 Avant, Audi
P10	£316.51	£189.91	£190.00	£190.00	£192.21		£190.00			£215.00			£220.00				£207.07		£207.07	BMW 750 (5.0) / Mercedes-Benz S500 (5.0) / Audi A8 (6.0), Maserati Quattroporte 4.2,
P11	£444.55	£266.73	£235.00	£235.00	£241.73	£399.99	£305.00	£399.36		£330.00			£350.00	£292.85	£292.85	£399.99	£295.93	£295.93	Mercedes-Benz S600 (6.0) / Bentley Continental (6.0),	
P12	£665.44	£399.26	£420.00	£420.00	£374.76	£399.99				£460.00			£470.00					£399.60	£399.60	Bentley Mulsanne (6.75), Rolls Royce Phantom (6.75), Bentley Flying Spur,
Sports																				
SP1	£75.36	£45.22	£38.37	£37.43	£53.14				£60.00		£39.50	£38.00						£53.90		MINI Cooper (1.6), MG ZR 1.4,
SP2	£88.08	£52.85	£44.57	£43.48	£53.14	£67.99					£46.00							£60.42		Renault Clio RS182 (2.0) / MINI Cooper S (1.6) / MINI Cooper Cabriolet (1.6), Ford Focus ST 2521cc, Mazda MX5 1.8/2.0
SP3	£98.41	£59.05	£54.33	£53.00	£53.14						£52.00	£46.00						£64.27		Toyota MR2 (1.8) / Clio 1.8, Mazda RX8 (192ps), Audi A3 Sportsback 1.6, Hyundai coupe 215E
SP4	£120.79	£72.47	£59.99	£59.99	£53.14						£63.00	£59.00		£64.33	£64.33			£70.72		Audi TT Coupe 1.8T (180), Golf GTI (2.0), Audi A3 Sportsback 2.0, Audi A3 Diesel Sportback 2.0 TDi Sport Sdr, Audi A3 S3
SP5	£131.97	£79.18	£76.50	£76.50	£76.96					£70.50			£90.00					£84.27		Audi TT Roadster 1.8T (180) / BMW 24 (2.0) / Lotus Elise (1.8) / Audi TT Coupe 1.8T Quattro (225), VW Golf V6 R32 4
SP6	£184.54	£110.72	£115.00	£115.00	£98.79					£99.00	£65.00		£130.00					£93.77		BMW 24 (2.5) / Mercedes-Benz SLK200 (1.8) / Mercedes-Benz CLK200 Coupe (2.0) / Mitsubishi Evo III (2.0) / Audi TT Coupe
SP7	£206.91	£124.15	£135.00	£135.00	£110.69		£117.00			£136.00	£86.00		£150.00	£125.26	£125.26			£125.67		BMW 24 (3.0) / Audi TT Roadster 3.2T Quattro (3.2) / Mercedes-Benz CLK200 Cabriolet (2.0) / Porsche Boxster (2.7) /
SP8	£229.27	£137.56	£150.00	£150.00	£124.30	£81.99	£117.00			£121.00			£165.00					£152.37		Mercedes-Benz SLK350 (3.5) / Mercedes-Benz CLK350 Coupe (3.5) / Mercedes-Benz CLK280 Cabriolet (2.8)
SP9	£251.64	£150.98	£160.00	£160.00	£132.48	£163.69	£117.00			£142.00			£180.00					£167.30		TVR Tuscan Targa (4.0) / Porsche Boxster S (3.2) / BMW Z4M (3.2) / Mercedes-Benz CLK350 Cabriolet (3.5) / BMW M3 (3.2)
SP10	£287.98	£172.79	£180.00	£180.00	£149.73					£193.00			£200.00	£227.29	£227.29			£202.40		BMW 650 (5.0) / Audi S6 Quattro (4.2) / Lexus SC430 (4.3) / Maserati Coupe (4.2) / Porsche 911 Carrera (3.6) / Mercedes-
SP11	£346.70	£208.02	£230.00	£230.00	£213.44		£165.00			£235.00			£250.00			£198.99	£219.67	£198.99	Porsche 911 Carrera S (3.8)/911 Cab/ 911S Cab, Mercedes-Benz SL500 (5.0) / Aston Martin Vantage (6.0) / BMW M6 (5.0),	
SP12	£455.75	£273.45	£300.00	£300.00	£241.73	£198.99	£210.00	£198.00		£330.00			£350.00	£440.45	£440.45	£399.99	£298.22	£399.99	Mercedes-Benz SL55 AMG / Mercedes-Benz SL600 (6.0) / Porsche 911 Turbo (3.8), Aston Martin DB9 (6.0), Mercedes-Benz	
SP13	£666.44	£399.86	£420.00	£420.00	£374.76	£399.99	£305.00	£399.36		£435.00			£470.00	£440.45	£440.45			£399.60	£399.60	Bentley Continental GT (6.0), Ferrari F430/360, Lamborghini Gallardo, Ferrari 575, Bentley GTC Cab, Aston Martin DB9

ANNEX 2 EXHIBIT 3

Additional GTA Charges

Notes

All daily settlement rates are excluding vat.

An additional £5 a day can be added for automatics (where this matches the customer's vehicle) unless the model listed is an automatic.

Vehicles with semi-shift gearboxes/ direct shift gearboxes where you can change gears either manually (eg by using paddles behind the steering wheel) or automatically, qualify for the £5 per day uplift for automatics.

An additional £5 a day can be added for estate vehicles (where this matches the customer's vehicle) unless the model listed is already an estate.

An additional £5 a day can be added for necessary extras such as tow bars and baby seats which reflect the customer's damaged vehicle type/fitments.

An additional £12 per day add-on to the agreed daily settlement rate for dual control vehicles (£7 per day add-on if insurance cover not provided).

For customers with a convertible, unless the model listed is already a convertible, convertibles are treated by placing them into the group higher than the hard top version e.g. BMW M3 is in SP9. The convertible equivalent would be in SP10.

Disabled driver vehicles - reasonable direct costs can be recovered plus an administration charge of £10 is acceptable in most instances. For any special adaptations then the CHO should discuss these with the insurer, preferably at the time the hire commences.

1. No charge can be included for additional drivers unless they are a non-standard driver. An additional insurance premium may only be charged where either the hirer/driver or additional driver is considered to be a non-standard risk and would therefore normally attract a loading of insurance premium by insurers. Examples of a non-standard risk driver would be under 25 years of age or over 70 years of age, lack of driving experience (held a full driving license for less than 12 months), occupation (e.g. Professional sportsperson, members of the Acting or Entertainment professions, Journalist, Publicans etc), convictions resulting in an unspent ban or greater than 7 points outstanding on their license.

ANNEX 2 EXHIBIT 4



CCL Accident Support Limited, Black Moor Road, Verwood, Dorset BH31 6YS

About us

CCL is a specialist supplier of vehicles to customers in the unfortunate event that they have had an accident.

We are a wholly owned subsidiary of Hertz UK, and therefore have full UK coverage at our 140+ locations, including all airports. The size of our vehicle fleet stands at 25,000.

CCL is also a supplier of choice for specialist vehicles, and has its own fleet of vehicles to meet people's needs.

Vehicles will be delivered to the preferred location of the customer – home, office or repairer; and the cost of this service is included within the price.

Insurance Cover

CCL insures all rentals on a fully comprehensive policy, where the minimum excess is £350 should the vehicle be damaged. Should the driver wish to reduce the excess, an excess waiver to £0 can be purchased at the cost of £2 per day.

Up to 2 named drivers can be insured at no additional cost. Further named drivers can be insured, at a cost of £2 per day for each.

Our insurance covers business and domestic use. The following are not covered:

- Hire and reward
- Goods in transit
- Personal effects
- Damage to tyres and glass
- Courier use

Our insurance policy covers drivers over the age of 21 years and up to 70 years. Drivers under the age of 21 and over the age of 70 can be covered, subject to a premium insurance rate per day.



Hertz

Driving Convictions - Hiring Parameters and Additional Costs

- Any Driver with 9 penalty points or below by totting up on minor convictions in the last three years, will be included at normal terms.
SP, CU, TS, LC, MS, MW and PC
- Any Driver with one conviction and one of the following codes in the last four years, will be included at normal terms.
CD10, CD20 and CD30
- Any Driver with one minor conviction and one of the following in the last four years will be included subject to an additional £250 excess.
AC10, AC20, AC30 and IN10
- Any Driver with any two of the following in the last four years will be included subject to an additional £500 excess.
CD10, CD20, CD30, AC10, AC20, AC30 and IN10
- Any Driver with one minor conviction and any one of the following in the last five years will be included subject to an additional £750 excess
DR10, DR20, DR30, DR40, DR50, DR60, DR70, DR80, DR90, BA10, BA30 and DD40
- Any Driver with a TT99 in the last four years will be included subject to an additional £500 excess
- Any Driver with any of the following in the last five years are not automatically covered and must be referred.
CD40, CD50, CD60, CD70, DD60, DD80, UT50

Excluded Drivers

- Provisional Licence Holders
- Drivers who have held a licence issued outside Great Britain, Northern Ireland, the Isle of Man, or the Channel Islands for less than 2 years.
- Amusement caterers
- Directors and Producers (film, stage, radio or television)
- Full time actors and actresses (film, stage, radio or television)
- Fairground showmen and circus employees, itinerant traders and workers
- Models
- Pop Musicians
- Members of the entertainment profession
- Professional sportspersons and / or sport personalities

Any of the above will be referred to CCL's Insurance Broker for clarification

Mileage Restrictions

Vehicles are provided with an allowance of up to 2,800 miles per 28 days.

Vehicles Abroad

Vehicles can be taken abroad, however there will be an administration charge in order to provide the driver with the relevant documentation.

Customer Liabilities

The customer is liable for the following charges whilst the vehicle is on rent:

- Penalty charge notices – the fine cost plus an admin fee of £40
- Excess fuel charges (the vehicle should be returned with the same amount of fuel that it had when delivered)
- Damage excess of £350 (should the vehicle have new damage on return)
- Excess waiver reduction is available at a cost of £2 per day to reduce the excess from £350 to £0
- Loss or damage to glass and tyres
- Additional driver cost of £2 per day for more than 2 named drivers
- Abortive delivery or collection charge of £30

The customer will be asked for credit card details before the commencement of the rental. No charge or authorization will be taken from the card, however the customer agrees that the card can be charged in the event of charges for which the customer is liable.

Customers will need to show a copy of their driving licence (and any additional drivers) at the time of vehicle handover – both paper and photo. Further proof of ID (utility bill, passport) may also be required.

Rates per day

	Group	GTA Group	Vehicle Example	Intervention rate	Additional Extras	
<u>Standard</u>	A	S1	Citroen C1 1.0	£15.00	Automatic	£3.00/day
	B	S2	VW Polo 1.2	£15.15	Estate	£3.00/day
	C	S3	Ford Focus 1.4	£18.35	Auto Estates	£6.00/day
	D	S4	Ford Focus 1.6	£19.40	Tow Bar	£3.00/day
	E	S5	VW Passat 1.8	£22.50	Roofracks	£3.00/day
	F	S6	Ford Mondeo 2.0	£25.50	Underv 21's	£8.00/day
<u>MPV</u>	Small MPV	M1-M2	Ford Focus C-Max	£31.50	Over 75's	£5.00/day
	Large MPV	M3-M4	Ford Galaxy	£38.50	Ban < 6 months	£10.00/day
<u>Prestige</u>					Ban > 6 months	£15.00/day
	Sprem	P1-P2	Audi A3	£39.50		
	Sprem	P3	BMW 120	£41.50		
	Sprem	P4	BMW 320, Mercedes C200	£43.50		
	Mprem	P5	BMW 520, Mercedes E200	£53.50		
	Mprem	P6	BMW 525, Mercedes E320	£72.50		
	Mprem	P7	Audi A6	£86.00		
	Lprem	P8	Mercedes CLS	£98.00		
<u>4x4 Pick/Up</u>	4x4 P/up	CP1	Ford Ranger	£42.00		
<u>4x4</u>	S4x4	F1-F2	Ford Kuga	£43.00		
	L4x4	F3-F4	Audi Q3	£55.00		
	Exec 4x4	F5	Volvo XC70	£75.00		
<u>Sports</u>	Ssports	SP1-SP2	Mini Cooper	£38.00		
	Ssports	SP3	Audi A3	£46.00		
	Msports	SP4	Audi TT, Golf GTI	£59.00		
	Msports	SP5	Mercedes CLK	£65.00		
	Msports	SP6	Audi A4 Cabriolet	£86.00		
<u>Vans</u>	V1	PV1	Ford Connect	£19.50		
	V2	PV2-PV3	Ford Transit SWB	£26.50		
	V3	PV4	Ford Transit LWB	£31.50		



Rates are inclusive of:

- Delivery and collection
- Full Comprehensive Insurance with an excess of £350
- One additional driver
- Mileage of up to 2,800 per month (additional mileage will be charged at £0.10p per mile)

Rates are exclusive of:

- VAT

The driver is responsible for:

- Fuel (if not returned as with fuel to the level it was delivered)
- Traffic related and parking fines – any fines will incur an administration fee of £40 + VAT
- Damage excess of £350 (should the vehicle have new damage on return)
- Excess waiver reduction is available at a cost of £2 per day to reduce the excess from £350 to £0
- Loss or damage to glass and tyres
- Excess mileage charges at £0.10p per mile
- More than 2 named drivers - £2 per day per additional named driver
- Abortive delivery or collection charge of £30

ANNEX 2 EXHIBIT 5



Priony House
Monks Ferry
Birkenhead
Merseyside
CH41 5LH
Tel: 0844 815 4576
Fax: 0844 249 3939

Our Ref: 32/17400
23 November 2011

Mr [REDACTED]

We are sorry to learn you were involved in a road accident with an Octagon Insurance policyholder.

We know that your main priority will be to get back on the road as quickly as possible and we would like to make this as easy and pain free for you as possible.

Set out below are the various options that are available to you, the cost of which will be met in full by Octagon Insurance.

Free Replacement Vehicle

We will provide you with a replacement vehicle via one of our national service providers. This offer has the following benefits:

- The vehicle will be provided at no cost to you aside from those arising from your own use such as petrol/diesel.
- The cost to Octagon Insurance of providing you with a replacement vehicle is a daily rate of:
£65 (Plus VAT)

this cost is at a predetermined rate between us and our service providers (as per the attached schedule), the cost will not be passed on to you, nor will you have any liability for the costs.
- The vehicle will be similar to your own vehicle in terms of specification and engine size. All replacement vehicles are under 2 years old.
- Unlimited mileage.
- Delivered within 24hrs at a time and location convenient to you.
- Full comprehensive insurance for 2 drivers (subject to driving history). Insurance for the free replacement vehicle will have the same conditions available on your current insurance.
- Full breakdown cover.
- Automatic transmission available upon request.

It is important to note that if you are already in a hire/replacement vehicle with an Accident Management, Credit Hire Company or Solicitor that you contact them straight away and make them aware of the contents of this letter. It is likely that the daily costs for hire charges that you are incurring with your current provider will be in excess of the daily cost to Octagon Insurance, as set out above.

It is a general principle of insurance that all parties involved in a Road Traffic Accident must keep all costs to a minimum. By allowing Octagon Insurance to provide you with a replacement vehicle, you are adhering to this general principle and your common law duty. In the light of the previously decided cases of Copley v Lawn and Maden v Haller should you fail to accept this offer, then we will not be responsible for hire charges exceeding the daily rate set out above.

Credit hire companies work on the basis that they raise an invoice for the cost of hire in the name of the hirer and then present that invoice to the representatives of the third party (ourselves, Octagon Insurance in this instance) for reimbursement of these costs. But if these costs are not met in full, and often they are not as in most claims the full cost charged is not reasonable or legally justified, then the hire company could look to you for payment of the balance.

For this reason, we are offering you a free replacement vehicle.

Vehicle Repairs

• We can arrange inspection of your vehicle within 24 hrs to determine whether it is repairable or beyond economical repair. If repairable, we can arrange repairs through our approved repairer network or if you prefer, you can use a garage of your choice and we will settle payment for repairs with that garage directly on agreement of repair and labour costs.

• In cases where the vehicle is beyond economical repair, we can issue a cheque for the pre-accident value within 5 working days following inspection and confirmation of pre-accident value.

What should you do next?

If you wish to accept our offer to help you, then please call our offices on 0644 8154976 where we will arrange delivery of your free replacement vehicle to get you back on the road.

Again we wish to reiterate the importance of keeping all costs to a minimum and that our role in this process is to help and assist you to ensure this is done. We look forward to hearing from you.

Yours faithfully

For and on behalf of Octagon Insurance Ltd

Octagon Insurance Company Limited is authorised and regulated by the Gibraltar Financial Services Commission and regulated by the FSA for the conduct of UK non-investment insurance business
Carpenters Solicitors, Priory House, Monks Ferry, Birkenhead, Merseyside CH41 5LH
Tel: 0800 249 3844 Fax: 0644 249 3830 DX: 17879 Birkenhead 1 www.carpenters-law.co.uk

VAT Registration No. GB 618 8170 25 Regulated by the Solicitors Regulation Authority

Partners: John Carpenter Donna Scully Alan Hayes Paul Meredith Warren Meadows Ann Allister Peter Adlard

Octagon Insurance Rates

Enterprise Vehicle Class	ACRIS Code	Example Vehicle	3rd Party
Manual Cars			
A	MBMN	Toyota Aygo, Chevrolet Matiz, Ford Ka	14.99
B	ECMN	Chevrolet Aveo, Renault Clio, Vauxhall Corsa, Ford Fiesta, VW Polo, Toyota Yaris	16.99
C	CCMR	Honda Jazz, Chevrolet Lacetti, Vauxhall Corsa, Nissan Note	18.99
D	CDMR	Ford Focus, Vauxhall Astra, Toyota Auris, Ford C-MAX, VW Golf, Renault Megane	20.99
E	IDMR	Vauxhall Vectra, Nissan Quashqai, Ford Mondeo, BMW 1 Series	25.99
F	SDMR	Vauxhall Insignia, VW Passat, Chrysler Sebr, Toyota Avenis	29.99
Automatic Cars			
BA	ECAN	Chevrolet Aveo, Renault Clio, Vauxhall Corsa, Ford Fiesta, VW Polo, Toyota Yaris	19.99
CA	CCAR	Honda Jazz, Chevrolet Lacetti, Vauxhall Corsa, Nissan Note	21.99
DA	CDAR	Ford Focus, Vauxhall Astra, Toyota Auris, Ford C-MAX, VW Golf, Renault Megane	23.99
EA	IDAR	Vauxhall Vectra, Nissan Quashqai, Ford Mondeo, BMW 1 Series	28.99
FA	SDAR	Vauxhall Insignia, VW Passat, Chrysler Sebr, Toyota Avenis	32.99
Estate Cars			
CEST	CXMR	Honda Jazz, Chevrolet Lacetti, Vauxhall Corsa, Nissan Note	21.99
DEST	CWMR	Ford Focus, Vauxhall Astra, Toyota Auris, Ford C-MAX, VW Golf, Renault Megane	23.99
EEST	IDAR	Vauxhall Vectra, Nissan Quashqai, Ford Mondeo, BMW 1 Series	28.99
FEST	SDAR	Vauxhall Insignia, VW Passat, Chrysler Sebr, Toyota Avenis	32.99

Enterprise Vehicle Class	ACRIS Code	Example Vehicle	3rd Party
Automatic Estate Cars			
CESTA	CXAR	Honda Jazz, Chevrolet Lacetti, Vauxhall Corsa, Nissan Note	24.99
DESTA	CWAR	Ford Focus, Vauxhall Astra, Toyota Auris, Ford C-MAX, VW Golf, Renault Megane	26.99
EESTA	IWAR	Vauxhall Vectra, Nissan Quashqai, Ford Mondeo, BMW 1 Series	31.99
FESTA	SWAR	Vauxhall Insignia, VW Passat, Chrysler Sebr, Toyota Avenis	35.99
Premium Cars			
SPREM	PDAR	Mercedes C Class, BMW 3, Jaguar X Type	60.00
MPREM	LDAR	Mercedes E Class, BMW 5, Jaguar S Type	82.00
EPREM	XDAR	Mercedes S Class, Jaguar XJ	105.00
Mini MPV			
MMPV	IVMR	Vauxhall Zafira, Renault Grande Scenic, Ford S-MAX	38.99
MMPVA	IVAR	Vauxhall Zafira, Renault Grande Scenic, Ford S-MAX	48.00
MPV			
MPV	FVMR	Ford Galaxy, Renault Grande Espaco, Chrysler Grand Voyager, VW Sharan	54.99
MPVA	FVAR	Ford Galaxy, Renault Grande Espaco, Chrysler Grand Voyager, VW Sharan	57.99
4X4			
S4X4	FFAR	LandRover Freelander, Nissan Xtrail, Honda CRV	65.00
L4X4	XFAR	Jeep Grand Cherokee, Landrover Discovery, Nissan Pathfinder	80.00

E4X4	XXAR	Range Rover	95.00
	V815		
V1	CKMN	Ford Escort, Vauxhall Astra (Car Derived Van)	18.20
V2	SKMN	Ford Transit Van, Renault Traffic Van (Short Wheel Base)	27.84
V3	FKMN	Renault Master Van, Ford Transit Van (Long Wheel Base)	36.41

Parabis ref - [REDACTED] Your ref - [REDACTED]

[REDACTED]@Parabis.co.uk

Sent: 24/10/2013 14:16

To: [REDACTED]@true.co.uk

Your client - [REDACTED]

Our Principal's Insured - [REDACTED]

Accident Date - 13/10/2013

We confirm instructions to handle the above claim on behalf of CIS insurance. Please note our interest and ensure that all correspondence is directed to Parabis Ltd.

We note that the claimant requires a hire vehicle.

We trust that the claimant has been advised that they have a duty to mitigate their loss.

We can offer the following services:

Vehicle Repairs

- o Arrange inspection of your vehicle

If our client was at fault we can:

- o Arrange and pay for repairs at a recommended repairers
- o Transport vehicle to the garage or to alternative storage
- o Arrange for disposal of the vehicle for salvage
- o Pay compensation for the pre-accident value of the vehicle, if the vehicle is a total loss, net of the salvage value if that is more advantageous.

Replacement Vehicle

If our client was at fault, we can arrange the hire of a replacement vehicle, your client will not pay for this vehicle provided that the terms for hire are adhered to, our Principal will. We are able to obtain vehicles at the rates outlined below, although this list is not exhaustive – if the vehicle required is not listed then please contact us for details of the rate.

If a vehicle has already been supplied and the rates below are less than quoted, please give consideration to charging our rate or alternatively terminating hire. In any event, please pass this letter to your client.

	<u>Engine size</u>	<u>Sample vehicles</u>	<u>Rate per day</u>
	1.0	Citroen C1 / Peugeot 107 / Nissan Micra	£20
	1.1 – 1.2	VW Polo / Renault Clio / Vauxhall Corsa / Ford Fiesta	£20
1.4 – 1.5	Vauxhall Astra / Ford Focus / VW Polo / Citroen Berlingo Multispace X / Vauxhall Meriva Life / Vauxhall Corsa		£22
1.6	Peugeot 307 Renault Megane / Vauxhall Astra / Ford Focus, V W Beetle 1.4, Vauxhall Meriva / Citroen C3 Pluriel Convertible		£24
	1.8	Peugeot 407 / Vauxhall Vectra / Ford Mondeo / Renault Laguna / V W Beetle 1.4 convertible / Ford Street ka 1.6 convertible / Vauxhall Tigra coupe cabriolet 1.8 / Volkswagon Golf SE 2 door Cabriolet 1595cc / Peugeot 206 1.6 sport convertible	£25
1.9 – 2.0	Vauxhall Vectra / Ford Mondeo / Peugeot 407 / Renault Laguna / Honda Civic 2.2i Sport / VW Golf (excl GTi) / VW Passat diesel / Volkswagen Golf GT Tdi / VW Beetle		£30
2.2 – 2.5	Vauxhall Signum / Peugeot 607 / Touring Cabriolet / Vauxhall Astra Convertible Linea Rossa 2198 / Renault Megan		

	Coupe Cabriolet 1870 / Honda Accord I-CDTI Sport	£40
	MPV	
1.6 - 1.8	Citroen Picasso / Ford Focus C-Max / Renault Scenic / Vauxhall Zafira / Mazda Premacy / Nissan Qashqai Acenta	
	£35	
	MPV	
2.0	Citroen Picasso / Ford Focus C-Max / Renault Scenic / Vauxhall Zafira / Honda FR-V / VW Golf Plus S TDI	£40
	MPV	
2.0 +	Ford Galaxy / Toyota Previa / VW Sharan / VW Touran TD 7 seats / Volkswagon Touran 7 seats / Renault Espace	£45
	MPV	
2.0 +	Chrysler Voyager / Mercedes-Benz Viano / Mitsubishi Grandis / Renault Grand Espace / Ford Galaxy / Toyota Previa	
	£70	
	4 X 4	
2.0+	Land Rover Freelander Td4 / Kia Sorrento / Mitsubishi Shogun Sport / Honda CRV CDTI SE / Subaru Forester / Nissan x-trail / Hyundai Santa Fe CRTD CDX Estate	£60
	4 x 4	
2.5 +	Mitsubishi Shogun / Jeep Grand Cherokee / Lexus RX300 / BMW X3 / VW Touareg / Land Rover Discovery / Shogun Warrior	
	DI-D 3200	£80
	Prestige -	
2.0 +	BMW 325 or 520 / Audi A4 or A6 / Mercedes-Benz C230 / Jaguar X-type petrol & Jaguar S-type / Volvo S60/V50 / Lexus IS 220/IS 250 / Mercedes C270 / Honda Legend / Audi A4 diesel Avant / Mercedes C220 CDI sport edition / Audi A6 2 litre SE TDI	
	£80	
	Prestige -	
3.0 +	BMW 330 or 525 / Audi A4 or A6 / Mercedes-Benz C320, E220, E240, C350 / Audi All Road / Volvo V70 or S80 SE LUX / Jaguar S type / Alfa Romeo 159 / Audi Quattro A4 TDI	£115
	Taxis Saloon 1.8+	£85
	Purpose built PCO black cab / purpose built black cab	£85
	Motorcycles 50 - 100cc	£25
	Up to 125cc	£32
	126cc - 500cc	£40
	501cc - 650cc	£45
	650cc +	£55

If the claimant wishes to use the services which we can provide, they should contact us immediately via telephone number 0844 984 4900, quoting the claims reference shown on our correspondence.

If your client has already entered an Agreement, we recommend that your client terminates the hire with immediate effect and uses the service which we offer as our principal's liability will be restricted to the daily rate which we would have paid our supplier as per the case of Copley v Lawn. Alternatively, we have no objections to the current provider continuing to supply the vehicle at our provider's rate.

We will not consider any hire where a damaged vehicle is drivable and repairable unless repairs have been authorised, parts are available and the repairs have commenced. If there is any delay in the repair process we will require a full explanation.

If the vehicle is considered to be beyond economical repair, the engineer should be appointed immediately and the report forwarded to us via e-mail soon as it has been received (including images of the damaged vehicle). As offered above, we can arrange an inspection if required. If vehicle beyond economical repair and is in storage we will pay no more than 7 days reasonable storage charges from date outcome of inspection confirmed, subject to all other issues being agreed. If the claimant has a driveway or garage we do not expect any storage claim to be pursued.

We do require mutual agreement regards the vehicle that is to be supplied.

Please note if we are unable to confirm indemnity or liability, if Comprehensive cover is in place we do expect your client to utilise the cover provided under own policy in order that they mitigate any loss incurred.

Kind regards.

Andy

[REDACTED]
Claims Technician

Parabis Ltd

G1 G Mill, Dean Clough

Halifax HX3 5AX

Tel [REDACTED] Fax [REDACTED]

www.parabisltd.co.uk

Please help us achieve our environmental targets by not printing this email unless it is essential



Our Reference: [REDACTED]

Your Reference: [REDACTED]

Haven Claims
Suite 2a, Second Floor
160 London Road
Sevenoaks
Kent
TN13 1BT

Tel: 01732 747100
Fax: 01732 747101
Email: info@havenclaims.co.uk

True Solicitors
Percy House
Percy Street
Newcastle-Upon-Tyne
NE1 4PW

Dear Sirs

Our Client: [REDACTED]
Our Registration: [REDACTED]
Your Client: [REDACTED]
Your Registration: [REDACTED]
Accident Date: 21 November 2013

**OFFER OF A REPLACEMENT VEHICLE TO YOUR CLIENT
WITHOUT PREJUDICE TO LIABILITY AND COSTS**

We are Haven Insurance Company trading as Prospect Legal Limited.

We have written to the Claimant to make an offer for a replacement vehicle and enclose a copy of this letter.

Whilst we can appreciate and understand that your Client may be using an alternative vehicle, it is our understanding that there are currently vehicles available to this Claimant that could be provided at a set of rates we attach.

We have based the provision of these rates to you upon the known specific characteristics of this Claimant. Please find a copy of these rates and characteristics attached. If you know or are aware of any characteristics of the Claimant that require amendment (this could potentially affect the rate), then please do inform us at the earliest available opportunity and we will consider the position and whether it affects the rates we have provided.

As a legal service provider, you will be in no doubt as to the legal principles which govern the concept of mitigation of loss. The rates we have attached to this correspondence, we feel, will afford the Claimant a competitive price for the rate of hire per day.

We would respectfully and politely remind you that the judge in a future trial of a damages claim in relation to the hire vehicle would have it brought to his attention that the Defendant's insurers could have provided the vehicle at the daily rate attached and from which time and date the hire of the Defendant's vehicle could have been undertaken.

The Claimant has, we would suggest, been given all of the necessary information to make a realistic comparison between the costs of hiring from a Credit Hire Organisation and the costs incurred of hiring a vehicle provided by ourselves. It will then, in all likelihood, be a

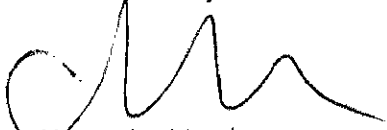
matter for the judge as to whether the full rate as charged by yourselves would be recoverable from the Defendant, or whether the maximum that could be claimed will be the amount it would have cost had the Claimant taken the offer made by the Defendant of a like for like vehicle at a cheaper rate. The recent determinations in *Copley v Lawn* [2009] EWCA Civ 580 and *Sayce v TNT* [2011] EWCA Civ 1583 are the authorities for these propositions.

We reserve the right to bring this letter to the court's attention should greater charges than those which are present upon the schedule of available rates attached to this letter be claimed in the course of proceedings. The early notification of these matters can also be raised should the proceedings continue to the court process in relation to any legal costs incurred.

We trust that you will provide legal advice on the same to your Client in order to protect his position.

If you have any queries regarding the matters raised above, then please do not hesitate to contact us on the contact details found below.

Yours faithfully

A handwritten signature in black ink, appearing to be 'Alexandra Lloyd', written over the typed name.

Alexandra Lloyd
Haven Claims

info@havenclaims.co.uk

Our Reference: [REDACTED]

28 November 2013

[REDACTED]

Dear [REDACTED]

Our Client: [REDACTED]

Accident Date: 21 November 2013

**OFFER OF A REPLACEMENT VEHICLE
WITHOUT PREJUDICE**

We are Haven Insurance Company trading as Prospect Legal Limited.

We understand that you were recently involved in a Road Traffic Accident with our Insured.

We are sorry to learn that you have been involved in an incident with our insured and we understand that damage has been caused to your vehicle as a result of the collision.

We are able to deal with your claim in full and would like to take this opportunity to offer our services to you. We are able to repair your vehicle and provide a free replacement vehicle if required whilst yours is off the road. Whether you wish to use your own chosen repairer or one of our nationwide approved repair centres we are able to deal with your claim professionally and efficiently.

We offer to provide you with a replacement vehicle of the same or better quality and value than that which was damaged in the accident. We will not charge you for the vehicle and even if a later claim against us fails we will not at any stage seek to recover the cost from you. We are very happy to discuss your precise replacement needs.

In order to give yourselves and your representatives a better opportunity to discuss and consider these options, we have attached a list of rates of vehicles we could provide. We have based them upon the believed characteristics of you as a driver. If any of these characteristics are incorrect and should be amended, please do let us know as soon as you can.

This is an offer for a vehicle you can drive when your vehicle is not available to you in relation to this accident. The cost to us will be £34.22 plus VAT. We will also be responsible for additional costs such as insurance, the cost of adding an additional driver and associated costs such as delivery and collection.

We have attached a copy of the rates from the hire provider for your information.

We intend to provide you with the opportunity to decide which vehicle offered to you would provide the greatest value for money and achieve fairness to all parties.

We can well understand that you may have been offered a vehicle by another organisation in the days following your accident, and that you may have been given the impression this was free also. It is important to consider the charges if you have agreed to undertake hire of a different vehicle. In a number of previous instances, it has been found that some companies will offer cars of exactly the same description as those to which we could provide, but at a higher cost or rate.

We would politely ask you to responsibly consider whether, in the event that our vehicle is cheaper than that to which you been offered for hire, you can take the vehicle we can afford to you. It might be considered fairer and more reasonable to take the vehicle that would cost least if they are similar or better than that to which you were offered. You will not be held personally liable by using the vehicle that we can offer to you whilst your car is being repaired or a settlement for the pre-accident value being finalised.

It is hoped that you can discuss these matters with your insurance company or representatives, who should be able to afford you such advice as is necessary on these issues.

We must remind you that as the victim of an accident you still have a legal duty to minimise your loss (alternatively referred to as a duty to mitigate your loss). If you have entered into an arrangement with a Credit Hire Company, then under the current arrangement not only could you be personally liable for charges, but the responsibility may not be capable of being passed on to us. If you choose to accept our offer the ongoing replacement cost to you will be nil.

If you are unclear about the contents of this letter then please do not hesitate to contact us, our details are set out in this letter and in any event we advise you take legal advice.

We look forward to hearing from you.

Yours sincerely

Alexandra Lloyd
Prospect Legal Ltd

info@prospect-legal.co.uk

Vehicle	ABI Rates	Haven Rates	Description
S1	30.89	16.99	Vauxhall Agila (1.0), Citroen C1.(1.0), Peugeot 107. (1.0), Peugeot 208 Access plus 68 BHP 1000cc, Nissan Micra .(1.0), Toyota Yaris,(1.0), Fiat Scelcento (.889cc.), Microcar Virgo (1.0), Smart Pulse Coupe (600cc) (moved from S2 19.5.10), Reva G-Wiz Electric, VW Polo 1.0L
S2	35.02	18.99	VW Polo 1.2, Renault Clio (1.2) / Vauxhall Corsa (1.2) / Ford Fiesta (1.2), Smart ForFour (1.1), Suzuki Wagon 1229cc, Fiat 500 Pop, Fiat 500 Lounge, Fiat Punto ELX,5Dr. 1.2ltr, Fiat Panda 1.2 Lounge 1242cc, Fabia Elegance TSI 105bhp 1197cc,
S3	37.35	21.99	Vauxhall Astra (1.4), Vauxhall Astra 1.2 CDTI 16V 95PS ECOFLEX 1248cc, Ford Focus (1.4) / Peugeot 307 (1.4) / Toyota Corolla (1.4) / VW Polo (1.4) / Honda Civic (1.4), Smart ForFour (1.3), Hyundai Getz D GRITD/GSI 1.5, Peugeot 207 1.4, Honda Jazz 1.5, Vauxhall Corsa 1.4, Suzuki Jimmy 1.4, Nissan Note Acenta 1398. (moved. M. 2010) Peugeot 308.(all derivatives)(moved to S4.11.04.11), Renault Wind roadster dynamique 5 TCE convertible 1149cc, Ford Fiesta 1.0T Zetec EcoBoost 100PS 998cc
S4	40.05	22.99	Peugeot 307 (1.6), Peugeot 207Sport.SW, 1.6. / Renault Megane 1.5 /1.5/ Vauxhall Astra (1.6) / Ford Focus (1.6), Focus Zetec (130 PS) 1 litre, Focus Titanium 99 & 125 BHP 999cc, Smart ForFour (1.5), V W Beetle 1.4, Ford Street ka 1.6, Mini One 1.6, Peugeot, 206 Allure Coupe 1587cc, Citroen C3 Pluriel Convertible 1360, Renault Modus 1.6, VW Golf GT TSI 1.4. Alfa Romeo Mito 1.4 VELOCE MULTIAIR, Toyota Prius 1500, Honda Insight hybrid 1399, Seat Altea 1.4 (moved from M2 19.5.10), Hyundai. Comfort 130.5Dr. 1600ccs. Chevrolet Cruze. 1.5 4dr Sal. Peugeot 308. 1.4.Ltr.(All derivatives other than Conv/coupe), Mini First Hatchback 1.4L, Mitsubishi Lancer GS 2. Nissan Juke.Acenta. DCI. 1.5ltr.Renault Megane Dynamique 1.4/1.6, Citreon DS3 Black & White HDI 90 3dr Hatchback, Diesel 1560cc, Skoda Octavia 1197 SE Tsi (105PS), Seat Toledo 1.6 105 TDI Ecomotive 1598cc
S5	42.37	25.99	Peugeot 407 (1.8) / Vauxhall Vectra (1.8) / Ford Mondeo (1.8) / Renault Laguna (1.8), V W Beetle 1.4 convertible, Ford Street ka 1.6 convertible, Mitsubishi Colt CZC cabriolet 1.5, Mitsubishi ASX 3 (1.8) , Vauxhall Tigra coupe cabriolet 1.8, Volkswagen Passat SE 20v Turbo1791 (petrol), Toyota Avenis 1.8, Volkswagen Golf SE 2 door Cabriolet 1595cc, Peugeot 206 1.6 sport convertible, Volkswagen Golf Hatch 5 door1.6 FSI, Alfa Mito 1598, Toyota Prius 1.8, Honda CR-2. 1.5 ltr. Hybrid Eng, Honda 2012 Civic I-VTEC SE 5 dr Auto Hatchback 1.8, Skoda 1.6TD CR Elegance.(New Model.2010) Peugeot.308s.5 dr. Toyota Auris.1.8 Hybrid.Synergy. Vauxhall Astra. SE2 Coupe. 1796ccs. Volkswagen Golf. 1.6. TDI. Blumotion.tech DSG. Vauxhall Astra. Twin Top. Conv. 1600i Vauxhall Astra Sportive. DTI. 1685ccs. Peugeot 308(all derivatives except Con/ Coupe), VW Passat S TDI Blumotion Technology estate 1.6, Vauxhall Insignia SE 1.4 Petrol, Vauxhall/Opal Insignia 1600cc, Peugeot 508 HDI SW Active 1560cc, MG6 GT S 160PS 1796 Turbo.
S6	45.14	29.99	Vauxhall Vectra (2.0) / Ford Mondeo (2.0) / Peugeot 407 (2.0) / Renault Laguna (2.0), MGZT 2.0 diesel, Rover 75 2.0, Honda Civic 2.2i Sport, Nissan Primera 2.2 turbo diesel, VW Golf (excl GTi) 2.0, VW Passat 2.0, Subaru impreza Sportwagon 2.0, Volkswagen Passat 1.9 diesel, Chrysler Neon 2.0, Toyota Avenis 2.0, Toyota Avenis TSPiRIT D-4D 2.2L, Volkswagen Golf 1.9 TDI SE (moved from S5 12.2.07), Honda Accord VTEC SE Exec Auto, Volkswagen Golf GT Tdi 1.9). VW Golf TDI 170 GTD 2000cc. Peugeot 206 2.0, VW Beetle 2.0, Peugeot 206 GTI (standard), Mazda Sport. 2ltr. Diesel. Peugeot 308 1.6ltr Vti. Sport. 2 Dr. Cab/Coupe. Skoda Octavia.2.0.tr. VRS. V/W. Golf GT TDI 140. 2.0L.Volkswagen Golf.TDI Sport 140BHP. 2.0ltr.Peugeot 308 all derivatives other than Conv/Coupe) Seat Exco 2.0ltr, Vauxhall/Opal Insignia 1800cc, Vauxhall/Opal Insignia 2000cc, Citreon iC5Design 16v 2.0lcc.
S7	63.30	29.99	Vauxhall Signum (2.8), Peugeot 607 (2.2), Peugeot 407 Sport 2.7L, Skoda Superb (2.5), Chrysler PT Cruiser 2.4 Touring Cabriolet 2.4, Vauxhall Astra Convertible Linea Rossa 2198, Renault Megane Coupe Cabriolet 1870/ Megane Cabrio 2.0, Honda Accord I-CDTI Sport 2.2, VW EOS FSI 1984cc, Subaru legacy outback SE E 4x4. 2.5, Volkswagen Passat CC. (2.0), Volkswagen Passat GT CC TDI 170 (2.0) Coupe Diesel. Vauxhall Insignia(2010.Current Models – above 2L). Volkswagen Eos Coupe. Cabriolet. 2.0ltr. Honda Accord. V-Tec. 2354ccs,
MPV			
M	49.35	29.61	Citroen Berlingo Multispace X 1.4, Renault Scenic F1DI 16v 1.4L, Vauxhall Meriva Life 1.4, Vauxhall Meriva 1.6.(old model) , Nissan Note.(All versions Kia.Soul. Tempest/Echo/Shaker/Burner. 1598ccs.

M1	57.03	34.22	Citroen Picasso (1.8) / Ford Focus C-Max (1.6/1.8), Ford C-Mac 1.0T Zetec EcoBoost 100PS 998cc, Renault Scenic (1.6) / Vauxhall Zafira (1.8), Citroen Picasso 1.6, Mazda Premacy 1.8, Renault GR SCENIC EX-ION DCI106E4 1461cc, Nissan Qashqai Acenta/Visia 1.6, VW Touran 1.6 (7 seats), Vauxhall Zafira Life 1598, Vauxhall Zafira Tourer 7 seat 1364 Petrol Turbo 140 PS, Vauxhall Zafira Tourer 7 seat 140PS 1796 Petrol, Vauxhall Zafira Tourer 7 sea 110PS 1956 Diesel, Peugeot 3008 (1598ccs) Vauxhall Zafira Design TDI 1910.ccs, Renault Grand Scenic, Dynamique, Tom, Tom, TCE, 1397ccs, Citroen Bellingo Multispace, Forte, 1868ccs, Volkswagen Golf Plus, 1.4/1.6 (all derivatives) Hyundai iX35, 1.7ltr, Hyundai iX35 PREMIUM CRDI 1995cc, Volkswagen Sharan, 1.4 TSI blue motion Tech, 5 Door, Vauxhall Merviva SE CDTi 1686cc,
M2	65.03	42.99	Citroen Picasso (2.0) / Ford Focus C-Max (2.0) / Renault Scenic (1.9) / Vauxhall Zafira (2.0/2.2), Honda FR-V 2.0, VE Golf Plus 1.9 / 2.0, Renault Megane Scenic Privilege VVT (140) CVT, Honda Stream SE sport 2.0, VW Touran 1.9/2.0 (5 seats), Peugeot S008, 1.6HDI, EGC Diesel Est. V/W Caddy, Life Max, 7 seater, Nissan Almera Tino, 7 Seater, Nissan Qashqai, Acenta 2WD CVT, 1997ccs, Vauxhall Zafira Breeze, CDTi, 1910ccs, Vauxhall Zafira Tourer 7 seat 130PS 1956 Diesel, Ford S-Max 1.6
M3	76.44	42.99	Ford Galaxy (1.9) / Toyota Previa (2.0) / VW Sharan (1.8), VW Touran 2.0 TD 7 seats, Volkswagen Touran 7 seats 1.9tdi, KIA Sedona 2.9, Seat Alhambra Stylance TDI 130 1.9, Renault Espace 1998cc, Citroen C8 lx hdi 120a 2.0, Toyota Verso Estate 2.2, Toyota VERSO T2 D-4D 2.0L, Seat Altea 1.4XL, VW Touran 1.9/2.0 (7 seats), Mazda 5 Furano (2.0), Ford Focus, S-Max, 2.0 Zetec, Vauxhall Zafira Tourer 7 seat 165PS 1956 Diesel
M4	96.97	50.99	Chrysler Voyager (2.8) / Mercedes-Benz Viano (2.0) / Mitsubishi Grandis (2.4) / Renault Grand Espace (2.0), Ford Galaxy 2.3, Toyota Previa 2.4, V/W 130SE, 1WB, 8 seater, Transporter.
M5	145.44	87.26	Mercedes-Benz Viano (2.2) / Renault Grand Espace (3.0)
M6	184.23	110.54	Mercedes-Benz Viano (3.5), Chrysler Grand Voyager 3.3,

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F1	95.82	57.49	Land Rover Freelander (1.8) / Mitsubishi Outlander (2.4) / Toyota RAV4 (2.0) / Nissan Terrano (2.7), Kia Sportage 2.0, Mitsubishi Shogun Pinin 1.8, Suzuki Grand Vitara 1.6, Suzuki Grand Hard Top 2.0, Ford Kuga, 2ltr, Skoda Yeti TDI, 2.0ltr.
F2	102.67	61.60	Land Rover Freelander (2.0)/TD4, Landrover Freelander 2, 2.2ltr, Kia Sorento (2.5), Mitsubishi Shogun Sport 2.5, Honda CRV CDTi SE 2.2, Subaru Forester 2.0, Nissan x-trail 4x2 2.2, Honda CRV Vtec sport 2.0, Hyundai Santa Fe gsti crtd 2.2, Hyundai Santa Fe CRTD CDX Estate 2.2, Kia Sorento 2.2 & 2.4, V/W Tiguan, Escape, TDI, Toyota Rav 4 (2.2) V/W, Tiguan SUV, Sport, 2.0 TDI Dpf 140, V/W Tiguan, 1.4, 2 WD, Citroen C-Crosser VTR Plus HDI 2197.
F3	110.66	66.40	BMW X3 (2.0), BMW X1 s drive SE (2.0), BMW X1 XDRIVE 2.0D M Sport, Land Rover Discovery (2.5), Mitsubishi Warrior L200 2.5, Mitsubishi L200 4X Barbarian, Nissan x-trail SVE Auto 2.4, Honda CRV VTEC Exec 2.0, Nissan Pathfinder sport 2.5, Kia Sorento, KX-1, KX-2, KX-3, Chevrolet Capiva, 2.0 VCDi, Isuzu Trooper TDI, 2999ccs, Range Rover Evoque 2.2,
F4	135.76	81.46	Mitsubishi Shogun (3.5), Jeep Grand Cherokee (3.0), Lexus RX300 (3.0), BMW X3 (2.5), VW Touareg (2.5), Volkswagen Touareg 2.5 Tdi SE, Land Rover Discovery 2.7SE, Shogun Warrior DI-D 3200, Landrover Discovery 2, TTD V6 SE, Audi Q5, 2ltr, Volvo XC60, Volvo XC60 (2 wheel drive not the 4 wheel drive version) Diesel 1984cc, Land Rover Discovery 4, XS.
F5	182.51	109.51	Mercedes-Benz ML270 & ML300 BMW X5 (3.0) / Land Rover Discovery (4.4), Stationwagon 5d auto, Landrover Discovery, XS, TD, V6, 3.0 ltr/ also G5, model), VW Touareg 3.0, Toyota Land Cruiser 3.0 1C4, BMW X3 3.0/3.0d, Volvo XC70 2.5T/D5, Jeep Grand Cherokee 4.7, Audi Q5, 3ltr, BMW X 6.
F6	205.34	123.20	BMW X5 XDrive40d SE 5dr and 7dr, Mercedes-Benz ML350 (3.5), Porsche Cayenne (3.2), Porsche Cayenne V6 Diesel TIP S 2968cc, Lexus RX400, Volvo XC90 2.9SE, Audi Q7 Tdi Quattro 3.0 (7 seats), Volvo XC90 SE D5 2.4, Range Rover Sports S 2.7, Audi Q5, 3.2ltr, Infiniti, EX 30/37, Land Rover Discover TD, V6, HSE, regrouned, 4.11
F7	239.56	143.74	Porsche Cayenne S (4.5) / BMW X5 V8 (4.4) / Mercedes-Benz ML500 (5.0) / Range Rover (3.0), Audi Q7 Fsi Quattro 4.2 (7 seats), Infiniti FX 37,
F8	256.67	154.00	Range Rover V8 (4.4) / Range Rover Sport Supercharged (4.2), BMW X5 4.8 Sport 5 door auto, VW Touareg 5.0, BMW X5 (4.8is), Land Rover / Range Rover Sport Diesel Estate TDV8 HSE 5 door Auto, Infiniti, FX 50, Range Rover sport 3.0 Autobiography, Porsche Cayenne GTS V8 (4806 cc).

P9	313.71	188.23	Porsche Cayenne Turbo (4.5) / Range Rover Vogue Supercharged (4.2) Ranger Rover sport Autobiography 5.0ltr. Mercedes-Benz. ML 63, Cadillac Escalade 8 Seats V8 Auto 6162cc
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P1	79.85	47.91	Mercedes-Benz A150 (1.5). Audi A3 (1.6). BMW 116 (1.6), BMW 116i SE 2.0ltr. BMW 116D Sport 3DR 2.0ltr. Alfa Romeo 147 Lusso 1.6, Mercedes A140 1.4, Audi A3 Sport. 1197ccs (saloon), Audi A1. 1.6ltr. Audi A3 1.2, 1.4 and 1.6 (not Sportback)
P2	88.98	53.39	BMW 118 (1.8) / Audi A3 (1.8) / Mercedes-Benz A170 (1.7), Volvo S40 1.6SE, Mercedes A160, Alfa Romeo 147 2.0, Volvo C30 SE 1596, Mercedes Benz B160, Audi A3 1.8 and 1.8T (not Sportback).
P3	94.68	56.81	BMW 120 (2.0), Mercedes-Benz B180 (1.8) / Audi A4 (1.8) / Mercedes-Benz C180 (1.8). Mercedes. C class C180 Komp. Blue eff-cy 1.6. Saab 9-3 1.8t, Audi A3 1.9SE, Volvo S40/V50 1.8SE, BMW 316 (1.8), Saab 9-3 2.2t, Saab 9-3 2.0, Audi A3 Sports 1.5, Alfa Romeo 156 2.4i, Audi A3 T Sport 1.8, Citroen C6 2.1tr. Exclusive. Saloon. BMW 1. 120D M Sport 1995ccs, Audi A3 1.9 and 2.0 (not Sportback),
P4	115.21	65.99	BMW 320 (2.0) BMW 318 D. Sport. 4 Dr Saloon. Audi A4 (2.0) Mercedes-Benz C200 (2.0), Jaguar X type 2.2, BMW 318 (2.0), Bmw 318 / 320 M Sport Jaguar X type, Saab 9-5 saloon (2.0), Volvo S40 (2.5), Audi Avant 2.0 SE (Rate should be uplifted from P4 rate by E5 as the Avant is the estate version of the A4 saloon), Saab 9-3 2.0T, Saab 9-3 Convertible 1.8t, Saab 9-3 Convertible 2.0, Saab 9-3 Vector 150BHP 2.0, Audi A3 CABRIOLET. 2.0 TDI, Audi A4 tdi, Audi A4 cab 1.8t (moved from P7), Audi A4 S line TDI. 1410 manual. 1968ccs. Saab Vector 2.0T. Mercedes Benz. B200.
P5	143.74	89.99	BMW 325 (2.5) / BMW 520 (2.0) / Audi A4 (2.5) / Audi A6 (2.0) / Mercedes-Benz C230 (2.3) / E200 (2.0) / C280 3.0, Jaguar X-type 2.5 petrol, Jaguar X-type 2.5ltr V6. Sport. Volvo S60/V50/V60. 2.0/2.4/2.5, Lexus IS 220/IS 250, Jaguar S type, Volvo V70 (2.0t), BMW 130 (3.0), Mercedes C270, Honda Legend 3474cc, Audi A4 diesel Avant 2.5, Mercedes C220 CDI / sport edition, Audi A6 2 litre SE TDI, Audi A6 2 litre SE TDI, Alfa Romeo 159 Auto 2.4, Mercedes-Benz. C Class. C 250. CGI Saloon. Saab Vector Aero 2.0T. Chrysler 300.
P6	171.12	89.99	BMW 330 (3.0), BMW 525 (2.5), BMW 328 (F30 Sixth Generation) 2 litre twin turbo saloon, Audi A4 (3.2), Audi A6 (2.5), Mercedes-Benz C320 (3.2), Audi All Road (2.5), Mercedes-Benz E280 (2.8), Mercedes E220/E240/C350, Mercedes E250, Sal Blue Eff. Volvo V70 2.4, Jaguar S type 2.7td, Alfa Rome 159 3.2 v6, Audi Quattro A4 TDI 3.0, Volvo S80 SE LUX 140 2.4 Executive, Mercedes E280 CDI 3.0, Jaguar S Type. SE Plus. V6 Saab Vector Aero 2.8 V6.
P7	199.63	89.99	BMW 530 (3.0), Audi A6 (3.2 - 3.5), Audi A6 TDI 3000cc, Mercedes E350 (3.5), BMW 535 (3.5), BMW 530 D M-Sport (3.0) 4 door 3.0, Lexus GS300 SE 3.0, Mercedes E320, Cadillac CTS 3.6, Audi A6 S-Line Quattro Tdi, 3.0, Jaguar XF 3.0 V6 (all models), Infiniti. G37, Saloon. Infiniti M30/37. Mercedes Benz. E 350. (Blue Eff) Sal.
P8	228.13	109.99	Audi A7 S LINE TDI Quattro 3.0L, BMW 540 (4.0) BMW 550 (5.0) BMW 730 (3.0) / Audi A6 (4.2), Audi A8 (3.0), Mercedes CLS320/R320/E500 (5.0)/S28 (2.8), Jaguar XJ6 2.7/3.0, Jaguar S type (4.2), Mercedes CLS350, Lexus GS 450H 3456cc, V/W Phaeton V6. 2011 AUDI A7 3.0T FSI Petrol Quattro SE 5d S Tronic Sportback.
P9	262.37	109.99	Mercedes-Benz S350, Audi A8 (3.7 - 4.2), BMW 735/ 740 (3.5 - 4.0) / Mercedes-Benz E55 AMG, Mercedes Benz. R500. Audi RS6 Avant, Audi RS saloon 4.2, Lexus LS430 4.3, Lexus LS400, Lexus LS F Auto 4969cc, Mercedes-Benz S Class S320 CDI 4dr Auto, Jaguar XF 5.0 V8, Jaguar XJ 5.0 V6 (all models), Porsche Panamera 3.0 litre Diesel
P10	322.84	193.70	BMW 750 (5.0) / Mercedes-Benz S500 (5.0) / Audi A8 (6.0), Maserati Quattroporte 4.2, Jaguar XJ 5.0 V8, Mercedes-Benz. E class 63 AMG. 4dr Sal.
P11	453.44	272.06	Porsche Panamera V8 5. Sdr., Porsche Panamera GTS V8
P12	678.75	407.25	Mercedes-Benz S600 (6.0) / Bentley Continental (6.0), Jaguar New XJ 5.0 V8 supercharged, BMW. 760, Porsche Panamera Turbo 4.8 Bentley Arnage (6.0), Bentley Flying Spur (6.0)

Sports

SP1	76.87	46.12	MINI Cooper (1.6), MG ZR 1.4, Rover MGF 1.8, Mini. Cooper Clubman & Countryman. 1500ccs. (Add £ 5. 00 per day estate charge)
SP2	89.84	53.90	Renault Clio RS182 (2.0) / MINI Cooper S (1.6), / MINI Cooper Cabriolet (1.6), Ford Focus ST 2521cc, Mazda MX5 1.8/2.0 (moved from SP1 5.3.07), Hyundai 1.6 Coupe, Ford Focus ST 2.0, Ford Fiesta ST 2.0ltr. Vauxhall Corsa VXR 1.6 Turbo, Honda Civic S. 1.8. i-VTEC. Audi A3. S Line TDI. 1.6ltr. Convertible. Alfa Romeo. Giulietta Veloce. TB.1368ccs.2 Door hatchback. Renault Clio Sport Cup 1998cc.
SP3	100.38	60.23	Toyota MR2 (1.8) / Celica 1.8, Mazda RX8 (192ps), Audi A3 Sportback 1.6, Hyundai coupe 215E, BMW 118 coupe, VW Scirocco TSi 1.4. Renault Megane. Sports.(2ltr) Vauxhall Astra VXR 2.0T. Minin Cooper S. 1.6ltr. cabriolet, Peugeot RCZ GT THP 156 1598cc

SP4	123.21	73.93	Audi TT Coupe 1.8T (180), Golf GTI (2.0), Audi A3 Sportback 2.0, Audi A3 Diesel Sportback 2.0 TDI Sport 5dr, Audi S3 1.8T (deleted from group 19.11.10. see SP6). Honda Civic type R 2.0, Mini John Cooper works, BMW 120 coupe, VW Scirocco GT TDI, Honda Civic S, GT. 2.2, Ford Focus, RS, 2.5ltr. Seat Cupra 2.0 TSI, R2010 2.0ltr TSI, Ford Focus, RS, 2.5ltr. Mercedes, CLK, 180 Sport.
SP5	134.61	80.77	Audi TT Roadster 1.8T (180), BMW Z4 (2.0), BMW M135i AUTO 2979cc, Lotus Elise (1.8) / Audi TT Coupe 1.8T Quattro (225), VW Golf V6 R32 4 Motion (3189cc), BMW 318 Ci Coupe 2.0, Audi TTC-2 2.0T FSI, BMW 124D coupe M sport, Mercedes CLK 220 sport, BMW 123 coupe, BMW 318 Convertible 1.8ltr, Mercedes E250CDI Sport Coupe 2183cc(Old model), Mercedes CL180 Sports Coupe SE Auto Kompressor, Audi A3, S Line, EDN, TFSI, S-A 3DR, Convertible, /Also 1.8ltr TFSI black edition convertible. Chrysler Sebring limited. Convertible.
SP6	188.23	112.94	Audi A4 T-Sport Cabriolet 1.8L, BMW Z4 (2.5) / Mercedes-Benz SLK200 (1.8) / Mercedes-Benz CLK200 Coupe (2.0), Mercedes Benz E200 coupe 1796 cc (2.8), BMW 330 Ci Sport Coupe 3.3, Mercedes CLK240 2597cc, Mercedes CLK270, Nissan Sports 350z 3.5, Alfa Romeo GT 3.2 V6, Alfa Romeo Brera 3.2 V6, Audi A5 TDI Quattro 2967, Audi A4 Cabriolet 2393, Audi A5 S line, Audi A5 Cabriolet 1.8 FSI Auto, Audi A5 Cabriolet 2.0 TDI Auto, Audi A5 Coupe 2.0 TDI Auto, Infiniti G37, Mercedes SLK 300, Sports Pac, BMW 325 coupe, Nissan 370z V6 GT Coupe 3.7L, Audi A4 TDI Convertible 2496cc, BMW 320 Convertible
SP7	211.05	126.63	Mercedes-Benz SLK350 (3.5) / Mercedes-Benz CLK350 Coupe (3.5) / Mercedes-Benz CLK280 Cabriolet (2.8), Mercedes E250 Cabriolet.. Audi A5 Cabriolet 3.0 TDI Auto, Infiniti G37, Coupe. BMW 335, Coupe & M.Sport.. BMW 330d, 2993ccs, Convertible. Audi S4, Sal, TFSI Quattro. 3.0ltr
SP8	233.86	140.32	Audi S5 Sportback, 3ltr. Porsche Cayman, 2687ccs, BMW 325 Cabriolet.
SP9	256.67	154.00	TVR Tuscan Targa (4.0) / Porsche Boxster S (3.2) / BMW Z4M (3.2) / Mercedes-Benz CLK350 Cabriolet (3.5). Mercedes-Benz E 350 Cabriolet/Coupe. BMW M3 (3.2) / Mercedes-Benz CLK500 Coupe (5.0) / BMW 630 (3.0) / Mercedes-Benz CLK500 Cabriolet (5.0) / Mercedes-Benz SLK 55 AMG Jaguar XK8 Coupe, Porsche Cayman S, Audi S4 Cabriolet Quattro 4163 cc, Infiniti G37, Sport.
SP10	293.74	176.24	BMW 650 (5.0) / Audi S6 Quattro (4.2). Audi RS5, Coupe, 2DR Sport. Lexus SC430 (4.3) / Maserati Coupe (4.2) / Porsche 911 Carrera (3.6) / Mercedes-Benz SL350 (3.5), Mercedes C63 AMG Coupe V8 6300cc, Maserati Spyder (4.2) / BMW M5 (5.0), Jaguar XKR (4.2) BMW, M3, SAL/Coupe/Conv. (4.0ltr).
SP11	353.63	212.18	Nissan GT-R coupe, & Special Edition. 3.8ltr.
SP12	464.87	278.92	Porsche 911 Carrera S (3.8)/911 Cab/911S Cab, Mercedes-Benz SL500 (5.0) / Aston Martin Vantage (6.0) / Aston Martin V8. Vantage.. BMW M6 (5.0) Mercedes-Benz SL500 5.0, Mercedes-Benz CLS 55 AMG, Jaguar XK 5.0 V8, Porsche Targa 4 (3.6)
SP13	678.75	407.25	Mercedes-Benz SL55 AMG / SL 63. AMG. Mercedes-Benz SL600 (6.0) / Porsche 911 Turbo (3.8), Aston Martin DB9 (6.0), Mercedes-Benz, CL600 6.0, Aston Martin DB7 coupe, Porsche 911 Turbo Tiptronic S 3600, Audi R8, Coupe & Spyder, Maserati Grand Turismo, / Also Convertible version. Jaguar XK 5.0 V8 supercharged (coupe and convertibles). Aston Martin V8 Vantage. N400
			Aston Martin DB5 coupe V12 6L, Aston Martin Vantage V12 5935cc 510bhp (5935 cc). Bentley Continental GT (6.0) Bentley Azure. Convertible. 6.75ltr., Ferrari F430/360, Lamborghini Gallardo, Ferrari 575 / 599, Ferrari California, Bentley GTC Cab, Aston Martin DB9 Volante,

Panel Vans

PV1	37.32	22.39	Ford Transit Connect LWB (1.8) / Peugeot Boxer SWB (2.2) / Renault Kangoo (1.9) / LDV Maxus SWB (2.8) / Peugeot Expert (2.0) / Mercedes Vito Compact (2.0) / Toyota Hiace SWB (2.5), Citroen Berlingo Multispace X 1.4.,
PV2	43.31	25.99	V/W CaddyC20. 1.9ltr, Citroen NEMO LX HDI 610 panel van, Renault Traffic SWB (2.0) / Peugeot Boxer SWB High Roof (2.8) / Renault Traffic LWB (2.0) / Ford Transit SWB Low Roof (2.0) / Mercedes Vito Extra Long (2.0) / Toyota Hiace LWB (2.5) / Vauxhall Vivaro SWB High Roof (2.0) / Iveco Daily Class L (2.8) / LDV Maxus SWB High Roof (3.2) / Vauxhall Vivaro LWB (2.0) / Vauxhall Vivaro SWB (2.0) / Vauxhall. 2900LW. 1870ccs, Panel Van. V/W Transporter. 130, 102, TDI Swb(moved 10.11.2010)

PV3	43.31	25.99	Ford Transit SWB Medium Roof (2.0) / Vauxhall Vivaro LWB High Roof (2.0) / Renault Traffic LWB High Roof (2.0) / Renault Traffic SWB High Roof (2.0) / Ford Transit MWB Low Roof (2.0) / Peugeot Boxer MWB (2.8) Vauxhall 2900 LWB High Roof.
PV4	48.02	28.81	Ford Transit MWB High Roof (2.0) / LDV Maxu LWB High Roof (3.5) / Peugeot Boxer MWB High Roof (2.8) / Renault Master SWB (2.5) / Ford Transit LWB Medium Roof (2.0) / Mercedes Sprinter SWB (2.2) / Peugeot Boxer LWB High Roof (2.8)
PV5	50.46	30.28	Mercedes Sprinter MWB (2.2) / Renault Master MWB High Roof (2.5) / Renault Master LWB (2.5) / Ford Transit LWB High Roof (2.0) / Mercedes Sprinter MWB High Roof (2.6) / Iveco Daily Class C High Roof (2.8) / Iveco Daily Class 5 Extra High Roof (2.8).
PV6	52.88	31.73	V/VW LT35/VLWBHR>TDI LWB/High Roof. Vauxhall Movano Maxi Roof (2.5) / Renault Master LWB High Roof (3.0) / Iveco Daily Class C Extra High Roof (2.8) / Ford Transit Jumbo (2.5) / Mercedes Sprinter LWB High Roof (2.6)

Chassis Based Vehicles

CV1	53.98	28.99	Ford Transit MWB (2.0) / Ford Transit XLWB (2.0) / Ford Transit LWB Dropside (2.4) / Ford Transit MWB 1-way Tipper (2.4) / Ford Transit LWB (2.0) / Ford Transit LWB Dropside Double Cab (2.4) / Ford Transit LWB (2.4) Luton
CV2	55.39	34.99	Ford Transit MWB 3-way Tipper (2.4) / Ford Transit LWB Box (2.4) / Ford Transit LWB Double Cab (2.0) / Ford Transit XLWB Double Cab (2.0) / Ford Transit LWB 1-way Tipper Double Cab (2.4)
CV3	58.22	34.99	Ford Transit LWB 3-way Tipper (2.4) / Ford Transit XLWB (2.4) Luton
CV4	82.96	49.78	Iveco Eurocargo 75E Tipper / Iveco Eurocargo 75E Dropside / Iveco Eurocargo 75E 15 Box / Iveco Eurocargo 75E Luton / Iveco Eurocargo 75E Curtain-Sider, Iveco 7.5 Tonne Tilt and Slide.

Chilled

RV1	72.13	43.28	Ford Escort 75 Chilled (1.9)
RV2	99.75	59.85	Ford Transit Chilled (2.4) / Ford Transit Luton Chilled (2.4). Mercedes Sprinter. 2.1. (Chilled)

Pickups

CP1	50.78	30.47	Mitsubishi L200 (2.5) Single Cab. Ford Ranger (2.5) & Ranger Thunder. Toyota Hilux (2.5) Single Cab
CP2	57.61	34.57	Nissan 1-Ton Pickup Double Cab (2.5) / Izuzu Rodeo Double Cab (3.0) / Nissan Navaro (2.5) / Ford Ranger Double Cab (2.5) / Land Rover Defender 90 Tds (2.5) Toyota Hi lux extended Cab
CP3	65.60	39.36	Land Rover Defender County 90 Tds (2.5) / Nissan Navaro Double Cab (2.5) / Land Rover Defender 110 Tds (2.5) / Land Rover Defender County 110 Tds (2.5) / Land Rover Defender 110 High Capacity Tds (2.5) / Land Rover Defender 110 Double Cab Tds (2.5). Nissan Navara Outlook D/C DCI, Toyota Hi lux 270. Double Cab. Mitsubishi Barbarian & Warrior. (Double Cab).

4 x 4

CS1	59.60	35.76	Santana PS10 (2.8) / Nissan Terrano II (2.7) / Land Rover Defender 90 Tds Hard Top (2.5)
CS2	63.74	38.24	Nissan Terrano II (3.0) / Land Rover Defender County 90 Tds Hard Top (2.5) / Land Rover Freelander Commercial (2.0) / Land Rover Defender 110 Tds Hard Top (2.5) / Land Rover Defender 90 Station Wagon Tds (2.5)
CS3	68.45	41.07	Land Rover Defender County 110 Tds Hard Top (2.5) / Land Rover Defender 90 County Station Wagon Tds (2.5) / Land Rover Defender 110 Defender Station Wagon Tds (2.5)
CS4	72.58	43.55	Mitsubishi Shogun SWB (3.2) / Land Rover Defender 90 XS Station Wagon Tds (2.5) / Land Rover Defender 110 Defender County Station Wagon Tds (2.5)
CS5	77.29	46.37	Mitsubishi Shogun LWB (3.2) / Land Rover Defender 110 XS Station Wagon Tds (2.5)

Minibus

CM1	66.03	39.62	Ford Transit Minibus (12 Seats)
CM2	76.40	45.84	15 Seat Minibus
CM3	86.53	51.92	17 Seat Minibus

Taxis - All Taxi rates are for hire vehicles under 3 years old

T1	68.45	41.07	Saloon / Hatchback up to 1.7 (excluding insurance) - For vehicles registered ON OR BEFORE 31st MARCH 2011
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T2	91.26	54.76	Saloon / Hatchback up to 1.7 (including insurance) - For vehicles registered ON OR BEFORE 31st MARCH 2011
T3	85.55	51.33	Saloon / Hatchback from 1.7 (excluding insurance) - For vehicles registered ON OR BEFORE 31st MARCH 2011
T4	108.38	65.03	Saloon / Hatchback from 1.7 (including insurance) - For vehicles registered ON OR BEFORE 31st MARCH 2011
NT3	85.55	51.33	4/5 door saloon irrespective of engine size (excluding insurance) For hire vehicles registered ON OR AFTER 1st April 2011
NT4	108.38	65.03	4/5 door saloon irrespective of engine size (including insurance) For hire vehicles registered ON OR AFTER 1st April 2011
T5	77.57	46.54	City of London Public Hire/Hackney (excl insurance)
T6	104.95	62.97	City of London Public Hire/Hackney (inc insurance)
T7	88.98	53.39	Public Hire/Hackney (excluding insurance)
T8	116.35	69.81	Public Hire/Hackney (including insurance)
T9	228.13	136.88	Vehicles classified in car prestige groups up to and including P6.
T10	171.12	102.67	People carrier 6/7 seats Galaxy, Sharan, Alhambra, Vauxhall Zafira Life DTI.
T12	199.63	119.78	Minibus 8/9 seats Tourneo, Transporter, Vito etc. Mercedes Vito Taxi(6 seater) 2148ccs.
T13	325.11	195.07	Vehicles classified in car prestige groups from P7 upwards
T14	82.13	49.28	Taxi Bike

Motorcycles

B1	33.94	23.50	0 - 50cc
B2	39.65	26.00	51cc- 125cc
B3	55.90	35.00	126cc - 500cc
B4	67.31	39.00	501cc - 650cc
B5	78.65	47.00	651cc - 1000cc
B6	79.85	47.00	1001cc+

ANNEX 2 EXHIBIT 6



Free Hire Vehicle

(Daily Charges)



Free Hire Vehicle

(Daily Charges)

The following is a guide to the types of vehicle available and the daily charges we will pay in providing them to you. The list of vehicles below is not exhaustive. If your own requirements do not appear to be covered in the attached leaflet, please contact us on **0844 873 8189** as we are confident that we will be able to provide a suitable vehicle through one of our hire vehicle suppliers.

Important: Automatic vehicles are subject to an additional charge of £5 per day. Please note, the daily rates (which are inclusive of insurance, but subject to VAT) are for your information only as ALL hire charges will be sent directly to Zenith for payment (including the additional charge for an automatic vehicle where applicable).

GROUP	EXAMPLE OF "STANDARD" VEHICLES	DAILY RATE
S1	Citroen C1 (1.0), Ford KA (1.0), Peugeot 107 (1.0), Nissan Micra (1.0), Vauxhall Agila (1.0), Toyota Aygo (1.0), Hyundai i10 (1.0)	£14.34
S2	VW Polo (1.2), Renault Clio (1.2), Vauxhall Corsa (1.2), Ford Fiesta (1.2), Fiat 500 pop/lounge, Fiat Punto (1.2) Hyundai i20 (1.2), Smart ForFour (1.1)	£16.39
S3	Vauxhall Astra (1.4), Ford Focus (1.4), Peugeot 307 (1.4), VW Polo (1.4), Honda Civic (1.4), Vauxhall Corsa (1.4), Toyota Corolla (1.4)	£18.44
S4	Peugeot 307 (1.6)/207 Sport SW (1.6), Vauxhall Astra (1.6), Ford Focus (1.6), VW Beetle (1.4), Mini One (1.6), VW Golf GT (1.4), Alfa Romeo Mito (1.4), Toyota Prius (1.5)	£20.49
S5	Vauxhall Vectra (1.8), Ford Mondeo (1.8), Renault Laguna (1.8), VW Passat (1.8), VW Beetle convertible (1.4), Peugeot 308, VW Golf (1.6)/TDI (1.6)	£21.35
S6	Vauxhall Vectra (2.0), Ford Mondeo (2.0), Renault Laguna (2.0), VW Passat (2.0 & 1.9D), Toyota Avensis (2.0), VW Golf GT TDI (2.0) & TDI SE (1.9)	£22.64
S7	Vauxhall Signum (2.8) & Insignia, Peugeot 607 (2.2), Skoda Superb (2.5), Honda Accord CDTI Sport (2.2), Volkswagen EOS FSI (2.0)	£24.50

GROUP	EXAMPLE OF "MPV" VEHICLES	DAILY RATE
M1	Citroen Picasso (1.6/1.8), Ford Focus C Max (1.6/1.8), Renault Scenic (1.6), Vauxhall Zafira (1.8), Nissan Qashqai (1.6), Peugeot 3008 (1.6), VW Golf Plus (1.4/1.6)	£28.19
M2	Citroen Picasso (2.0), Ford Focus C Max (2.0), Renault Scenic (1.9), Vauxhall Zafira (2.0/2.2), Honda FR-V (2.0), VW Touran 5 seater (1.9/2.0)	£31.91
M3	Ford Galaxy (1.9), Toyota Previa (2.0), VW Touran (1.9) & TDI (2.0) 7 seater, Kia Sedona (2.9), Renault Espace (2.0), Citroen C8 (2.0), Ford Focus S Max (2.0)	£47.66
M4	Chrysler Voyager (2.8), Mercedes Benz Viano (2.0), Renault Grand Espace (2.0), Ford Galaxy (2.3), Toyota Previa (2.4), Mitsubishi Grandis (2.4)	£47.66
M5	Mercedes Benz Viano (2.2), Renault Grand Espace (3.0)	£67.80
M6	Mercedes Benz Viano (3.5), Chrysler Grand Voyager (3.3)	£85.88

GROUP	EXAMPLE OF "4X4" VEHICLES	DAILY RATE
F1	Landrover Freelander (1.8), Mitsubishi Outlander (2.4), Toyota RAV4 (2.0), Nissan Terrano (2.7), Kia Sportage (2.0), Mitsubishi Shogun Pinin (1.8), Suzuki Grand Vitara (1.6)	£46.27
F2	Landrover Freelander TD4 (2.0) & Freelander 2 (2.2), Kia Sorrento (2.2/2.4/2.5), Mitsubishi Shogun Sport (2.5), Honda CRV CDTI SE (2.2) & V-Tec Sport (2.0), Nissan X-Trail (2.2)	£50.23
F3	BMW X3 (2.0), BMW X1 S drive SE (2.0), Landrover Discovery (2.5), Mitsubishi Warrior L200 (2.5), Nissan Pathfinder Sport (2.5), Isuzu Trooper TDI (3.0), Range Rover Vogue (2.2)	£53.18
F4	Mitsubishi Shogun (3.5), Jeep Grand Cherokee (3.0), BMW X3 (2.5), VW Touareg (2.5), Landrover Discovery (2.7) Audi Q5 (2.0)	£76.00
F5	Mercedes Benz ML270/ML300, BMW X5 (3.0), Landrover Discovery (4.4), Toyota Land Cruiser (3.0) BMW X3 (3.0), Volvo XC70 (2.5), BMW X6, Audi Q5 (3.0)	£120.00
F6	Mercedes Benz ML350, Porsche Cayenne (3.2), Volvo XC90 (2.9 & 2.4d), Range Rover Sport S (2.7), Audi Q5 (3.2), Audi Q7 Quattro (3.0), Land Rover Discovery TD V6 HSE	£130.00
F7	Porsche Cayenne S (4.5), BMW X5 V8 (4.4), Mercedes Benz ML500, Range Rover (3.0), Audi Q7 Fsi Quattro (4.2), Infiniti FX37	£155.00
F8	Range Rover V8 (4.4), Range Rover Sport Supercharged (4.2), BMW X5 Sport (4.8), VW Touareg (5.0), Infiniti FX50	£160.00
F9	Porsche Cayenne Turbo (4.5), Range Rover Vogue Supercharged (4.2)/Sport Autobiography (5.0), Mercedes Benz ML63, Cadillac Escalade V8 (6.2)	£180.00

GROUP	EXAMPLE OF "PRESTIGE" VEHICLES	DAILY RATE
P1	Mercedes Benz A140 (1.4) & A150 (1.5), Audi A1 (1.6) & A3 (1.6), BMW 116 (1.6/2.0)	£ 39.79
P2	BMW 118 (1.8), Audi A3 (1.8), Mercedes Benz A160 (1.6) & A170 (1.7) & B160 (1.6), Volvo C30 (1.6) & S40 (1.6), Alfa Romeo 147 (2.0)	£44.16
P3	BMW 120 (2.0), Mercedes Benz B180 (1.8) & C180 (1.8), Audi A4 (1.8), Saab 9-3 (1.8/2.0/2.2), Volvo S40/V50 (1.8), BMW 316 (1.8), Audi A3 Sport (1.6) & A3 T Sport (1.8)	£46.88
P4	BMW 318 & 320 (2.0), Audi A4 (2.0), Mercedes Benz C200 (2.0), Jaguar X-Type (2.2), Saab 9-5 (2.0), Volvo S40 (2.5)	£70.00
P5	BMW 130 (3.0) & 325 (2.5) & 520 (2.0), Audi A4 (2.5) & A6 (2.0), Mercedes Benz C230 (2.3) & C250 (2.5), Jaguar X-Type (2.5), Volvo V70 (2.0)	£76.00
P6	BMW 330 (3.0) & 525 (2.5), Audi A4 (3.2) & A6 (2.5), Mercedes Benz C320/ C350/E220/E240/E250/E280, Volvo S80 (2.4)	£100.00
P7	BMW 530 (3.0) & 535 (3.5), Mercedes Benz E320/E350, Audi A6 S Line Quat- tro Tdi (3.0), Jaguar XF (3.0), Infiniti G37/M30/M37	£105.00
P8	BMW 540 (4.0), BMW 550 (5.0), BMW 730 (3.0), Audi A6 (4.2), Audi A8 (3.0), Mercedes Benz CLS320/R320/E500 (5.0), S280 (2.8), Jaguar XJ6 (2.7/3.0), Jaguar S Type (4.2)	£130.00
P9	Mercedes Benz S350 (3.5) & E55 AMG & R500, Audi A8 (3.7/4.2), BMW 735 (3.5) & 740 (4.0), Audi RS6 saloon & Avant (4.2), Jaguar XF & XJ V6 (5.0)	£160.00
P10	BMW 750 (5.0), Mercedes Benz S500 (5.0) & E63 AMG, Porsche Panamera V8, Audi A8 (6.0), Maserati Quattroporte (4.2), Jaguar XJ V8 (5.0)	£190.00
P11	Mercedes Benz S600 (6.0), Jaguar XJ V8 Supercharged (5.0), BMW 760 (6.0), Bentley Continental (6.0)	£235.00
P12	Bentley Arnage (6.0), Bentley Flying Spur (6.0)	£420.00
P13	Rolls Royce Phantom	£753.00

GROUP	EXAMPLE OF "SPORTS" VEHICLES	DAILY RATE
SP1	Mini Cooper 1.6/Clubman/Countryman	£38.37
SP2	Renault Clio RS182, Ford Fiesta/Focus ST, Honda Civic S Type (1.8), Audi A3 S Line TDI (1.6), Vauxhall Corsa VXR 1.6 Turbo, Mazda MX5 (1.8/2.0), Mini Cooper S	£44.57
SP3	Mini Cooper S Cabrio, Toyota MR2/Celica (1.8), Mazda RX8 (192ps), Audi A3 Sportsback (1.6), BMW 118 Coupe, VW Scirocco (1.4), Vauxhall Astra VXR 2.0T	£54.33
SP4	Audi TT coupe 1.8T, VW Golf GTI (2.0), VW Scirocco GT TDI, Audi A3 Sportsback (2.0) & TDI (2.0), Audi S3 (1.8), Honda Civic Type R (2.0)/S GT (2.2), BMW 120 Coupe, Ford Focus RS	£59.99
SP5	Audi TT Roadster FSI (2.0)/TT Coupe 1.8T Quattro 225, BMW Z4 (2.0), VW Golf V6 R32, BMW 318 CI Coupe (2.0)/320 M Sport Cabrio/320 SE Cabrio, Mercedes CLK 220 sport/C180 Sports Coupe	£76.50
SP6	BMW Z4 (2.5), 320 CI Coupe (2.0/2.2/2.5), Mercedes SLK200 (1.8) CLK200 Coupe (2.0) E250 Sports Coupe, Audi TT Coupe 3.2T Quattro, Subaru Impreza WRX (2.5), Mitsubishi Evo (2.0)	£115.00
SP7	BMW Z4 (3.0), BMW 330CI Sport Coupe (3.3), BMW 320 Convertible, BMW 325 Coupe, Mercedes Benz CLK200 Cabriolet (2.0) & CLK280 Coupe (2.8) & CLK240 (2.6) & CLK270 & SLK 300 Sports, Audi A5 Quattro TDI (3.0) & A4 Cabriolet (2.4), Nissan 370z V6 (3.7)	£135.00
SP8	Mercedes Benz SLK350 (3.5) & CLK280 Cabrio (2.8) & E250 Cabrio (2.5) & CLK350 Coupe (3.5), BMW 335 Coupe & M Sport, Audi S4 Quattro (3.0)	£150.00
SP9	Porsche Boxster S (3.2) & Cayman S, BMW Z4 M (3.2) & 630 (3.0), Infiniti G37 Sport, Audi S4 Cabrio Quattro (4.2), Mercedes Benz CLK350 Cabrio (3.5) & CLK500 Coupe & Cabrio (5.0)	£160.00
SP10	BMW 650 (5.0) & M3 (4.0) & M5 (5.0), Porsche 911 Carrera (3.6), Mercedes Benz SL350 (3.5), Nissan GTR Coupe (3.8), Jaguar XKR (4.2)	£180.00
SP11	Porsche 911 Carrera S (3.8) & 911 Cabrio & 911 S Cabrio & Targa 4 (3.6), Mercedes Benz SL500 (5.0) & CL500 (5.0) & CLS55 AMG, Aston Martin Vantage (6.0) & V8 Vantage, BMW M6 (5.0)	£230.00
SP12	Porsche 911 Turbo Tiptronic S (3.6), Aston Martin DB9 (6.0) & DB7 coupe, Mercedes SL55 AMG & SL63 AMG & SL600 (6.0), Audi R8 Coupe & Spyder, Maserati Grand Turismo	£300.00
SP13	Bentley Continental GT (6.0) & Azure Convertible (6.7), Ferrari F430/360 & 575, Lamborghini Gallardo, Bentley GTC Cabrio, Aston Martin DB9 Volante	£420.00

GROUP	EXAMPLE OF "TAXIS AND PRIVATE HIRE" VEHICLES	DAILY RATE
T2	Saloon/Hatchback up to 1.7	£55.00
T4	Saloon/Hatchback from 1.7	£55.00
T6	City of London Public Hire/Hackney	£50.00
T8	Public Hire/Hackney	£60.00
PT9	Vehicles classified in car prestige groups up to and including P6	£ 110.00
T10	People carrier with 6/7 seats - Ford Galaxy, VW Sharan, Vauxhall Zafira etc	£ 83.00
T12	Minibus with 8/9 seats - VW Transporter, Mercedes Vito	£109.00
PT13	Vehicles classified in car prestige groups from P7 upwards	£180.00
T14	Taxi bike	£59.03

GROUP	EXAMPLE OF "MOTORCYCLES" VEHICLES	DAILY RATE
B1	Up to 50cc	£29.70
B2	51cc to 125cc	£33.00
B3	126cc to 500cc	£44.00
B4	501cc to 650cc	£49.50
B5	651cc to 1000cc	£60.50
B6	1001cc and upwards	£71.50

GROUP	EXAMPLE OF "VAN" VEHICLES	DAILY RATE
PV1	Ford Transit Connect (1.8), Peugeot Boxer SWB (2.2) & Expert (2.0), Renault Kangoo (1.9), Vauxhall Vivaro SWB (2.0), Mercedes Vito Compact (2.0), Volkswagen Caddy C20	£19.00
PV2	Renault Traffic SWB & LWB (2.0), Peugeot Boxer SWB High Roof (2.8), Ford Transit SWB (2.0), Mercedes Vito Extra Long (2.0), Toyota Hiace LWB (2.5), Vauxhall Vivaro LWB (2.0)	£21.79
PV3	Ford Transit SWB Medium Roof (2.0) & MWB Low Roof (2.0), Vauxhall Vivaro LWB High Roof (2.0), Renault Traffic LWB High Roof & SWB High Roof (2.0), Peugeot Boxer MWB (2.8)	£21.79
PV4	Ford Transit MWB High Roof (2.0) & LWB Medium Roof (2.0), Peugeot Boxer MWB High Roof (2.8) & LWB High Roof (2.8), Renault Master SWB (2.5), Mercedes Sprinter SWB (2.2)	£23.99
PV5	Mercedes Sprinter MWB (2.2) & MWB High Roof (2.6), Renault Master MWB High Roof (2.5) & LWB (2.5), Ford Transit LWB High Roof (2.0), Volkswagen LT35 LWB High Roof	£25.12
PV6	Vauxhall Movano Maxi Roof (2.5), Renault Master LWB High Roof (3.0), Iveco Daily Class C Extra High Roof (2.8), Ford Transit Jumbo (2.5), Mercedes Sprinter LWB High Roof (2.6)	£26.25

GROUP	EXAMPLE OF "COMMERCIAL" VEHICLES	DAILY RATE
CV1	Ford Transit MWB & LWB (2.0) & XLWB (2.0) & LWB Dropside (2.4) & MWB 1 way tipper (2.4) & LWB Dropside Double Cab (2.0) & LWB Luton (2.4)	£26.76
CV2	Ford Transit MWB 3 way tipper (2.4) & LWB Box (2.4) & LWB Double Cab (2.0) & XLWB Double Cab (2.0) & LWB 1 way tipper Double Cab (2.4)	£27.42
CV3	Ford Transit LWB 3 way tipper (2.4) & XLWB Luton (2.4)	£28.74
CV4	Iveco Eurocargo 75E Tipper/Dropside/Box/Luton/Curtain Sider/7.5 tonne Tilt & Slide	£40.27
RV1	Ford Transit Connect Chilled (1.9)	£35.23
RV2	Ford Transit Chilled & Luton Chilled (2.4), Mercedes Sprinter Chilled (2.1)	£48.10
CP1	Mitsubishi L200 Single Cab (2.5), Ford Ranger & Ranger Thunder (2.5), Toyota Hilux Single Cab (2.5)	£25.27
CP2	Isuzu Rodeo Double Cab (3.0), Nissan Navaro (2.5), Ford Ranger Double Cab (2.5), Landrover Defender 90 TD5 (2.5)	£28.46
CP3	Landrover Defender County 90 TD5 (2.5) & Defender 110 TD5 (2.5) & Defender County 110 TD5 (2.5) & Defender 110 Double Cab TD5 (2.5), Nissan Navaro Double Cab (2.5), Mitsubishi Warrior & Barbarian Double Cab, Toyota Hilux 270 Double Cab	£32.18
CS1	Nissan Terrano II (2.7), Landrover Defender 90 TD5 Hard Top (2.5)	£29.39
CS2	Nissan Terrano II (3.0), Landrover Defender County TD5 Hard Top (2.5) & Defender 110 TD5 Hard Top (2.5) & Defender 90 TD5 Station Wagon (2.5), Isuzu Rodeo Double Cab (3.0)	£31.32
CS3	Landrover Defender County 110 TD5 Hard Top (2.5) & Defender County 90 TD5 Station Wagon (2.5) & Defender 110 TD5 Station Wagon (2.5)	£33.51
CS4	Mitsubishi Shogun SWB (3.2), Landrover Defender 90 XS TD5 Station Wagon (2.5) & Defender 110 County TD5 Station Wagon (2.5)	£35.44
CS5	Mitsubishi Shogun LWB (3.2), Landrover Defender 110 XS TD5 Station Wagon (2.5)	£37.63
CM1	Ford Transit Minibus (12 seats)	£32.38
CM2	15 seat minibus	£37.21
CM3	17 seat minibus	£41.93
Dual Control	Small car with dual controls and power steering	£49.50



Please contact us on
0845 600 5438
www.zenithinsurancemanagement.co.uk



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Registered Office: Chester House, Harlands Road, Haywards Heath, West Sussex RH16 1LR
Authorised and regulated by the Financial Services Authority (FSA Reg No. 429279).

ZENFHV/11.12



ANNEX 2 EXHIBIT 7



TU Motor Claims
PO Box 298
Newcastle Upon Tyne
NE12 2DW
Telephone: 0845 677 3377
Facsimile: 0845 366 2697

ALBANY ASSISTANCE LTD
REDMOND HOUSE
FERN COURT
BRACKEN HILL BUSINESS PARK
PETERLEE
COUNTY DURHAM
SR8 2RR

Date 5 November 2013
Ref. [REDACTED]
Your Ref. [REDACTED]
Subject Motor Incident [REDACTED]

Dear Sirs,

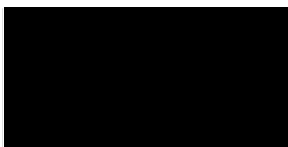
Our Insured: [REDACTED]
Your Client [REDACTED]
Incident Date: [REDACTED]

Please find attached the letter we sent to your client after the conversation in which they accepted our offer of intervention.

Also attached is confirmation of our rates we have agreed with enterprise and as you can see we could have provided a F2 vehicle for £69.99 per day.

The telephone number dedicated to this claim is 0845 8353178.

Yours faithfully,
Declan Holloway
Tesco Injury 2



Date 28th June 2013
Ref. [REDACTED]
Subject Motor Incident

Dear [REDACTED]

Our Insured: [REDACTED]
Incident Date: [REDACTED]

We refer to our telephone conversation on 28 June 2013.

We are pleased to confirm that we have instructed our approved repairer to call you and to arrange to collect your vehicle.

RYE ST COACHWORKS (CHESHUNT), 01992469873.

To keep you mobile we have also arranged a replacement vehicle for you via Enterprise Rent a Car. The vehicle you will be receiving is a similar vehicle to your own.

Enterprise Rent a Car will call you direct to make the necessary arrangements.

Our team are on hand to assist you, so should you have any queries or questions please contact us on the telephone number below and we will be happy to help.

The telephone number dedicated to this team is 0845 300 5796

Yours sincerely,

Simon Wilson
Tesco Third Party Assist



Tesco Underwriting Rates

TESCO Underwriting Limited

Vehicle category	ABI Class	ERAC Class	Example Cars	GVA Rates	3rd Party	1st Party Exl. CDW
Standard	S1	A	Chevrolet Spark, Hyundai i10, Toyota Aygo, Peugeot 107	£30.38	£14.49	£10.99
	S2	B	Renault Clio, Nissan Coria, VW Polo, Hyundai i20	£34.43	£16.49	£12.99
	S3	C	Ford Fiesta 4 door, Vauxhall Corsa, Vauxhall Meriva, Seat Ibiza	£36.62	£18.49	£14.99
	S4	D	Ford Focus, Vauxhall Astra, VW Golf, Seat Leon, Hyundai i30	£38.26	£20.25	£16.75
	S5	E	Vauxhall Insignia 1.8, Ford Mondeo, Peugeot 308	£41.54	£23.99	£19.49
	S6	F	Vauxhall Insignia 2.0, VW Passat, Toyota Auris	£44.25	£28.99	£23.49
	S7	F		£52.06	£28.99	£25.49
	M	MMPV	Vauxhall Zafira, Renault Grand Space, Ford S-MAX	£48.38	£39.99	£34.99
	M1	MMPV		£55.91	£39.99	£34.99
	M2	MMPV		£63.75	£39.99	£34.99
MPV	M3	MMPV	Ford Galaxy, Kia Sedona, Seat Alhambra, Renault Grand Espace	£74.94	£47.99	£42.99
	M4	MMPV		£95.07	£47.99	£42.99
	M5	MMPV		£142.59	£47.99	£42.99
	M6	MMPV		£180.62	£47.99	£42.99
	F1	SAX4	Land Rover Freelander, Kia Sorento, VW Tiguan	£85.94	£69.99	£64.99
	F2	SAX4		£100.96	£69.99	£64.99
	F3	LAX4		£129.46	£79.99	£74.99
	F4	LAX4	Land Rover Discovery, Nissan Pathfinder, Mitsubishi Shogun	£178.93	£79.99	£74.99
	F5	LAX4		£201.91	£98.99	£84.99
	F6	EXX4		£234.86	£98.99	£84.99
4 x 4	F7	EXX4	Land Rover Range Rover, BMW X5, Mercedes M-Class	£251.64	£98.99	£84.99
	F8	EXX4		£307.56	£98.99	£84.99
	P1	E	Vauxhall Insignia 1.8, Ford Mondeo, Peugeot 308	£78.28	£23.99	£20.49
	P2	F	Vauxhall Insignia 2.0, VW Passat, Toyota Auris	£97.24	£28.99	£25.49
	P3	SPREM	Mercedes C-Class, BMW 3 Series SE, Volvo V70	£92.82	£62.99	£57.99
	P4	SPREM		£112.95	£62.99	£57.99
	P5	SPREM	Mercedes E-Class, BMW 5 Series, Audi A6	£140.92	£62.99	£57.99
	P6	SPREM		£167.76	£78.99	£74.99
	P7	SPREM		£223.66	£108.99	£103.99
	P8	EPREM	Mercedes S-Class, Mercedes CLS, Jaguar XJ	£251.23	£108.99	£103.99
Prestige	P9	EPREM		£418.51	£108.99	£103.99
	P10	EPREM		£447.52	£108.99	£103.99
	P11	SPEC		£695.44	£198.99	£198.99
	P12	SPEC		£964.88	£198.99	£198.99
	P13	SPEC		£120.92	£20.49	£20.49
	S1	E	Vauxhall Insignia 1.8, Ford Mondeo, Peugeot 308	£75.36	£23.99	£20.49
	S2	F	Vauxhall Insignia 2.0, VW Passat, Toyota Auris	£98.08	£28.99	£25.49
	S3	SPREM	Mercedes C-Class, BMW 3 Series SE, Volvo V70	£99.41	£62.99	£57.99
	S4	SPREM		£120.79	£62.99	£57.99
	S5	SPREM	Mercedes E-Class, BMW 5 Series, Audi A6	£131.07	£62.99	£57.99
Sports	S6	SPREM		£184.54	£92.99	£87.99
	S7	SPREM	Mercedes E-Class, BMW 5 Series, Audi A6	£206.91	£78.99	£74.99
	S8	SPREM		£229.27	£78.99	£74.99
	S9	EPREM	Mercedes S-Class, Mercedes CLS, Jaguar XJ	£351.54	£108.99	£103.99
	S10	EPREM		£391.98	£108.99	£103.99
	S11	EPREM		£446.70	£108.99	£103.99
	S12	SPEC		£655.75	£198.99	£198.99
	S13	SPEC		£852.52	£198.99	£198.99
	P1	V1	Vauxhall Astra Van, Ford Transit Connect, Renault Kangoo	£26.53	£16.49	£14.99
	P2	V2		£42.46	£26.50	£21.50
Vans	P3	V2	Ford Transit Van, Renault Traffic Van (Short Wheel Base)	£47.08	£26.50	£21.50
	P4	V3		£47.08	£33.50	£28.50
	P5	V3		£49.46	£33.50	£28.50
	P6	V3	Renault Master Van, Ford Transit Van (Long Wheel Base)	£51.94	£33.50	£28.50

Auto and Estate £5.00 per day uplift on both GVA and Proposed Rate.
Rates Exclude VAT

ANNEX 2 EXHIBIT 8

Accident Exchange Group Plc
Annual Report and Accounts

2012



Accident Exchange Group Plc

provides accident management
and other solutions to the automotive
and insurance related sectors

Chairman's Statement

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Chairman's Statement



I am pleased to report a successful year for the Group despite the challenging market and economic conditions in which we operate.

David Lees
Non-Executive Chairman

I am pleased to report a successful year for the Group despite the challenging market and economic conditions in which we operate.

Revenue increased to £98.8 million from £62.1 million in 2011, an increase of 59.1%. The Group has also returned to profitability, with an operating profit (before exceptional and other items) of £2.0 million (2011: £8.9 million loss). In addition, cash collections increased and debtor days have reduced.

Our determination to achieve compensation for the damage caused to the Group by the actions of Autofocus and others resulted in significant legal success in the Court of Appeal during the year. As a result, we have settled claims with over 30 insurers with a further c£6 million of claims still to be settled. We will continue to seek recompense for the impact Autofocus and others had on the Group and this is likely to involve further significant legal action against those involved.

The private motor insurance market is currently being investigated by the Competition Commission and we are playing a key role in that process. We remain confident that the consumer benefits of the Group's core business of providing immediate, practical assistance to motorists following an accident will be recognised by the Competition Commission, as they were by the Office of Fair Trading before them.

Nevertheless, our strategic plan for the Group also involves us developing complementary products and services which draw upon our key skills and experience in delivering motoring services and insurance solutions. In addition to the post-accident mobility solution we deliver through Accident Exchange Limited and the day-rate insurance products provided by DCML Limited, we have been investing in In-Car Cleverness Limited, a leading-edge telematics focused business targeted at both fleet and retail customers. We believe this is a market with significant growth potential in the coming years and provides an opportunity for the Group to diversify its activities.

As a result of this strategic direction, we are proposing to change the name of the Company to "Automotive and Insurance Solutions Group Plc" and we have proposed the necessary resolution to this effect at the forthcoming Annual General Meeting.

Whilst we continue to face difficult market and economic conditions, as well as potential changes to our market which might arise from any further regulatory developments, we believe that the actions we have taken to date and the strategic focus we have for the future leaves us well placed to meet those challenges.

Finally, I would like to thank all of our employees and stakeholders for their continued hard work and support throughout the year.

David Lees
Non-Executive Chairman
4 April 2013

Operating and Financial Review



Following a very challenging period for the Group over the past few years, I am pleased to report that in 2012 we continued to make progress towards restoring profitability as well as repositioning the Group for the future.

Steve Evans
Chief Executive Officer

Financial results

Revenue

Revenue growth during the year was strong, increasing by 59.1% to £98.8 million (2011: £62.1 million). This was driven primarily by a significant increase in rental days which were up by 61.6% to 657,009 days (2011: 406,502 days).

Profit

Gross profit increased by 107.3% to £25.5 million (2011: £12.3 million) with gross margin also improving to 25.8% (2011: 19.8%).

As a result, operating profit (before exceptional and other items) was £2.0 million, compared with a loss in 2011 of £8.9 million, a £10.9 million improvement.

Our improved performance resulted from a combination of revenue growth and operational efficiencies as well as our success in settling claims previously affected by Autofocus. Notwithstanding a significant increase in revenue, overheads fell by £1.2 million to £22.1 million (2011: £23.3 million). This was driven principally by a reduction in litigation costs as insurers increased the number of claims settling under the terms of the ABI General Terms of Agreement following our exposure of Autofocus' actions.

Cash collections

Improving cash collections was, and remains, a priority for the Group and we made positive progress in this regard during the year. Aggregate cash collections in the year improved by 18.8% to £89.9 million (2011: £75.7 million) with resultant net cash inflows from operating activities of £1.5 million (2011: £3.5 million outflow).

Our focus on settling claims in a timely manner under the terms of the ABI General Terms of Agreement has resulted in continued improvement in debtor days, reducing by 38.6% to 197 days (2011: 321 days).

Further progress was also made during the year to reduce the level of under recoveries experienced by the Group having identified that the deterioration in recent years was a consequence of Autofocus evidence being deployed against us both in Court and in preceding negotiations. Improving the level of recovery remains a key operational focus for the Group in order to further improve cash collections and profitability.

Operational progress

The Group's financial results also reflect the operational improvements we have made during the year.

As demonstrated by a significant increase in revenue, during the year we have been able to maintain and grow the strong relationships we have with our contracted business and referral partners. We have renewed a number of these relationships both during the year and subsequent to the year end.

As a result of this, fleet increased from 2,143 to 3,120 and we maintained strong utilisation levels both on a units and revenue utilisation basis. During the year, we have also increased the flexibility in our fleet by operating a mix of owned and hired vehicles.

Financing

We continue to enjoy the support of our principal bank and, subsequent to the year end, we have concluded a further amendment to the Group's working capital facility such that, in place of scheduled repayment dates, the facility will be repayable in full on 31 December 2015 with interest due at 6 monthly intervals and capital repayments being dependent on the Group generating cash in excess of its ongoing working capital requirements. We are grateful for the support our bank has extended to the Group over the past six years.

In relation to vehicle funding, whilst we continue to partner with a number of vehicle rental companies to supply the majority of our fleet requirements, we have also secured vehicle financing facilities from a number of sources such that we are now able to increase the proportion of owned fleet that we operate. This more balanced profile of owned / hired fleet will enable the Group to improve profitability whilst maintaining operational flexibility and the ability to maximise utilisation levels.

Autofocus Success to date

As we reported in last year's Annual Report, in a hearing before the Court of Appeal on 1 December 2011, we won the right to appeal four test cases, vindicating the allegations that we have made since 2009 about the reliability of rate evidence provided to insurers by Autofocus and which had damaged our business so materially.

Following that decision we entered into discussions with a number of insurers to agree the settlement of the Group's claims in relation to previously under-recovered hire charges. We have now settled claims with over 30 insurers.

Notwithstanding the decision of the Court of Appeal on 1 December 2011, certain insurers continued to avoid dealing with the serious issues we uncovered in relation to the rate evidence on which they previously relied. It was therefore necessary for the Group to take four further test cases to the Court of Appeal to clarify the extent to which the Group was entitled to re-open previously heard cases. Judgment in these subsequent test cases was handed down in February 2013 and reaffirmed the Group's ability to re-open cases affected by the now discredited evidence of Autofocus. As a result, the Group is continuing to progress claims with a value of c£6 million and we hope to reach negotiated settlements with the remaining insurers.

Revenue

2012	£98.8m
2011	£62.1m

+59.1%

Hire Days

2012	657,009
2011	406,502

+61.6%

Operating Profit

(before exceptional and other items)

2012	£2.0m
2011	-£8.9m

+122.5%

Cash Collections

2012	£89.9m
2011	£75.7m

+18.8%

Debtor Days

2012	197
2011	321

-38.6%

Operating and Financial Review *continued*

Autofocus *continued*

Further action in process

The impact Autofocus had on the Group went beyond the under-recoveries the Group suffered in those individual cases where we could identify that Autofocus evidence was deployed: it affected recovery levels generally, put cash pressures on the business which led to increased costs and uncertainty and ultimately to the need to down-size the Group and de-list from the London Stock Exchange in November 2010. The Group's initial estimate of the losses sustained, which has been supported by a review by forensic accountants, is up to £130 million.

Whilst Autofocus Limited is in liquidation and therefore cannot be pursued for these losses directly, following advice from Leading Counsel, the Group is in the process of making claims against those other entities who were also engaged in the use of Autofocus evidence who the Group believes were, in conjunction with Autofocus, party to an 'unlawful means conspiracy' to injure the Group.

Given the value and complexity of the Group's claim, the process of pursuing it is likely to be prolonged but one which, nevertheless, the Directors believe is appropriate given the extent of harm the Group has suffered as a result of these issues.

Looking forward

The Group operates in a market which is currently the subject of significant regulatory review.

As referred to in last year's Annual Report, the Legal Aid, Sentencing and Punishment of Offenders Act 2012 introduced a prohibition on the payment of referral fees in personal injury cases with effect from 1 April 2013. Unlike some of our competitors, the Group derives only a small proportion of its revenue from such activities (less than 1 % of annual revenues). The Directors do not therefore consider the direct impact of the ban on the Group to be material.

In addition, the Office of Fair Trading completed its market study into private motor insurance in September 2012 and, in view of the complexity of the issues it was considering, decided to refer the private motor insurance market generally to the Competition Commission. The Group is actively involved in the Competition Commission's investigation and, along with other providers of replacement vehicles and related services, we are seeking to demonstrate the value of the service we provide to our many thousands of customers every year.

In light of the various economic headwinds impacting all businesses today, the Board is determined to ensure that the progress we have made continues and that the business has the right strategy for the future.

The Group is therefore in the process of realigning the products offered by its principal trading subsidiaries, Accident Exchange Limited and DCML Limited, and we will be extending our product portfolio to include a vehicle telematics product through our subsidiary In-Car Cleverness Limited. We currently distribute our services primarily through the UK's major franchised motor dealers and leading fleet and leasing companies and we are focused on increasing the penetration and strength of our product offering across these distribution channels.

Whilst protecting our core relationships and revenue base, we aim to deliver this strategy of diversification over the next two years as we reposition the Group as a provider of automotive and insurance solutions.

To assist our positioning of this strategy in the market we are asking for shareholders to support the proposed change of the Company's name from Accident Exchange Group Plc to "Automotive and Insurance Solutions Group Plc". The name Accident Exchange will be retained by our subsidiary company.

The Board

Nicola Roy, the Managing Director of the Group's principal subsidiary, Accident Exchange Limited, was appointed to the Board on 16 November 2012. Nicola is a qualified accountant and has been with the Group in senior roles since 2004.

In addition, in November 2012 after six years with the Group, David Whatley left the business to pursue opportunities elsewhere. We wish him well in his new role and thank him for his contribution to the Group during some challenging periods.

Annual General Meeting and Proposed Change of Company Name

Notice of the Annual General Meeting ("AGM") to be held on 30 April 2013 is set out at the end of this Annual Report. The resolutions being proposed at the AGM are summarised as follows:

Resolution 1: Delivery of the Company's accounts for the year ended 31 October 2012

This resolution deals with the delivery of the accounts for the year ended 31 October 2012 (including the Directors' and Auditors' reports on those accounts).

Resolution 2: Reappointment of PricewaterhouseCoopers LLP as auditors

The Company's auditors, PricewaterhouseCoopers LLP, were reappointed at the Annual General Meeting of the Company held on 30 April 2012. Their period of office expires at the conclusion of the forthcoming AGM. This resolution proposes their reappointment as auditors.

Resolution 3: Directors' authority to determine the remuneration of the auditors

This resolution will, if passed, authorise the Directors to determine the remuneration of the auditors.

Resolution 4: Appointment of Nicola Roy as a Director

This resolution proposes the re-appointment of Nicola Roy as a director of the Company following her appointment by the Board on 16 November 2012.

Resolution 5: Proposed change of name to "Automotive and Insurance Solutions Group Plc"

As set out above, the Group now offers an increasingly diverse range of products and services, including replacement vehicle services through Accident Exchange Limited, software and insurance services to dealerships through DCML Limited and now telematics-based services through In-Car Cleverness Limited.

To reflect the entirety of the Group's business and strategy, the Directors are proposing, as a special resolution, that the name of the Company be changed from "Accident Exchange Group Plc" to "Automotive and Insurance Solutions Group Plc".

Shareholders will find enclosed a reply-paid Form of Proxy for use in connection with the AGM. Whether or not you are able to attend the AGM, you are requested to complete the Form of Proxy and return it to Capita Registrars, PXS, 34 Beckenham Road, Beckenham, Kent BR3 4TU as soon as possible and, in any event, so as to arrive no later than 11:00 a.m. on 28 April 2013. The completion and return of a Form of Proxy will not preclude you from attending the meeting and voting in person, if you wish to do so.

The Directors consider that each of the resolutions set out in the Notice of the AGM are in the best interests of the Company and the shareholders as a whole and the Directors recommend that you vote in favour of them, as each of the Directors intends to do in respect of their own beneficial holding of shares in the Company.

Outlook

Whilst general economic conditions remain challenging, we are focused on building upon the positive progress we have made during the year and repositioning the Group with the right strategy for the future. I would like to thank all our employees and business partners and stakeholders for their continued support during the year.



Steve Evans
Chief Executive Officer
4 April 2013

Directors' Report

The Directors present their report together with the audited financial statements for the year ended 31 October 2012.

Principal activity

The principal activity of Accident Exchange Group Plc ("Group") is the delivery of accident management and other solutions to the automotive and insurance related sectors in the UK. Revenue is derived principally from the provision of non-fault accident management assistance and related services and particularly from the hire of replacement vehicles to the non-fault parties to road traffic accidents.

Operating and Financial Review

The Operating and Financial Review can be found on pages 2 to 5.

The Directors are not recommending the payment of a final dividend (2011: nil), making a total for the year of nil (2011: nil).

Directors and their interests

The Directors who served the Company during the year and up to the date of signing this report unless otherwise stated were as follows:

Steve Evans
Martin Andrews
David Lees
David Whatley
(resigned 16 November 2012)
Nicola Roy
(appointed 16 November 2012)

Save in relation to contracts of employment and share option arrangements, no Director had a material interest in any contract of any significance to which the Company or any subsidiary was a party during the year.

Directors' and officers' insurance

The Company maintains insurance cover for all Directors and Officers of the Group against liabilities which may be incurred by them whilst acting in those capacities.

Employees

It is the Group's policy to consider all applicants for employment on the basis of their qualifications and experience for the specific job without regard to race, colour, religion, sex, age, disabilities or national origin. Appointments are determined by application of job criteria, abilities and competency.

The Group gives full consideration to applications for employment from disabled persons where the candidate's particular aptitudes and abilities are consistent with adequately meeting the requirements of the job. Opportunities are available to disabled employees for training, career development and promotion. In the event of members of staff becoming disabled every effort is made to ensure that their employment with the Group continues and that appropriate training is arranged. It is the policy of the Group that the training, career development and promotion of disabled persons should, as far as possible, be identical to that of other employees.

The Group places considerable value on the involvement of its employees and has continued to keep them informed on matters affecting them as employees and on the factors affecting the performance of the Group. This is achieved through formal and informal meetings and regular briefings from the Chief Executive and through the staff appraisal process.

Environment

We recognise that the nature of the services we provide has an impact on the environment. However, we also recognise that by conducting our business in a responsible manner we can reduce the overall impact.

Responsibility for our environmental policy rests with our operational leadership team. The Chief Executive regularly monitors and reviews environmental performance and the contents of our policy to ensure the ongoing suitability and effectiveness of environmental management across the Group. We actively encourage all employees to work together to meet the requirements of our policy.

We aim to ensure that our management systems provide an effective framework and operational procedures to ensure its successful implementation and we will continue to develop our business by taking into account the effects our activities have on the environment.

Payment to suppliers

It is the Group's policy to agree appropriate terms and conditions for its transactions with suppliers by means ranging from standard terms and conditions to individually negotiated contracts and to pay suppliers according to those agreed terms and conditions, provided that the supplier meets their obligations. Other than this, the Group does not have a standard or a code which deals specifically with the payment of suppliers.

Principal risks and uncertainties

A. Operational

Settlement Estimation

The Group recognises revenue, claims in progress and trade receivables after an allowance for any discounts that are expected to arise under the terms of the Association of British Insurers General Terms of Agreement ("GTA") and net of any other settlement adjustments expected to arise on the settlement of claims. This judgment is made on the basis of historical and expected net recovery from the settlement of claims and is influenced by the approach taken towards recovery of amounts claimed.

Whilst the Directors believe that they have a reasonable basis for deriving the settlement estimation processes as reflected in the Group's financial statements, the ultimate settlements agreed through negotiation with, or litigation against, at fault parties' insurers in relation to the outstanding claims in progress and trade receivables may be higher or lower than that which has been estimated in the preparation of the financial statements.

Rental fleet availability, costs and efficiency

The Group's revenue is dependent on its ability to have available sufficient rental fleet to meet customer demand, including having the appropriate mix of vehicle brands and models. In addition, the Group's profitability is dependent on it being able to source that rental fleet at an appropriate cost.

Historically, the Group acquired the majority of its rental fleet on either a hire purchase or contract hire basis. The general reduction in availability of suitably priced vehicle financing options in the market following the credit crunch resulted in the Group entering strategic partnerships with a variety of vehicle hire companies to supplement the Group's owned fleet.

If the Group was not able to acquire sufficient rental fleet, either on an owned or sub-leased basis, or the costs of operating its fleet increased significantly, it would have a detrimental effect on the Group's ability to generate revenue and / or profits.

The Group endeavours to maximise the utilisation of its vehicle fleet so as to minimise the costs of holding non-revenue generating vehicles. Fleet utilisation remained strong during the year, however any subsequent deterioration in utilisation rates could adversely affect the Group's profitability.

IT Systems

The Group's business is dependent on processing a large number of claims and vehicle hires across the UK. The Group's systems and processes (including the Group's IT systems which have, in the main, been developed in-house) are designed to ensure that the operational risks associated with its activities are appropriately controlled, but any weakness in the systems, processes or business continuity arrangements could have a negative impact on its results or operations during the affected period.

Key Personnel

The Group's future success is dependent on the retention, development and performance of its senior management. The loss of the services of any of its senior management team could adversely affect the Group's business.

Regulatory

The Group's business is regulated by both the Financial Services Authority (now the Financial Conduct Authority) and the Ministry of Justice. Whilst the Directors believe that the Group conducts its business in compliance with all applicable regulations and will continue to endeavour to do so, there remains a risk that regulators will find that the business has not complied fully with such regulations and any subsequent action taken against the Group (such as withdrawal of any required authorisations) may adversely affect the Group's business.

As referred to in last year's Annual Report, the Legal Aid, Sentencing and Punishment of Offenders Act 2012 introduced a prohibition on the payment of referral fees in personal injury cases with effect from 1 April 2013. Unlike some of our competitors, the Group derives only a small proportion of its revenue from such activities (less than 1% of annual revenues). Whilst the Directors do not consider the direct impact of the ban on the Group to be material, there is a risk that it may adversely impact certain of our referring partners and, consequently, may have an indirect impact on the Group in terms of referral activity and revenue. As the ban has only just come into force, it is too early to assess what the impact might be. In any event, as noted below, given the large number of referring partners we work with, the Group does not consider itself to be dependent on any one particular referring partner.

In addition, as was also referred to in last year's Annual Report, the Office of Fair Trading completed its market study into private motor insurance in September 2012 and, in view of the complexity of the issues it was considering, decided to refer the private motor insurance market generally to the Competition Commission. This investigation includes a review of the market for the supply of temporary replacement vehicles following an accident.

The Group is actively involved in the Competition Commission's investigation and, along with other providers of replacement vehicle and related services, is seeking to demonstrate, as we did in connection with the Office of Fair Trading's Market Study, the value of the service we provide to our many thousands of customers every year.

Directors' Report *continued*

The outcome of this investigation is not certain and there is a risk that it may lead to changes in the manner in which the Group operates. Nevertheless, the Directors believe that the consumer benefits of the Group's core business of providing immediate, practical assistance to motorists to keep them mobile following an accident, will be recognised and that consumers' legal right to post-accident mobility will be protected.

In the context of the regulatory changes that have already been implemented and those that might follow, the Group is actively considering the opportunities that Alternative Business Structures permitted under the Legal Services Act 2007 may present for the Group.

Risks relating to the industry

There have been a number of test cases, funded mainly by insurance companies, which have challenged the enforceability of credit hire agreements and the recovery of hire charges incurred through a credit hire agreement. There have also been challenges to the hire rates which can be recovered by credit hire organisations. These challenges have been a feature of the credit hire market for a number of years and the Group has had to deal with and ultimately overcome a number of such challenges itself in recent years. The ability of a non-fault claimant to recover the costs of a replacement vehicle as well as the cost of repairing the damaged vehicle after a road accident and the basis upon which the rates for the hire of a vehicle will be awarded is firmly established in law. However, if insurance companies were to bring more challenges in respect of the principle of the recoverability of credit hire and credit repair arrangements or the hire rates recoverable in tort, and if those challenges were protracted and / or successful, then the Group's revenue, profitability and cash flow could be materially and adversely affected.

The Group is a signatory to the GTA. The GTA is a protocol between certain insurance companies and credit hire operators, including the Group, as to the manner in which claims should be processed, the documentation which clients should complete, the procedures that must be undertaken whilst a customer is in a hire vehicle, the hire rates that insurance companies will pay and the timeframe for payment. There is no guarantee that insurers will continue to abide by these protocols or that these protocols will not change adversely over time. Either of these events could have a materially detrimental effect on the profitability and cash flow of the Group. Membership of the GTA is voluntary and it is open to members to leave at any time.

Competition

The Group operates in a competitive industry, the barriers to entry of which are relatively low. There is also the potential for insurance companies, brokers and / or providers of services to motorists or other consumer groups to enter the market, either alone or in collaboration with service providers such as the Group. If the Group is unable to respond adequately to the competitive challenges faced by it, it may lose market share and / or there may be pressure on the Group's prices and costs, having an adverse impact on the Group's financial results.

The Group has referral relationships with what is a large number of prestige motor vehicle dealerships and dealership groups and, accordingly, the Group does not consider itself to be dependent on any one particular referring partner. Nevertheless, given the largely fixed nature of the Group's cost base, the loss of, or a substantial reduction in a major referring partner's business could have a material effect on the Group's revenue and profitability. The Group seeks to minimise the potential risk of any loss of business from its referring partners by entering into contracts with the majority of its referring partners for periods of up to three years for the referral of prospective customers to the Group on an exclusive basis.

B. Financial

The principal financial risks and uncertainties include the nature of receivables, credit risk, liquidity risk, interest rate risk and price risk, which are considered in notes 11 and 16 to the consolidated financial statements.

C. Going concern

As set out in more detail in note 1 to the financial statements, the Directors have continued to adopt the going concern basis in preparing the financial statements.

Statement of Directors' responsibilities in respect of the Report and Financial Statements

The Directors are responsible for preparing the Report and the Group and the Parent Company ("Company") financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the Group's financial statements in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union, and the Parent Company financial statements in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice). Under company law Directors must not approve the financial statements unless they are satisfied they give a true and fair view of the state of affairs of the Group and the Company and of the profit or loss of the Group for that period.

In preparing those financial statements the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state that the Group's financial statements comply with IFRSs as adopted by the European Union, and with regard to the Company's financial statements, that applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the Group and Company financial statements on the going concern basis unless it is inappropriate to presume that the Group or the Company will continue in business, in which case there should be supporting assumptions or qualifications as necessary.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Group and Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Each of the Directors whose names are listed below confirm that, to the best of their knowledge:

- the Group's financial statements, which have been prepared in accordance with IFRS as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and loss of the Group; and
- this Directors' Report, together with the Operating and Financial Review, contains a fair review of the development and performance of the business and position of the Group, together with a description of the principal risks and uncertainties that it faces.

Disclosure of information to auditors

Each of the Directors of the Company at the time when the Directors' Report was approved confirms that:

- so far as they are aware, there is no information needed by the Company's auditors in connection with preparing their report of which the Company's auditors are unaware; and
- they have taken all the steps that they ought to have taken as a Director in order to make themselves aware of any information needed by the Company's auditors in connection with preparing the report and to establish that the Company's auditors are aware of that information.

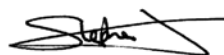
Subsequent events

As referred to in the Operating and Financial Review, it was necessary for the Group to take four further test cases to the Court of Appeal to clarify the extent to which the Group was entitled to re-open previously heard cases. Judgment in these subsequent test cases was handed down in February 2013 and reaffirmed the Group's ability to re-open cases affected by the now discredited evidence of Autofocus. As a result, the Group is continuing to progress claims with a value of c£6 million against the remaining insurers.

On 28 March 2013 the Company concluded a further amendment to its working capital facility such that, in place of scheduled repayment dates, the facility will be repayable in full on 31 December 2015 with interest due at six monthly intervals and capital repayments being dependent on the Group generating cash in excess of its ongoing working capital requirements.



Steve Evans
Chief Executive Officer
4 April 2013



Stephen Jones
Company Secretary
4 April 2013

Independent Auditors' Report to the members of Accident Exchange Group

We have audited the Group financial statements of Accident Exchange Group Plc for the year ended 31 October 2012 which comprise the Consolidated Statement of Comprehensive Income, the Consolidated Balance Sheet, the Consolidated Statement of Cash Flows, the Consolidated Statement of Changes in Equity, the Principal Accounting Policies and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

Respective responsibilities of Directors and auditors

As explained more fully in the Statement of Directors' Responsibilities set out on page 8, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the report and financial statements to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the Group financial statements:

- give a true and fair view of the state of the Group's affairs as at 31 October 2012 and of its loss and cash flows for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the Group financial statements are prepared is consistent with the Group financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Other matter

We have reported separately on the Parent Company Financial Statements of Accident Exchange Group Plc for the year ended 31 October 2012.



Mark Smith (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Birmingham
4 April 2013

Consolidated Statement of Comprehensive Income for the year ended 31 October 2012

		Year ended 31 October 2012 Before exceptional and other items*	Year ended 31 October 2012 Exceptional and other items*	Year ended 31 October 2012 Total £'m	Year ended 31 October 2011 Before Exceptional and other items*	Year ended 31 October 2011 Exceptional and other items*	Year ended 31 October 2011 Total £'m
	Note	£'m	£'m		£'m	£'m	
Revenue	2, 3	96.3	2.5	98.8	61.5	0.6	62.1
Other operating income / (expense)	2, 3	4.3	(0.1)	4.2	3.6	(0.1)	3.5
		100.6	2.4	103.0	65.1	0.5	65.6
Cost of sales		(76.5)	(1.0)	(77.5)	(50.7)	(2.6)	(53.3)
Gross profit		24.1	1.4	25.5	14.4	(2.1)	12.3
Administrative expenses							
Exceptional goodwill impairment	3, 10	–	(4.1)	(4.1)	–	–	–
Exceptional costs	3	–	–	–	–	(0.5)	(0.5)
Amortisation of acquired intangible assets		–	(0.3)	(0.3)	–	(0.4)	(0.4)
Share-based payments	3, 22	–	–	–	–	0.4	0.4
Other administrative expenses		(22.1)		(22.1)	(23.3)	–	(23.3)
		(22.1)	(4.4)	(26.5)	(23.3)	(0.5)	(23.8)
Operating profit / (loss)	4	2.0	(3.0)	(1.0)	(8.9)	(2.6)	(11.5)
Finance income	7	–	–	–	–	–	–
Finance costs	7	(3.3)	–	(3.3)	(5.1)	–	(5.1)
Equitisation of Convertible Notes	7, 14	–	–	–	–	45.1	45.1
(Loss) / profit before tax		(1.3)	(3.0)	(4.3)	(14.0)	42.5	28.5
Taxation	8	(4.6)	(0.7)	(5.3)	(0.2)	0.1	(0.1)
(Loss) / profit and comprehensive (expense) / income for the year		(5.9)	(3.7)	(9.6)	(14.2)	42.6	28.4

* Other items consist of amortisation and impairment of acquired intangible assets, impairment of trade receivables and cost of share-based payments. Exceptional and other items are set out in note 3.

The Directors do not recommend payment of a final dividend for the year ended 31 October 2012 (2011: nil) and no interim dividend was paid (2011: nil).

The accompanying notes form an integral part of these consolidated financial statements.

Consolidated Balance Sheet at 31 October 2012

	Note	31 October 2012 £'m	31 October 2011 £'m
Assets			
Non-current assets			
Property, plant and equipment	9	2.9	2.4
Goodwill	10	12.1	16.2
Other intangible assets	10	1.0	1.2
Deferred tax asset	19	4.4	9.7
		20.4	29.5
Current assets			
Claims in progress		9.2	4.9
Trade and other receivables	11	44.7	43.7
Cash and cash equivalents	12	1.7	1.4
		55.6	50.0
Assets held for sale	13	–	–
		55.6	50.0
Total assets		76.0	79.5
Equity and liabilities			
Equity			
Share capital	20	13.5	13.5
Share premium		29.6	29.6
Other reserves	21	11.5	11.5
Retained earnings		(48.2)	(38.6)
Total equity		6.4	16.0
Liabilities			
Non-current liabilities			
Financial liabilities – borrowings	14	34.4	27.5
		34.4	27.5
Current liabilities			
Financial liabilities – borrowings	14	14.4	16.6
Trade and other payables	15	20.4	19.0
Current tax liabilities		0.4	0.4
		35.2	36.0
Total liabilities		69.6	63.5
Total equity and liabilities		76.0	79.5

The accompanying notes form an integral part of these consolidated financial statements. The financial statements were approved by the Board of Directors on 4 April 2013 and were signed on its behalf by:



Steve Evans
Chief Executive Officer



Nicola Roy
Director

Consolidated Statement of Cash Flows for the year ended 31 October 2012

	Note	Year ended 31 October 2012 £'m	Year ended 31 October 2011 £'m
Cash flows from operating activities			
Cash generated from / (used by) operations	23	2.6	(2.0)
Finance costs on bank loans		(1.0)	(1.2)
Finance cost element of finance lease payments		(0.1)	(0.3)
Net cash inflow / (outflow) from operating activities		1.5	(3.5)
Cash flows from investing activities			
Purchase of property, plant and equipment		(0.5)	(0.3)
Proceeds from sale of vehicles, plant and equipment		0.4	8.4
Purchase of intangible assets		(0.1)	–
Net cash (outflow) / inflow from investing activities		(0.2)	8.1
Cash flows from financing activities			
Proceeds from borrowings	24	1.5	3.0
Repayment of borrowings	24	(1.9)	(0.6)
Capital element of finance lease payments	24	(0.6)	(8.5)
Net cash used in financing activities		(1.0)	(6.1)
Net increase / (decrease) in cash and cash equivalents		0.3	(1.5)
Cash and cash equivalents at beginning of the year		1.4	2.9
Cash and cash equivalents at end of the year	12	1.7	1.4

The accompanying notes form an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity for the year ended 31 October 2012

Year ended 31 October 2012	Share capital £'m	Share premium £'m	Other reserves £'m	Retained earnings £'m	Total £'m
At 1 November 2011	13.5	29.6	11.5	(38.6)	16.0
Comprehensive expense for the year	–	–	–	(9.6)	(9.6)
At 31 October 2012	13.5	29.6	11.5	(48.2)	6.4

Year ended 31 October 2011	Share capital £'m	Share premium £'m	Other reserves £'m	Retained earnings £'m	Total £'m
At 1 November 2010	3.6	26.2	11.5	(66.6)	(25.3)
Comprehensive income for the year	–	–	–	28.4	28.4
Equity-settled share-based payments	–	–	–	(0.4)	(0.4)
Equitisation of Convertible Notes	9.9	3.4	–	–	13.3
At 31 October 2011	13.5	29.6	11.5	(38.6)	16.0

Principal Accounting Policies

Accident Exchange Group Plc is a company incorporated and domiciled in the UK. The Group's consolidated financial statements for the year ended 31 October 2012 were authorised for issue by the Board of Directors on 4 April 2013 and the balance sheet was signed on the Board's behalf by Steve Evans and Nicola Roy.

Basis of preparation

The basis of preparation is set out in note 1 to the financial statements.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these consolidated financial statements.

Critical estimates and judgments

The preparation of the consolidated financial statements requires the Directors to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, and income and expenditure.

The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making judgments about carrying values of assets and liabilities that are not readily apparent from other sources. These estimates and underlying assumptions are reviewed on an ongoing and regular basis.

The resulting accounting estimates calculated using these judgments and assumptions will, by definition, vary from the related actual results.

The critical estimates and judgments that impact upon the Group's consolidated financial statements include:

- estimation of income receivable from accident management activities. By their very nature, claims against motor insurance companies or self-insuring organisations can be subject to dispute. The Directors have estimated the value of revenue, trade receivables and claims in progress, and the impact of discounting trade receivables and claims in progress to reflect the expected settlement amounts receivable on the basis of the prior experience of collection levels and anticipated collection profiles;
- estimation of the residual values of property, plant and equipment, particularly motor vehicles, the residual values of which are affected by market conditions in the motor trade and wider economy; and
- assessment of whether the carrying values of goodwill and other financial and non-financial assets have incurred any impairment loss, which requires estimates to be made of future profitability and cash flows, and estimation of an appropriate discount rate.

Basis of consolidation

The consolidated financial statements include those of Accident Exchange Group Plc and all of its subsidiaries (entities controlled by the Company).

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They cease to be consolidated from the date that the Group no longer has control. Control is assumed where the Company has the power to govern the financial and operating policies of an investee entity so as to gain benefits from its activities.

Inter-company transactions and balances are eliminated on consolidation.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with those adopted by the Group.

The financial statements of all subsidiaries are prepared to the same reporting date as the parent company.

Business combinations are accounted for using the purchase method. Any excess of the purchase price of business combinations over the fair value of the assets, liabilities and contingent liabilities acquired and resulting deferred tax thereon, is recognised as goodwill.

Principal Accounting Policies *continued*

Property, plant and equipment and depreciation

Property, plant and equipment is stated at cost less accumulated depreciation less any provision for impairment. Depreciation is calculated to write down the cost less estimated residual value on a systematic basis over the expected useful economic lives. The rates generally applicable are as follows:

Leasehold improvements – the shorter of the period of the lease or 10 years

Computer equipment – 33%

Fixtures and fittings – 25%

Motor vehicles – see below

Residual values, remaining useful economic lives and depreciation methods of non-motor vehicle assets are reviewed annually and adjusted if appropriate.

The gain or loss on disposal is determined by comparing the net sales proceeds with the carrying value and is recognised in the statement of comprehensive income.

Motor vehicle depreciation is calculated by reference to residual value at the intended disposal date, which is predicted based on the Board's view of data provided by CAP Motor Research ("CAP"). The difference between net book value and latest CAP forecast residual value is depreciated over the remaining expected period of ownership.

Leased assets

Leases of property, plant and equipment where the Group has substantially all of the risks and rewards of ownership are classified as finance leases.

Assets held under finance leases are capitalised at inception at the lower of the fair value of the leased asset and the present value of the minimum lease payments. Capitalised leased assets are subsequently depreciated over the shorter of the lease term or the asset's useful life.

Obligations related to finance leases, net of finance charges in respect of future periods, are included as appropriate under current or non-current liabilities. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. The finance charges are expensed to the statement of comprehensive income.

All other leases are classified as operating leases. Lease payments made under operating leases are charged to the statement of comprehensive income as an expense on a straight-line basis over the term of the lease.

Goodwill

Goodwill represents the excess of the fair value of the consideration over the fair value of the identifiable net tangible and intangible assets acquired.

Under IFRS 3 'Business Combinations' goodwill arising on acquisitions made since 1 May 2004 (the date of transition to IFRS) is not subject to amortisation but is tested for impairment not only at the date of transition to IFRS, but also whenever there is an indication that it may be impaired and in any case at each reporting date.

An impairment charge is recognised for any amount by which the carrying value of goodwill exceeds its recoverable amount. Any such impairment losses recognised in respect of goodwill are not reversed.

The Group has taken the allowed exemption not to apply IFRS 3 retrospectively to business combinations that took place prior to 1 May 2004. As a result, goodwill arising from past business combinations remains as stated under UK GAAP at 1 May 2004, less any provision for impairment.

Other intangible assets

Other intangible assets are stated at cost less accumulated amortisation and impairment losses.

Other intangible assets comprise acquired customer and supplier contracts and relationships and software development costs.

Other intangible assets are amortised on a straight-line basis over their estimated useful economic life, unless such lives are indefinite, from the date they are available for use.

Internal software development costs that satisfy the recognition criteria of IAS 38 – 'Intangible Assets' are capitalised at cost and amortised over their estimated useful economic lives. All other internal software development costs are recognised in the statement of comprehensive income in the period in which they are incurred.

All amortisation charges are included within administrative expenses in the statement of comprehensive income.

Impairment of non-current assets excluding goodwill

Intangible assets and property, plant and equipment are tested for impairment whenever there is an indication that an asset may be impaired.

An impairment loss is recognised in the statement of comprehensive income if the recoverable amount (being the higher of fair value less costs to sell and value in use) of an asset or cash generating unit falls below its carrying value in the balance sheet.

Such impairment losses may be reversed in subsequent periods if there is an indication that the impairment loss recognised in prior periods may no longer exist or may have decreased.

Claims in progress

Amounts recoverable on claims in progress are stated at the expected net claim value after estimated allowances for settlements.

Trade and other receivables

Trade receivables are recorded at amortised cost using the effective interest rate method. This represents the expected net claim value after estimated allowances for settlement adjustments. Income arising from discounting trade receivables using the effective interest rate is recognised in other operating income.

Settlement adjustments arising under the ABI General Terms of Agreement are treated as trade discounts and deducted from revenue. The amount of any trade discount is measured as the difference between the carrying amount and the GTA value of the claim.

An adjustment for impairment is established when there is objective evidence that the Group will not be able to collect all amounts determined as above.

The amount of any impairment is measured as the difference between the GTA value of the claim and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the original effective interest rate.

Other receivables are stated at amortised cost less any provision for impairment.

Principal Accounting Policies *continued*

Cash and cash equivalents

Cash and cash equivalents in the balance sheet comprise cash at bank and in hand, and short and medium term deposits with original maturities of three months or less.

Financial instruments

Financial assets and liabilities are recognised on the Group's balance sheet when the Group becomes a party to the contractual provisions of the instrument.

Financial liabilities and equity instruments

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that gives a residual interest in the assets of the Group after deducting all of its liabilities.

Interest bearing borrowings

Interest bearing bank loans and revolving credit facilities are initially recorded at fair value net of attributable transaction costs.

Subsequent to initial recognition, interest bearing borrowings are stated at amortised cost using the effective interest rate method.

Fair value estimation

Fair value is the amount at which a financial instrument could be exchanged in an arm's length transaction between informed and willing parties, other than a forced or liquidation sale and excludes accrued interest. Where available, market values are used to determine fair values. Where market values are not available, fair values are calculated by discounting expected cash flows at prevailing interest rates.

Equity instruments

Equity instruments issued by the Group are recorded at the proceeds received, net of direct issue costs.

Trade and other payables

Trade and other payables are initially stated at their fair value and then at amortised cost.

Revenue recognition

Credit Hire and repair income, and income derived from other accident management activities is recognised, net of VAT, as that which is estimated as recoverable on transactions which have been completed during the year, together with an appropriate proportion of estimated recoverable income in respect of hires and claims in progress at the year end and is measured at the fair value of the consideration receivable.

Credit Hire revenue is recognised from the date a vehicle is placed on hire. Vehicles are only placed on hire after a validation process that ensures to the Group's satisfaction that liability for the accident rests with another party. The rates used are based on daily commercial rate charges for particular categories of vehicles and are accrued on a daily basis, by claim, after adjustment for the amount at which the claim is expected to settle. The settlement adjustment includes an estimation of the extent to which insurers are expected to take advantage of early settlement arrangements afforded under the terms of the ABI GTA.

Credit repair revenue represents income from the recovery of the costs of repair of customers' vehicles. Credit repair revenue is recognised when the work has been completed, invoiced and confirmed as recoverable. Credit repair income is recorded net of settlement adjustments.

Other operating income consists of interest income arising on claims in progress and trade receivables, which is accrued on a time basis by reference to outstanding trade receivables and at the effective interest rate applicable.

Segmental reporting

The chief operating decision-maker has been identified as the Board. Operating segments are reported in a manner consistent with the internal reporting provided to the Board. The Board is responsible for allocating resources and assessing the performance of the Group and has determined that the Group operates in one business segment.

Employee benefits

Pensions

The Group contributes to certain of its employees' individual personal pension plans on a defined contribution basis. The pension costs charged to the statement of comprehensive income represent the amount of the contributions payable to the plans in respect of the accounting period.

Share-based payments

The Accident Exchange Group Plc Unapproved Share Option Plan (2004), the Accident Exchange Group Plc Directors' and Senior Executives' Long Term Incentive Plan, the Accident Exchange Group Plc Approved Company Share Option Plan (2005) and the Accident Exchange Group Plc Sharesave Plan 2008 allow certain of the Group's employees to acquire shares of the Company (equity-settled share options).

Share options are measured at fair value at the date of grant using either the Black Scholes model or the Monte Carlo simulation model. This fair value is expensed on a straight-line basis over the vesting period, being the period in which the services are received, based on the Group's estimate of shares that will eventually vest. Where an option is unable to be exercised because vesting conditions are not met (for example, if a non-market based performance target is not met, or the employee leaves the employment) the cost of the options is reversed. However, if the employer cancels the options, the full value of the options is recognised immediately in the statement of comprehensive income.

At each balance sheet date before vesting, the cumulative expense is calculated and the movement in the cumulative expense since the previous balance sheet date is recognised in the statement of comprehensive income, with a corresponding entry made to retained earnings.

In valuing equity-settled transactions, no account is taken of any vesting conditions until the end of the performance condition period.

In accordance with the transitional arrangements of IFRS 2 'Share-based payment', the expense recognised in the statement of comprehensive income relates to grants made in the financial year and all grants made after 7 November 2002 that had not fully vested on the date of transition to IFRS (1 May 2004).

Exceptional items

Exceptional items are transactions which, by virtue of their size or nature, are disclosed separately within the financial statements in order to aid and improve understanding of the Group's financial performance.

Principal Accounting Policies *continued*

Taxation

The tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on the taxable loss for the year. Taxable loss differs from net loss as reported in the statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible.

The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable loss, and is accounted for using the balance sheet liability method.

Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.

Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

No deferred tax is recognised in respect of temporary differences associated with investments in subsidiaries where the Group is able to control the timing of reversal of temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the statement of comprehensive income, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Recent accounting developments

Certain new standards, amendments and interpretations to existing standards that have been published and which are mandatory for the Group's future accounting periods, but which have not been early adopted include:

- IFRS 9 'Financial instruments: Classification and Measurement';
- IFRS 10 'Consolidated financial statements';
- IFRS 11 'Joint arrangements';
- IFRS 12 'Disclosure of interests in other entities';
- IFRS 13 'Fair value measurement';
- IAS 1 – 'Presentation of financial statements';
- IAS 12 – 'Income Taxes';
- IAS 19 – 'Employee Benefits';
- IAS 27 – 'Separate financial statements (revised 2011)';
- IAS 28 – 'Associates and joint ventures (revised 2011)';
- Amendment to IFRS 7 'Financial instruments: Disclosures - Offsetting financial assets and financial liabilities'; and
- Amendment to IAS 32 'Financial instruments: Presentation - Offsetting financial assets and financial liabilities'.

The Group has considered the above standards and amendments and concluded that they are either not relevant to the Group at the present time or that, other than disclosure, they would not have a significant impact on the Group's consolidated financial statements as presented.

Notes to the Financial Statements for the year ended 31 October 2012

1. Basis of preparation

The Group's consolidated financial statements have been prepared by the Directors in accordance with IFRS and International Financial Reporting Interpretations Committee ("IFRIC") interpretations that have been adopted by the European Union, and with those parts of the Companies Act 2006 applicable to those companies reporting under IFRS. The Company has elected to prepare its Parent Company financial statements in accordance with UK GAAP; as such these are required to be presented separately and are set out on pages 44 to 55.

The financial statements have been prepared under the historical cost convention, except for the costs of share-based payments and derivative financial liabilities; these are stated at fair value. The consolidated financial statements are presented in pounds sterling and all values are rounded to the nearest £0.1 million unless otherwise indicated.

Going concern

The Group's business activities, an overview of its performance during the year ended 31 October 2012 and factors likely to affect its future performance are set out in the Operating and Financial Review on pages 2 to 5. The Group's results for the year are shown on page 11 and its financial position is set out in its balance sheet on page 12.

In addition, the Group's financial risk and capital risk management objectives and processes, and its exposures to credit risk and liquidity risk are set out in notes 16 and 17, and an analysis of the maturity of its financial liabilities is set out in note 18. The principal risks and uncertainties faced by the Group are set out on pages 7 and 8.

As set out in the Directors' Report on page 9 and in notes 14 and 18, the Company concluded a further amendment to its working capital facility such that, in place of scheduled repayment dates, the facility will be repayable in full on 31 December 2015 with interest due at six monthly intervals and capital repayments being dependent on the Group generating cash in excess of its ongoing working capital requirements.

The Directors have prepared forecasts which show that the Group will have sufficient funds to meet its liabilities as they fall due and that it will continue to meet its banking covenants for a period of at least 12 months from the date of approving these financial statements. These forecasts include a number of assumptions in relation to the Group's future performance, including in particular the continuation of the revenue levels already achieved by the Group, the continuation of recent improvements to claim recovery levels and the time taken to settle claims and, following the progress already made in relation to Autofocus impacted cases as described on page 3 and 4 of the Operating and Financial Review, agreeing the settlement of outstanding historic claims affected by the evidence of Autofocus at levels similar to those already settled.

The Directors consider the assumptions made in the forecasts to be reasonable. The Directors recognise that in the current economic climate achievement of these improvements is not certain and have therefore also considered a number of scenarios and actions the Group could take to mitigate any adverse consequences that would arise if the assumptions made were not met in whole or in part.

Having undertaken this review, the Directors have concluded that the Group has adequate financial resources to fund its operations for the foreseeable future and meet its obligations under the amended working capital facility as set out in note 18 and accordingly continue to adopt the going concern basis in preparing the financial statements.

Notes to the Financial Statements for the year ended 31 October 2012 *continued*

2. Revenue and other operating income / (expense)

An analysis of the Group's revenue and other operating income / (expense) is as follows:

	Year ended 31 October 2012 £'m	Year ended 31 October 2011 £'m
Delivery of accident management and related services	78.3	47.9
Credit repair	18.0	13.6
Revenue before exceptional charge	96.3	61.5
Exceptional Settlement Adjustment	2.5	0.6
Revenue	98.8	62.1
Other operating income before exceptional charge	4.3	3.6
Exceptional adjustment to operating income	(0.1)	(0.1)
Other operating income	4.2	3.5
	103.0	65.6

The chief operating decision-maker has been identified as the Board. The Board reviews the Group's internal reporting in order to assess performance and allocate resources and has determined that the Group operates in one business segment, being the delivery of accident management and other solutions to the automotive and insurance sectors. The Group operates wholly within the UK, which the Board considers to be a single geographical segment. Accordingly, no information by business segment or geographical segment is presented as the key profit and balance sheet measures presented to and reviewed by the Board are those for the Group as a whole.

The Exceptional Settlement Adjustment (see note 3) relates principally to adjustments to revenue arising on the delivery of accident management and related services and settlement of claims.

Other operating income consists of IAS 39 determined interest income in relation to claims in progress and trade receivables, which is accrued on a time basis by reference to outstanding trade receivables and at the effective interest rate applicable.

3. Exceptional and other items

	Year ended 31 October 2012 £'m	Year ended 31 October 2011 £'m
Exceptional items		
Exceptional settlement adjustment:		
– credited as an adjustment to revenue	(2.5)	(0.6)
– charged to cost of sales as an impairment to receivables	1.0	2.6
– charged as an adjustment to other operating income	0.1	0.1
	(1.4)	2.1
Refinancing costs	–	0.5
Equitisation of Convertible Notes	–	(45.1)
Goodwill impairment	4.1	–
Total exceptional items	2.7	(42.5)
Other items		
Amortisation of acquired intangible assets	0.3	0.4
Share-based payments	–	(0.4)
Total other items	0.3	–
Total exceptional and other items	3.0	(42.5)

Exceptional Settlement Adjustment

The Group recognises revenue and trade receivables after an allowance for any discounts that are expected to arise under the terms of the ABI General Terms of Agreement and net of any expected adjustments arising on the settlement of claims. This judgment is made on the basis of historical and expected net recovery from the settlement of claims and is influenced by the approach taken towards recovery of amounts claimed. The estimation of the expected adjustments arising on settlement of claims represents a critical judgment made by the Directors.

An exceptional charge of £44.2 million was first made in the accounts in the year ended 30 April 2009, including a provision of £27.9 million made in relation to the estimation of the carrying value of work in progress and trade receivables as at 30 April 2009 (the "2009 Receivables"). Where the final or expected settlement value of these 2009 Receivables differed or differs to the 30 April 2009 balance sheet values, the surplus / (shortfall) in the amount received or expected to be received has been shown as an exceptional credit / (charge). In the year ended 31 October 2012, £1.4 million (2011: £2.1 million) was credited as exceptional of which £2.5 million (2011: £0.6 million) was credited as an adjustment to revenue, £1.0 million (2011: £2.6 million) charged to cost of sales and £0.1 million (2011: £0.1 million) was charged as an adjustment to other operating income.

Autofocus recoveries

During the year ended 31 October 2012, the Group received and recognised income totalling £7.0 million in relation to previously under-recovered hire charges on claims which were affected by Autofocus rate evidence. Of this amount £2.0 million has been recognised as an exceptional credit as narrated above (2011: £nil).

Equitisation of Convertible Notes

The equitisation of the Group's Convertible Notes in February 2011 resulted in the recognition of a £45.1 million non-cash exceptional credit, being the excess of the liability extinguished over the fair value of the equity issued as consideration.

Goodwill impairment

An impairment of £4.1 million (2011: £nil) has been made to the carrying value of goodwill related to DCML Limited (see note 10).

Amortisation of acquired intangible assets

The amortisation and impairment of acquired intangible assets as set out in note 10 are non-trading and non-cash charges.

Notes to the Financial Statements for the year ended 31 October 2012 *continued*

4. Operating profit / (loss)

Operating profit / (loss) is stated after charging / (crediting):

	Year ended 31 October 2012 £'m	Year ended 31 October 2011 £'m
Employee costs (note 5)	15.0	13.9
Exceptional settlement adjustment (note 3)	(1.4)	2.1
Exceptional refinancing costs (note 3)	–	0.5
Exceptional goodwill impairment (note 3)	4.1	–
Depreciation of vehicles, property, plant and equipment (note 9)		
– Owned assets	0.5	0.6
– Leased assets	0.2	0.8
Amortisation of intangible assets (note 10)		
– Acquired intangible assets	0.3	0.4
– Software	–	0.1
Operating lease rentals payable		
– Vehicles, plant and machinery	3.6	5.3
– Property	1.8	1.9

Services provided by the Group's auditors

A summary of the audit and non-audit fees in respect of services provided by PricewaterhouseCoopers LLP is set out below:

	Year ended 31 October 2012 £'m	Year ended 31 October 2011 £'m
Audit fees for the Company and consolidated accounts	60	53
Fees payable for other services:		
Audit of the Company's subsidiaries pursuant to legislation	72	82
Other services relating to taxation	36	33
	168	168

5. Employees

Employee costs (including Directors) for the Group were as follows:

	Year ended 31 October 2012 £'m	Year ended 31 October 2011 £'m
Wages and salaries	12.8	11.9
Social security costs	1.3	1.3
Redundancy costs	–	0.2
Other pension costs	0.9	0.9
Share-based payments	–	(0.4)
	15.0	13.9

The average number of persons (including Directors) employed by the Group during the year was as follows:

	Year ended 31 October 2012 £'m	Year ended 31 October 2011 £'m
Sales and Operations	369	350
Finance and Administration	91	84
	460	434

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for the year ended 31 October 2012 *continued*

6. Directors' remuneration

	Year ended 31 October 2012 £'000	Year ended 31 October 2011 £'000
Aggregate emoluments and other benefits	498	530
Bonus	493	–
Other payments	–	240
Contributions to money purchase pension schemes	61	60
Share-based payments	–	(273)
	1,052	557

In the year ended 31 October 2011, the Group paid £240,000 to one Director under a compromise agreement following the termination of his employment by reason of redundancy in 2011. The Group made contributions to the money purchase pension plans of 3 Directors (2011: 3).

The amounts shown above include remuneration in respect of the highest paid Director as follows:

	Year ended 31 October 2012 £'000	Year ended 31 October 2011 £'000
Emoluments and other benefits	295	315
Bonus	493	–
Contributions to money purchase pension schemes	42	41
Share-based payments	–	(91)
	830	265

The bonus was awarded as a result of the legal successes and recoveries in relation to the exposure of Autofocus and the settlement of associated claims.

7. Finance income and costs

	Year ended 31 October 2012 £'m	Year ended 31 October 2011 £'m
Finance income		
Interest income on bank balances	–	–
Finance costs		
Bank borrowings	(3.2)	(2.8)
Obligations under finance leases	(0.1)	(0.3)
Convertible Notes (note 14)	–	(1.7)
Other interest	–	(0.3)
Total finance costs	(3.3)	(5.1)
Equitisation of Convertible Notes	–	45.1
Net finance costs	(3.3)	40.0

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Notes to the Financial Statements for the year ended 31 October 2012 *continued*

8. Taxation

(a) Analysis of charge for the year

	Year ended 31 October 2012 £'m	Year ended 31 October 2011 £'m
Deferred tax (note 19)		
Charge for the year	5.3	0.1
Tax on (loss) / profit on ordinary activities	5.3	0.1

The tax charge of £5.3 million comprises a charge of £0.7 million in respect of the net cost of exceptional and other items (2011: credit of £0.1 million) and a charge of £4.6 million (2011: £0.2 million) in relation to the taxable loss before charging exceptional and other items.

(b) Reconciliation of the total tax charge for the year

The standard rate of corporation tax in the UK reduced from 26% to 24% with effect from 1 April 2012. As a result, the average standard rate of corporation tax applicable to the Company during the year was 24.8% (2011: 26.8%).

The tax assessed for the year differs from that resulting from applying the average standard rate of corporation tax as explained below:

	Year ended 31 October 2012 £'m	Year ended 31 October 2011 £'m
(Loss) / profit before tax	(4.3)	28.5
(Loss) / profit before tax multiplied by the average standard rate of corporation tax in the UK of 24.8% (2011: 26.8%)	(1.1)	7.6
Effect of:		
Expense / (income) not deductible / (assessable) for tax purposes	1.3	(12.1)
Derecognition of tax losses in respect of prior periods	3.3	(0.1)
Deferred tax on share-based payment charges	–	(0.1)
Deferred tax asset on current period profit not recognised	1.0	4.0
Adjustment in respect of change in tax rate	0.8	0.8
Tax on (loss) / profit on ordinary activities	5.3	0.1

(c) Factors that may affect future tax charges

Unutilised losses

At the balance sheet date the Group had unutilised tax losses of £20.2 million (2011: £15.2 million) available for offset against future trading profits. A deferred tax asset continues to be recognised in respect of £1.7 million (2011: £1.7 million) as the Group has an expectation that taxable profits will be generated in future years against which these losses could be utilised. No deferred tax asset has been recognised in respect of the remaining £18.5 million of tax losses (2011: £13.5 million) due to the unpredictability of future profit streams.

Changes in tax legislation

A number of changes to the UK corporation tax system, including a reduction in capital allowance rates and a progressive lowering of the standard rate of corporation tax to 23% by April 2014, were announced in the June 2010 and March 2011 Budgets.

The lowering of the corporation tax rate to 25% with effect from April 2012 was enacted in July 2011 and this reduced rate has been applied in the calculation of deferred tax in these financial statements.

8. Taxation *continued*

The impact of further reductions in corporation tax rates to 22% by April 2014 announced in the March 2012 Budget are included in these financial statements.

In addition to the changes in rates of corporation tax disclosed above, further changes to the UK corporation tax rates were announced in the 2012 Autumn Statement and the March 2013 Budget. These include further reductions to the main rate to 21% from 1 April 2014 and to 20% from 1 April 2015. These changes had not been substantively enacted at the balance sheet date and, therefore, are not included in these financial statements.

The proposed reductions to the main rate of corporation tax are both expected to be enacted as part of the Finance Act 2013. The overall effect of these further changes, if applied to the deferred tax balance at the balance sheet date, would be to further reduce the deferred tax asset by an additional £0.5 million.

9. Property, plant & equipment

	Leasehold property and improvements £'m	Computer equipment £'m	Fixtures and fittings £'m	Motor vehicles £'m	Total £'m
Cost					
At 1 November 2010	2.3	3.2	2.5	13.4	21.4
Additions	–	0.3	–	0.1	0.4
Disposals	–	–	–	(12.6)	(12.6)
At 31 October 2011	2.3	3.5	2.5	0.9	9.2
Additions	–	0.3	0.1	1.2	1.6
Disposals	–	–	–	(0.7)	(0.7)
At 31 October 2012	2.3	3.8	2.6	1.4	10.1
Depreciation					
At 1 November 2010	0.8	3.0	2.1	4.2	10.1
Charge for the year	0.2	0.2	0.2	0.8	1.4
Disposals	–	–	–	(4.7)	(4.7)
At 31 October 2011	1.0	3.2	2.3	0.3	6.8
Charge for the year	0.2	0.2	0.1	0.2	0.7
Disposals	–	–	–	(0.3)	(0.3)
At 31 October 2012	1.2	3.4	2.4	0.2	7.2
Net book amount At 31 October 2012	1.1	0.4	0.2	1.2	2.9
Net Book amount at 31 October 2011	1.3	0.3	0.2	0.6	2.4

Assets held under finance lease arrangements have the following net book value.

	Computer equipment £'m	Motor vehicles £'m
Net book amount at 31 October 2012	0.3	1.2
Net book amount at 31 October 2011	–	0.6

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for the year ended 31 October 2012 *continued*

10. Intangible assets

	Goodwill £'m	Acquired intangible assets £'m	Software £'m	Total £'m
Cost				
At 1 November 2011	21.5	3.8	0.7	26.0
Additions	–	0.1	–	0.1
At 31 October 2012	21.5	3.9	0.7	26.1
Amortisation and impairment				
At 1 November 2011	5.3	2.7	0.6	8.6
Impairment	4.1	–	–	4.1
Charge for the year	–	0.3	–	0.3
At 31 October 2012	9.4	3.0	0.6	13.0
Net book amount at 31 October 2012	12.1	0.9	0.1	13.1
Net book amount at 31 October 2011	16.2	1.1	0.1	17.4

Goodwill

Goodwill is not amortised, but is reviewed annually for indications of impairment or more frequently if there are indications that it may be impaired. The carrying amount of goodwill has been tested for impairment at 31 October 2012 in light of the UK economic outlook. An impairment has been made to the carrying value of DCML Limited of £4.1 million resulting in a carrying value of £4.3 million. There is no impairment on the carrying value of goodwill of £7.8 million for Accident Exchange Limited.

Testing of impairment has been carried out by allocating goodwill to the relevant cash generating units ("CGUs") and assessing the recoverable amount for each CGU based on value in use calculations. These calculations use cash flow projections based on forecast operating results covering a three year period.

The principal assumptions inherent in the forecasts for Accident Exchange Limited include expected levels of revenue, settlement adjustment rates, cash collections, fleet volume, utilisation and cost, fleet residual values, availability of fleet funding and headcount related costs. The principal assumptions inherent in the forecasts for DCML Limited include customer gains and losses, levels of revenue, headcount related costs and cash collections. The assumptions for each CGU have been determined by reference to historical experience and consideration of all available information.

A pre-tax discount rate of 12% has been used to discount Accident Exchange Limited's forecast cash flows and a pre-tax discount rate of 12% has been used to discount the forecast cash flows of DCML Limited. These discount rates are derived from the Group's weighted average cost of capital, adjusted for risks specific to each CGU. The cash flow forecasts have been extrapolated beyond their three year period using an annual growth rate of 2.3%, equal to average annual UK GDP growth during the past 60 years and which the Directors consider to be lower than the long term average growth rate for the industry.

10. Intangible assets *continued*

The carrying amount of goodwill analysed by CGU is as follows:

	Date of acquisition	31 October 2012 £'m	31 October 2011 £'m
Accident Exchange Limited	16 April 2004	7.8	7.8
DCML Limited	5 May 2006	4.3	8.4
		12.1	16.2

Software

Internally generated software development costs that meet the recognition criteria of IAS 38 'Intangible assets' are capitalised at cost and amortised on a straight-line basis over their estimated useful economic life of five years.

Acquired intangible assets

Assets in this class are amortised over their estimated useful lives on a straight line basis. This class comprises the following items:

- Customer contracts and relationships arising upon acquisition of DCML Limited; and
- Supplier contracts and relationships arising upon the acquisitions of DCML Limited and Red Five Vehicle Management Limited.

Customer contracts and relationships and supplier contracts and relationships arising upon the acquisition of DCML Limited have been estimated by the Directors to have useful lives of ten years and six years respectively.

11. Trade and other receivables

	31 October 2012 £'m	31 October 2011 £'m
Trade receivables	48.5	50.9
Exceptional Settlement Adjustment	(7.7)	(11.5)
Trade receivables – net	40.8	39.4
Other receivables	2.4	2.3
Prepayments and accrued income	1.5	2.0
	44.7	43.7

Trade receivables represent amounts receivable for the provision of services to customers. The expected adjustments arising on the settlement of receivables represents a critical judgment made by the Directors. The Directors have estimated the value of trade receivables to reflect the expected settlement amounts receivable on the basis of the prior experience of collection levels and anticipated collection profiles. Further details of the Exceptional Settlement Adjustment are set out in note 3.

Notes to the Financial Statements

for the year ended 31 October 2012 *continued*

11. Trade and other receivables *continued*

Credit risk

Credit risk arises on trade receivables due to their magnitude and the nature of the claims settlement process. The Group recovers its charges for vehicle hire and the costs of repair of customers' vehicles from the insurer of the fault party to the associated accident or, in a minority of claims, from the fault party direct where they are a self insuring organisation. However, claims against motor insurance companies or self insuring organisations can be subject to dispute which may result in financial loss to the Group.

The Group manages this risk by ensuring that vehicles are only placed on hire and repairs to customers' vehicles carried out after a validation process that ensures to the Group's satisfaction that liability for the accident rests with another party. In the normal course of its business, the Group uses two principal methods to conclude claims: by negotiation with the insurer of the at-fault party and where a claim fails to settle within 120 days of billing, by litigation. A large proportion of these claims settle before or on the threat of litigation, but where they do not, formal proceedings are issued.

As trade receivables carry no contractual "due date" the term "past due" used in IFRS 7 is not considered relevant in the Group's circumstances and does not reflect the manner in which the Board considers credit risk. The Board reviews trade receivables according to the status of the claim through the in-house and solicitor processes and, in particular for claims sent to solicitors, whether they are "pre issue" or whether proceedings have formally been issued. The Group now targets the transfer of trade receivables from the in-house to the solicitor process when they are aged 120 days. An analysis of trade receivables based on these classifications is given below:

	31 October 2012 £'m	%	31 October 2011 £'m	%
Between 1 and 120 days old				
In-House	20.4	78%	7.8	67%
At Solicitors				
Pre-Issue	5.6	21%	2.9	25%
Proceedings Issued	0.3	1%	0.9	8%
	26.3	100%	11.6	100%
More than 120 days old				
In-House	6.3	26%	12.6	30%
At Solicitors				
Pre-Issue	8.7	37%	12.7	30%
Proceedings Issued	8.8	37%	16.9	40%
	23.8	100%	42.2	100%
Total before impairment				
In-House	26.7	53%	20.4	38%
At Solicitors				
Pre-Issue	14.3	29%	15.6	29%
Proceedings Issued	9.1	18%	17.8	33%
	50.1	100%	53.8	100%
IAS 39 effective interest deduction*	(1.6)	–	(2.9)	–
Exceptional Settlement Adjustment	(7.7)	–	(11.5)	–
	40.8	–	39.4	–

* The IAS 39 effective interest deduction reflects the finance income inherent in the nominal value of trade receivables

11. Trade and other receivables *continued*

Claims for the credit hire of our vehicles historically take longer to recover than our claims for credit repair because the concept of the cost of repairing a damaged car is less contentious to an insurer. As a result a higher proportion of credit hire trade receivables are passed to solicitors for formal collection, as shown in the table below:

	31 October 2012 £'m	%	31 October 2011 £'m	%
Credit Hire				
In-House	20.5	47%	16.9	36%
At Solicitors				
Pre-Issue	13.6	32%	13.4	29%
Proceedings Issued	9.0	21%	16.4	35%
	43.1	100%	46.7	100%
Credit Repair				
In-House	5.8	88%	2.9	45%
At Solicitors				
Pre-Issue	0.7	11%	2.2	34%
Proceedings Issued	0.1	1%	1.4	21%
	6.6	100%	6.5	100%
Other trade receivables				
In-House	0.4	100%	0.6	100%
	0.4	100%	0.6	100%
Total				
In-House	26.7	53%	20.4	38%
At Solicitors				
Pre-Issue	14.3	29%	15.6	29%
Proceedings Issued	9.1	18%	17.8	33%
	50.1	100%	53.8	100%
IAS 39 effective interest deduction*	(1.6)	–	(2.9)	–
Exceptional Settlement Adjustment	(7.7)	–	(11.5)	–
	40.8	–	39.4	–

* The IAS 39 effective interest deduction reflects the finance income inherent in the nominal value of trade receivables

Notes to the Financial Statements

for the year ended 31 October 2012 *continued*

11. Trade and other receivables *continued*

Credit risk is spread primarily across the major UK based motor insurers in proportion to their respective share of the market. No credit insurance is taken out given the regulated nature of these entities. The Group does not have a significant concentration of credit risk, with exposure spread across a large number of counterparties as shown in the table below:

	31 October 2012 £'m	%	31 October 2011 £'m	%
Counterparty				
Insurer 1	3.4	7%	5.0	9%
Insurer 2	2.5	5%	3.5	7%
Insurer 3	2.4	5%	3.1	6%
Insurer 4	2.1	4%	3.0	6%
Insurer 5	1.9	4%	2.7	5%
Insurer 6	1.6	3%	2.0	4%
Insurer 7	1.2	2%	1.6	3%
Insurer 8	1.2	2%	1.3	2%
Other insurers and self-insured	33.4	67%	31.0	57%
	49.7	99%	53.2	99%
Other – non insurer	0.4	1%	0.6	1%
	50.1	100%	53.8	100%
IAS 39 effective interest deduction*	(1.6)	–	(2.9)	–
Exceptional Settlement Adjustment	(7.7)	–	(11.5)	–
	40.8	100%	39.4	100%

* The IAS 39 effective interest deduction reflects the finance income inherent in the nominal value of trade receivables

The carrying amount of trade and other receivables are denominated solely in sterling.

12. Cash and cash equivalents

Cash and cash equivalents consists wholly of cash at bank of £1.7 million (2011: £1.4 million).

The Group has drawn £43.7 million (2011: £43.7 million) of its £43.7 million (2011: £43.7 million) available banking facilities as at 31 October 2012. Total working capital headroom as at 31 October 2012 was therefore £1.7 million (2011: £1.4 million).

13. Assets held for sale

The Group had no assets designated as held for sale at 31 October 2012 (2011: £nil).

14. Financial liabilities – borrowings

Details of borrowings are as follows:

	31 October 2012 £'m	31 October 2011 £'m
Current		
Bank loans	13.9	16.2
Finance lease obligations	0.5	0.4
	14.4	16.6
Non-current		
Bank loans	33.5	27.4
Finance lease obligations	0.9	0.1
	34.4	27.5
Total borrowings	48.8	44.1

Bank loans

The Group has a senior secured credit facility with Morgan Stanley Bank International Limited ("Morgan Stanley") in respect of banking facilities of up to £47.4 million maturing on 31 December 2015 ("Facility"). The Facility carries interest charged at LIBOR plus 5% and is secured by a fixed and floating charge over certain of the Group's and its subsidiary undertakings' assets. With the support of Morgan Stanley and an adjustment to the terms of the Facility, the Group remained in compliance with its banking covenants throughout the year, save in respect of one covenant, the terms of which were subsequently amended and any prior breach was waived.

Bank loans of £47.4 million as at 31 October 2012 (2011: £43.6 million) comprise £43.7 million drawn down from the Facility (2011: £43.7 million) and capitalised interest of £3.9 million (2011: nil) and nil (2011: £0.4 million) five year term loan in relation to leasehold property improvements at the Group's Alpha 1 headquarters. These loans are stated net of aggregate unamortised issue costs of £0.2 million (2011: £0.5 million). Amortisation of £0.3 million was charged during the year through finance costs (2011: £0.2 million). The average effective interest rate for the period on these banking facilities and loans was 6.8% (2011: 6.3%). The Group drew down an additional loan of £1.5 million under the Facility which was repaid in full during the year.

On 28 March 2013 the Company concluded a further amendment to its working capital facility such that, in place of scheduled repayment dates, the facility will be repayable in full on 31 December 2015 with interest due at six monthly intervals and capital repayments being dependent on the Group generating cash in excess of its ongoing working capital requirements.

An additional drawdown of £1.5 million made in January 2013 is scheduled for repayment in April 2013.

Notes to the Financial Statements

for the year ended 31 October 2012 *continued*

Finance lease facilities

Finance lease facilities totalled £1.4 million at 31 October 2012 (2011: £0.5 million) and were fully utilised as at that date and the prior period end.

Finance lease liabilities are payable as follows:

	31 October 2012			31 October 2011		
	Minimum lease payments £'m	Future finance charges £'m	Present value £'m	Minimum lease payments £'m	Future finance charges £'m	Present value £'m
In less than one year	0.7	0.2	0.5	0.5	0.1	0.4
Between one and five years	1.0	0.1	0.9	0.1	–	0.1
	1.7	0.3	1.4	0.6	0.1	0.5

All finance lease arrangements are secured over the assets to which they relate and mostly have a two year term, with rates of interest being fixed at the inception of each lease arrangement. The average effective rate was 17.1% (2011: 8.9%). All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments.

Convertible Notes

On 8 January 2008 the Group issued £50.0 million 5.50% Convertible Notes due 2013 ("Convertible Loan Notes"). The Convertible Notes constituted senior, unsubordinated, direct, unconditional and unsecured obligations of the Group and carried a cash payable coupon with an overall yield to maturity of 9.75%.

Holders of the Convertible Notes could have converted the Convertible Notes into ordinary shares at a conversion price of 75.4 pence per share at any time prior to January 2013. To the extent the Convertible Notes had not previously been converted, purchased and cancelled or redeemed, the Group would have redeemed the Convertible Notes on 8 January 2013 in cash at their accreted principal amount reflecting an overall yield to maturity of 9.75%.

During the year ended 31 October 2011 the holders of the Convertible Notes agreed to relinquish their rights to receive any further payments of principal and / or interest in consideration for the issue by the Company of an aggregate 198,246,415 Ordinary shares of 5 pence each in the Company's capital, which took place on 4 February 2011 ("Conversion"). As a result of Conversion, the liability component of the Convertible Notes of £58.4 million was derecognised from the balance sheet in 2011 with corresponding entries being made to the Group's share capital and reserves.

The amounts recognised in the balance sheet in relation to the Convertible Notes in the financial year ended 31 October 2011 were as follows:

	31 October 2012 £'m	31 October 2011 £'m
Liability component at beginning of year	–	56.7
Finance charges accrued (note 7)	–	1.7
Liability derecognised upon equitisation	–	(58.4)
Liability component at end of year	–	–

15. Trade and other payables

Trade and other payables

	31 October 2012 £'m	31 October 2011 £'m
Trade payables	16.7	12.8
Social security and other taxes	1.4	1.9
Non-trade payables	–	0.1
Accrued expenses	2.3	4.2
	20.4	19.0

16. Financial risk management

The Group's operations expose it to a number of financial risks that include liquidity risk, market risk (interest rate risk and price risk) and credit risk.

Given the size of the Group the Directors have not delegated the responsibility of monitoring financial risk management to a sub-committee of the Board. The policies set by the Directors are implemented by the finance department.

Liquidity risk

The Group is dependent upon the continuing availability of working capital facilities to finance its day-to-day business. The ongoing availability of the Group's working capital facilities, which subsequent to the year end were amended (see note 14), is dependent, inter alia, upon continued covenant compliance.

The Group seeks to recover its rental charges from the insurer of the at fault party to the road traffic accident. The timing of the receipt of funds is uncertain and can be protracted (see note 11). This is the primary financial risk covered by the Group's financial risk management process and underpins the Directors' financing strategies. The Group actively forecasts, manages and reports cash pledging by its debtors, cash receipts and payments and working capital requirements on a daily, weekly and monthly basis to ensure that it has sufficient funds for its operations.

Interest rate risk

The Group's interest rate risk arises from its borrowings, which are detailed in note 14. The Group's bank loans are issued at variable rates, which expose the Group to cash flow interest rate risk.

All finance lease arrangements are contracted on fixed rate terms at the inception of each individual lease agreement. However, the Group is exposed to cash flow interest rate risk in respect of finance leases as these borrowings are arranged on a vehicle by vehicle basis and the interest rate will therefore vary as vehicles are acquired and disposed.

Interest bearing assets consist of cash balances which earned interest at variable rates.

The Group has in place a policy of minimising finance charges on loan balances via the monitoring and offsetting of cash balances across the Group and by forecasting and financing its working capital requirements. Various hedging strategies were considered during the year, however the Board has decided not to hedge this risk at this time, rather monitor it on an ongoing basis. Hedging instruments may be implemented in the future.

Notes to the Financial Statements

for the year ended 31 October 2012 *continued*

16. Financial risk management *continued*

Credit risk

The Group is exposed to credit risk in relation to trade receivables (note 11) and cash on deposit (note 12). Where cash is placed on deposit, the Group uses only UK banks approved in advance by the Board and with deposit limits for each institution. An analysis of the concentration of deposits by bank is set out below:

	31 October 2012 £'m	31 October 2011 £'m
Bank A	1.7	1.4

The maximum exposure to credit risk at the reporting date is the carrying amount of cash and receivables.

Price risk

The majority of the Group's cost base reflects the acquisition and financing costs of its vehicles, commissions payable to its referrers, fuel and repair costs, premises and salary costs. No costs are incurred that the Directors consider would be appropriate for the Group to hedge with financial instruments, subject to the comments made above on interest rate management. The Group has no exposure to equity securities price risk as it holds no listed or other equity investments.

17. Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to minimise the cost of capital.

In order to achieve this objective, the Group may adjust the amount of dividends paid to shareholders, issue new shares, issue new debt or sell assets to reduce debt.

The Group monitors capital risk by reference to the gearing ratio, which is calculated as net debt divided by total capital. Net debt is calculated as total borrowings less cash and cash equivalents. Total capital is calculated as shareholders' equity plus net debt.

The gearing ratio was as follows:

	31 October 2012 £'m	31 October 2011 £'m
Total borrowings (note 14)	48.8	44.1
Less: cash and cash equivalents (note 12)	(1.7)	(1.4)
Net debt	47.1	42.7
Total shareholders' equity	6.4	16.0
Total capital	53.5	58.7
Gearing ratio	88%	73%

18. Financial instruments

Fair value of financial instruments

Details of the book values and fair values of financial instruments measured at cost or amortised cost are as follows:

	31 October 2012		31 October 2011	
	Carrying value £'m	Fair value £'m	Carrying value £'m	Fair value £'m
Financial assets				
Cash and cash equivalents	1.7	1.7	1.4	1.4
Claims in progress	9.2	9.2	4.9	4.9
Trade receivables	40.8	40.8	39.4	39.4
Other receivables	2.4	2.4	2.3	2.3
	54.1	54.1	48.0	48.0
Financial liabilities				
Trade payables	16.7	16.7	12.8	12.8
Bank loans	47.4	47.7	43.6	44.2
Finance lease obligations	1.4	1.6	0.5	0.6
	65.5	66.0	56.9	57.6

Maturity of financial liabilities

The following tables analyse the Group's remaining contractual maturity for its non-derivative financial liabilities based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed are the contractual undiscounted cash flows, including estimated interest costs yet to be incurred.

At 31 October 2012	In less than one year £'m	In 1 to 2 years £'m	In 2 to 5 years £'m	Total £'m
Trade payables	16.7	–	–	16.7
Bank loans	16.6	14.2	22.3	53.1
Finance lease obligations	0.7	1.0	–	1.7
	34.0	15.2	22.3	71.5

At 31 October 2011	In less than one year £'m	In 1 to 2 years £'m	In 2 to 5 years £'m	Total £'m
Trade payables	12.8	–	–	12.8
Bank loans	16.4	18.2	12.9	47.5
Finance lease obligations	0.5	0.1	–	0.6
Convertible Notes	–	–	0.4	0.4
	29.7	18.3	13.3	61.3

On 28 March 2013 the Company concluded a further amendment to its working capital facility such that, in place of scheduled repayment dates, the facility will be repayable in full on 31 December 2015 with interest due at six monthly intervals and capital repayments being dependent on the Group generating cash in excess of its ongoing working capital requirements.

Notes to the Financial Statements

for the year ended 31 October 2012 *continued*

19. Deferred tax asset

The movement in the Group's deferred tax asset is shown below:

	£'m
At 1 November 2011	9.7
Charged to the income statement (note 8)	(5.3)
At 31 October 2012	4.4

Deferred tax is calculated in full on temporary differences under the liability method using a tax rate of 23% (2011: 25%).
The deferred tax asset, which is undiscounted, is analysed below:

	31 October 2012 £'m	31 October 2011 £'m
Decelerated capital allowances	2.7	8.0
Tax losses	1.7	1.7
Undiscounted deferred tax asset	4.4	9.7

The Group has an unrecognised deferred tax asset of £18.5 million (2011: £13.5 million) arising from trading losses, further details of which are shown in note 8.

20. Share capital

	31 October 2012 £'m	31 October 2011 £'m
Allotted, issued and fully paid		
269,384,959 (2011: 269,384,959) ordinary shares of 5 pence	13.5	13.5

Allotments during the year

There was no allotment of shares during the year.

Purchase of own shares

There was no purchase of own shares during the year.

Share options over ordinary shares

At 31 October 2012 options to subscribe for 256,350 ordinary shares (2011: 271,445 ordinary shares) at prices between £nil and 407.8 pence per share were outstanding under the Group's three equity-settled share option schemes. Options outstanding under these schemes are exercisable at various times up to 14 July 2018 dependent in some instances on the attainment of specified future performance conditions. No further options have been granted since the year end.

Options to subscribe for nil ordinary shares (2011: 567,321 ordinary shares) at an exercise price of 64.5 pence per share were also outstanding as at 31 October 2012 under the Group's save as you earn ("SAYE") scheme. Options outstanding under this scheme were exercisable at various times up to November 2011 and lapsed during the year.

Further details of the share options and SAYE schemes are given in note 22.

21. Reserves

Movements in reserves are shown in the Consolidated Statement of Changes in Equity on page 14.

Other reserves comprise the difference of £10.9 million between the market value and the nominal value of shares issued as consideration for the acquisition of Accident Exchange Limited in April 2004, where the Group has taken advantage of Section 131 of the Companies Act 1985, and an amount of £0.6 million transferred from share capital upon acquisition of deferred shares, which were subsequently cancelled.

22. Share-based payments

The Group operates three share option schemes and an SAYE scheme for the incentivisation of the Executive Directors, management team and employees of the Group. Share options are granted under the recommendation of the Remuneration Committee. No new share options were granted during the year.

The Accident Exchange Group Plc Unapproved Share Option Plan (2004) was established during the financial year ended 30 April 2004. The Accident Exchange Group Plc Directors and Senior Executives Long Term Incentive Plan and the Accident Exchange Group Plc Approved Company Share Option Plan (2005) were both established during the financial year ended 30 April 2005. The SAYE scheme was established during the financial year ended 30 April 2008.

The number of shares over which options were exercisable as at 31 October 2011 was 838,766. During the year options over 521,782 shares lapsed due being timed out and 60,634 lapsed due to leavers. The number of shares over which options were outstanding at 31 October 2012 was 256,350. No options were exercised during the year ended 31 October 2012 (2011: nil). The options outstanding at 31 October 2012 have an exercise price in the range of nil to 407.8 pence and a weighted average remaining contractual life of 4.7 years (2011: 5.7 years).

For the year ended 31 October 2012 total share option income was £nil (2011: £0.4 million), with a corresponding entry to retained earnings made in 2011.

23. Cash generated from operations

Reconciliation of net loss to cash generated from operations:

	Year ended 31 October 2012 £'m	Year ended 31 October 2011 £'m
(Loss) / profit for the year	(9.6)	28.4
Depreciation and other non-cash items:		
Depreciation	0.7	1.4
Amortisation of intangible assets	0.3	0.5
Goodwill impairment	4.1	–
Share-based payments	–	(0.4)
Changes in working capital:		
(Increase) / decrease in trade and other receivables	(0.8)	10.1
(Increase) in claims in progress	(4.3)	(1.7)
Increase / (decrease) in payables	3.3	(0.4)
VAT recovered on fleet additions	0.3	–
Finance costs	3.3	5.1
Equitisation of Convertible Notes	–	(45.1)
Tax	5.3	0.1
Cash generated from / (used by) operations	2.6	(2.0)

Notes to the Financial Statements

for the year ended 31 October 2012 *continued*

24. Analysis of movements in net borrowings

(a) Reconciliation of movement in cash and cash equivalents to net borrowings

	Year ended 31 October 2012 £'m	Year ended 31 October 2011 £'m
Increase / (decrease) in cash and cash equivalents during the year	0.3	(1.5)
Capital element of finance lease payments	0.6	8.5
Proceeds from borrowings	(1.5)	(3.0)
Repayment of borrowings	1.9	0.6
Decrease in net borrowings resulting from cash flows	1.3	4.6
Inception of finance leases	(1.5)	(0.1)
Loan interest capitalised	(3.9)	–
Increase in accrued Convertible Notes interest included in net debt	–	(1.5)
Equitisation of Convertible Notes	–	58.4
Amortisation of debt issue costs	(0.3)	(0.4)
(Increase) / decrease in net borrowings during the year	(4.4)	61.0
Net borrowings at 1 November	(42.7)	(103.7)
Net borrowings at year end	(47.1)	(42.7)

(b) Analysis of movement in net borrowings

	As at 1 November 2011 £'m	Cash flows £'m	Non-cash items £'m	As at 31 October 2012 £'m
Cash and cash equivalents	1.4	0.3	–	1.7
Bank loans	(43.6)	0.4	(0.3)	(43.5)
Finance leases	(0.5)	0.6	(1.5)	(1.4)
Loan Interest capitalised	–	–	(3.9)	(3.9)
Net borrowings	(42.7)	1.3	(5.7)	(47.1)

25. Capital commitments

At 31 October 2012 the Group is not committed to any future investments or capital expenditure plans other than the acquisition of vehicles under finance lease arrangements in the normal course of business.

Capital commitments relate to the replacement of existing motor vehicles and the purchase of new motor vehicles. The purchase of new motor vehicles is contingent upon specific motor dealers operating an exclusive relationship with the Group in respect of the introduction of credit hire claims involving their customers.

Included in capital commitments due within one year are confirmed orders for motor vehicles amounting to £nil (2011: £nil) ordered in the normal course of business, which are not contingent on an exclusive relationship being upheld.

Capital commitments for motor vehicles at the year end, which are contingent upon an exclusive relationship being upheld by our referring partners and on the maximum expected referral volumes being received from each referrer are analysed as follows:

	31 October 2012 £'m	31 October 2011 £'m
In one year or less	0.2	2.0
Between one and five years	0.2	4.3
	0.4	6.3

26. Operating leases

The Group operates from various premises, including its Alpha 1 headquarters, occupied under non-cancellable operating leases. The Group also leases vehicles to service predominantly its mainstream fleet requirements.

The future aggregate minimum lease payments under non-cancellable operating lease rentals are as follows:

	31 October 2012		31 October 2011	
	Land and buildings £'m	Vehicles, plant and equipment £'m	Land and buildings £'m	Vehicles, plant and equipment £'m
In one year or less	–	0.9	–	1.3
Between one and five years	4.8	3.2	6.2	1.7
More than five years	4.4	–	4.6	–
	9.2	4.1	10.8	3.0

27. Related party transactions

Transactions between the Company and its subsidiaries are eliminated upon consolidation and not disclosed in these financial statements. There were no other related party transactions during the period (2011: none).

The key management team consists of the Executive and Non-Executive Directors. Details of their remuneration are set out in note 6 to these financial statements.

28. Events since the balance sheet date

As referred to in the Directors' Report, it was necessary for the Group to take four further Autofocus related test cases to the Court of Appeal to clarify the extent to which the Group was entitled to re-open previously heard cases. Judgment in these subsequent test cases was handed down in February 2013 and reaffirmed the Group's ability to re-open cases affected by the now discredited evidence of Autofocus. As a result, the Group is continuing to progress claims with a value of c£6 million against the remaining insurers.

On 28 March 2013 the Company concluded a further amendment to its working capital facility such that, in place of scheduled repayment dates, the facility will be repayable in full on 31 December 2015 with interest due at six monthly intervals and capital repayments being dependent on the Group generating cash in excess of its ongoing working capital requirements.

Parent Company Accounts

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Independent Auditors' Report to the members of Accident Exchange Group Plc

We have audited the Parent Company financial statements of Accident Exchange Group Plc for the year ended 31 October 2012 which comprise the Company Balance Sheet, the Principal Accounting Policies and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Respective responsibilities of Directors and auditors

As explained more fully in the Statement of Directors' Responsibilities set out on page 8, the Directors are responsible for the preparation of the Company financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the Company financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the report and financial statements to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the Parent Company's financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 October 2012;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial period for which the Company financial statements are prepared is consistent with the Company financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Other matter

We have reported separately on the Group financial statements of Accident Exchange Group Plc for the year ended 31 October 2012.



Mark Smith (Senior Statutory Auditor)

for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Birmingham
4 April 2013

Parent Company Balance Sheet at 31 October 2012

	Note	31 October 2012 £'m	31 October 2011 £'m
Assets			
Fixed assets			
Intangible assets	C2	–	–
Tangible assets	C3	1.0	1.2
Investment in subsidiary undertakings	C4	21.6	36.9
		22.6	38.1
Current assets			
Debtors – amounts falling due within one year	C5	24.5	24.1
Debtors – amounts falling due after more than one year	C5	11.2	11.1
		35.7	35.2
Total assets		58.3	73.3
Equity and liabilities			
Equity			
Share capital	C10	13.5	13.5
Share premium	C10	29.6	29.6
Capital redemption reserve	C10	0.6	0.6
Profit and loss account	C10	(33.7)	(16.6)
		10.0	27.1
Creditors: amounts falling due within one year			
Borrowings	C6	13.9	16.2
Convertible Notes	C7	–	–
Trade and other creditors	C8	0.9	2.6
		14.8	18.8
Creditors: amounts falling due after more than one year			
Borrowings	C6	33.5	27.4
Total liabilities		48.3	46.2
Total equity and liabilities		58.3	73.3

The accompanying notes form an integral part of these financial statements.

These financial statements were approved by the Board of Directors on 4 April 2013 and were signed on its behalf by:



Steve Evans
Chief Executive



Nicola Roy
Director

Principal Accounting Policies – Parent Company

Basis of preparation

The basis of preparation is set out in note C1 to these Company financial statements.

Critical estimates and judgments

The preparation of the financial statements requires the Directors to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, and income and expenditure.

The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making judgments about carrying values of assets and liabilities that are not readily apparent from other sources. These estimates and underlying assumptions are reviewed on an ongoing and regular basis.

The resulting accounting estimates calculated using these judgments and assumptions will, by definition, vary from the related actual results.

The critical estimates and judgments that impact upon the Company's financial statements include:

- estimation of the residual values of tangible fixed assets; and
- assessment of whether the carrying values of financial and non-financial assets have incurred any impairment loss, which requires estimates to be made of future profitability and cash flows, and estimation of an appropriate discount rate.

Intangible fixed assets

Intangible fixed assets are stated at cost less accumulated amortisation and impairment losses.

Intangible assets are amortised on a straight line basis over their estimated useful economic life and are amortised from the date they are available for use. The rate applicable to acquired software is 20% per annum.

Tangible fixed assets and depreciation

Tangible fixed assets are stated at cost less depreciation. Depreciation is calculated to write down the cost less estimated residual value of all tangible fixed assets by annual instalments over their expected useful economic lives. The rates generally applicable are:

Leasehold improvements – the shorter of the period of the lease or 10 years;

Fixtures and fittings – 25%.

Investments

Investments held in subsidiaries in the Company balance sheet are included at cost less provision for impairment.

Impairment of fixed assets

Intangible fixed assets, tangible fixed assets and fixed asset investments are tested for impairment whenever there is an indication that an asset may be impaired.

An impairment loss is recognised in the profit and loss account if the recoverable amount (being the higher of fair value less costs to sell and value in use) of an asset or cash generating unit falls below its carrying value in the balance sheet.

Such impairment losses may be reversed in subsequent periods if there is an indication that the impairment loss recognised in prior periods may no longer exist or may have decreased.

Fair value estimation

Fair value is the amount at which a financial instrument could be exchanged in an arm's length transaction between informed and willing parties, other than a forced or liquidation sale and excludes accrued interest. Where available, market values are used to determine fair values. Where market values are not available, fair values are calculated by discounting expected cash flows at prevailing interest rates.

Financial assets

Debtors and cash at bank and in hand are the categories of financial asset held by the Company.

Debtors are recognised and carried at the lower of their original value and recoverable amount. If there is evidence that an impairment loss on debtors has been incurred, the amount of the loss is measured as the difference between the assets carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced, with the amount of the loss recognised in the profit and loss account.

Financial liabilities

All financial liabilities are initially recognised at fair value. Measurement after initial recognition is at amortised cost, with the changes in the carrying amount being taken through the profit and loss account.

Interest bearing borrowings

Interest bearing bank loans and overdrafts are initially recorded at the value of the amount received, net of attributable transaction costs.

Subsequent to initial recognition, interest bearing borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the profit and loss account over the period of the borrowing on an effective interest basis.

Principal Accounting Policies – Parent Company *continued*

Derivative financial liabilities

The derivative financial liability in respect of the equity conversion option component of the Convertible Notes was measured at fair value as at each reporting date and changes in fair value reflected in finance costs in the profit and loss account in the period in which they arose.

Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Employee benefits

Pensions

The Company operates a defined contribution pension scheme for certain employees. The pension costs charged to the profit and loss account represent the amount of the contributions payable to the scheme in respect of the accounting period.

Share-based payments

The Accident Exchange Group Plc Unapproved Share Option Plan (2004), the Accident Exchange Group Plc Directors and Senior Executives Long Term Incentive Plan and the Accident Exchange Group Plc Approved Company Share Option Plan (2005) allow certain Group employees to acquire shares of the Company (equity-settled share options).

Share options are measured at fair value at the date of grant, which is expensed on a straight-line basis over the vesting period, being the period in which the services are received, based on the Company's estimate of shares that will eventually vest. Where an option is unable to be exercised because vesting conditions are not met (for example, if a non-market based performance target is not met, or the employee leaves the employment) the cost of the options is reversed. However, if the employer cancels the options, the full value of the options is recognised immediately in the profit and loss account. At each balance sheet date before vesting, the cumulative expense is calculated and the movement in the cumulative expense since the previous balance sheet date is recognised in the profit and loss account, with a corresponding entry in retained earnings.

Fair value is measured using the Black Scholes model. In valuing equity-settled transactions, no account is taken of any vesting conditions, other than conditions linked to the price of the shares of the Company (market conditions).

Finance revenue and costs

Interest payable on borrowings and interest income is recognised in the profit and loss account using the effective interest rate method.

Taxation

The tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the profit and loss account because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised on all timing differences where the transactions or events that give the Company an obligation to pay more tax in the future, or a right to pay less tax in the future, have occurred by the balance sheet date.

Deferred tax assets are recognised when it is more likely than not that they will be recovered. Deferred tax is measured using rates of tax that have been enacted or substantively enacted by the balance sheet date. Where assets and liabilities for deferred taxation arise they are not discounted.

Notes to the Financial Statements – Parent Company for the year ended 31 October 2012

C1. Basis of preparation

The Company financial statements have been prepared in accordance with applicable law, UK GAAP accounting standards and under the historical cost convention, except for the costs of share-based payments and derivative financial liabilities; these are stated at fair value.

As permitted by the exemption in section 408 of the Companies Act 2006, the Company has not presented its own profit and loss account.

Under FRS 1 the Company is exempt from the requirement to prepare a cash flow statement on the basis that the cash flows of the Company are included within published consolidated financial statements.

The Company has taken advantage of the exemption conferred by FRS 29 not to produce the disclosures required by that standard as the Company is included in consolidated financial statements which contain disclosures that comply with FRS 29.

Going concern basis

As set out in the Directors' Report on page 9 and in notes 14 and 18 to the Group's consolidated financial statements, the Company concluded a further amendment to its working capital facility such that, in place of scheduled repayment dates, the facility will be repayable in full on 31 December 2015 with interest due at six monthly intervals and capital repayments being dependent on the Group generating cash in excess of its ongoing working capital requirements.

The Directors have prepared forecasts which show that the Group will have sufficient funds to meet its liabilities as they fall due and that it will continue to meet its banking covenants for a period of at least 12 months from the date of approving these financial statements. These forecasts include a number of assumptions in relation to the future performance of a subsidiary undertaking, Accident Exchange Limited, including in particular the continuation of the revenue levels already achieved, the continuation of recent improvements to claim recovery levels and the time taken to settle claims and, following the progress already made in relation to Autofocus impacted cases as described on page 3 and 4 of the Operating and Financial Review to the Group's consolidated financial statements, agreeing the settlement of outstanding historic claims affected by the evidence of Autofocus at levels similar to those already settled.

The Directors consider the assumptions made in the forecasts to be reasonable. The Directors recognise that in the current economic climate achievement of these improvements is not certain and have therefore also considered a number of scenarios and actions the Company and Accident Exchange Limited could take to mitigate any adverse consequences that would arise if the assumptions made were not met in whole or in part.

Having undertaken this review, the Directors have concluded that the Company has adequate financial resources to fund its operations for the foreseeable future and meet its obligations under the amended working capital facility as set out in note 18 to the Group's consolidated financial statements and accordingly continue to adopt the going concern basis in preparing the financial statements.

Notes to the Financial Statements – Parent Company for the year ended 31 October 2012 *continued*

C2. Intangible fixed assets

	Acquired software £'m
Cost	
At 1 November 2011 and 31 October 2012	0.3
Amortisation	
At 1 November 2011 and 31 October 2012	0.3
Net book amount At 1 November 2011 and 31 October 2012	–

C3. Tangible fixed assets

	Leasehold improvements £'m	Fixtures and fittings £'m	Total £'m
Cost			
At 1 November 2011 and 31 October 2012	2.3	0.8	3.1
Depreciation			
At 1 November 2011	1.1	0.8	1.9
Charge for the year	0.2	–	0.2
At 31 October 2012	1.3	0.8	2.1
Net book amount At 31 October 2012	1.0	–	1.0
At 31 October 2011	1.2	–	1.2

C4. Investment in subsidiary undertakings

	Investments £'m
Cost	
At 1 November 2011 and 31 October 2012	94.5
Impairment	
At 1 November 2011	57.6
Charge for the year	15.3
At 31 October 2012	72.9
Net book amount	
At 31 October 2012	21.6
At 31 October 2011	36.9

C4. Investment in subsidiary undertakings *continued*

The Company's principal subsidiary undertakings, which are wholly owned and registered and incorporated in England, are as follows:

Subsidiary	Nature of business
Accident Exchange Limited	Provision of accident management and other solutions to the automotive and insurance related sectors in the UK
DCML Limited	Provision of business software solutions to the automotive industry

Carrying values of investments in subsidiary undertakings are reviewed annually for indications of impairment or more frequently if there are indications that they may be impaired. Testing of impairment is carried out by assessing the recoverable amount for each cash generating unit ("CGU") based on value in use calculations. These calculations use cash flow projections based on forecast operating results covering a three year period.

The key assumptions inherent in the forecasts for Accident Exchange Limited include expected levels of revenue, settlement adjustment rates, cash collections, fleet volume and utilisation, availability of fleet and fleet funding, fleet residual values, and headcount related costs. The key assumptions inherent in the forecasts for DCML Limited include customer gains and losses, levels of revenue, headcount related costs and cash collections. The assumptions for each CGU have been determined by reference to historical experience and consideration of all available information.

A pre-tax discount rate of 12% has been used to discount Accident Exchange Limited's forecast cash flows and a pre-tax discount rate of 12% has been used to discount the forecast cash flows of DCML Limited. These discount rates are derived from the Company's weighted average cost of capital, adjusted for risks specific to each CGU.

An annual growth rate of 2.3%, equal to average annual UK GDP growth during the past 60 years and which the Directors consider to be lower than the long term average growth rate for the industry, has been used to extrapolate cash flow projections beyond the period covered by the forecasts.

The Company has recognised an impairment of £10.2 million to the carrying value of its investment in Accident Exchange Limited (2011: £3.7 million). The company has also recognised an impairment of £5.1 million to the carrying value of its investment in DCML Limited (2011: nil).

C5. Debtors

	31 October 2012 £'m	31 October 2011 £'m
Amount owed by subsidiary undertakings:		
– Due within one year	23.9	23.6
– Due after more than one year	11.2	11.1
Deferred tax asset (note C9)	0.2	0.2
Prepayments and accrued income	0.4	0.2
	35.7	35.2

Notes to the Financial Statements – Parent Company for the year ended 31 October 2012 *continued*

C6. Borrowings

	31 October 2012 £'m	31 October 2011 £'m
Bank loans due within one year	13.9	16.2
Bank loans due within two to five years	33.5	27.4
	47.4	43.6

The Group has a senior secured credit facility with Morgan Stanley Bank International Limited ("Morgan Stanley") in respect of banking facilities of up to £47.4 million maturing on 31 December 2015 ("Facility"). The Facility carries interest charged at LIBOR plus 5% and is secured by a fixed and floating charge over certain of the Group's and its subsidiary undertakings' assets. With the support of Morgan Stanley and an adjustment to the terms of the Facility, the Group remained in compliance with its banking covenants throughout the year, save in respect of one covenant, the terms of which were subsequently amended and any prior breach was waived.

Bank loans of £47.4 million as at 31 October 2012 (2011: £43.6 million) comprise £43.7 million drawn down from the Facility (2011: £43.7 million) and capitalised interest of £3.9 million (2011: £nil) and £nil (2011 £0.4 million) five year term loan in relation to leasehold property improvements at the Group's Alpha 1 headquarters. These loans are stated net of aggregate unamortised issue costs of £0.2 million (2011: £0.5 million). Amortisation of £0.3 million was charged during the year through finance costs (2011: £0.2 million). The average effective interest rate for the period on these banking facilities and loans was 6.8% (2011: 6.3%). The Group drew down an additional loan of £1.5 million under the Facility which was repaid in full during the year.

On 28 March 2013 the company concluded a further amendment to its working capital facility such that, in place of scheduled repayment dates, the facility will be repayable in full on 31 December 2015 with interest due at 6 monthly intervals and capital repayments being dependent on the Group generating cash in excess of its ongoing working capital requirements.

An additional drawdown of £1.5 million made in January 2013 is scheduled for repayment in April 2013.

C7. Convertible Notes

On 8 January 2008 the Company issued £50.0 million 5.50% Convertible Notes due 2013 ("Convertible Notes"). The Convertible Notes constituted senior, unsubordinated, direct, unconditional and unsecured obligations of the Group and carried a cash payable coupon with an overall yield to maturity of 9.75%.

Holders of the Convertible Notes could have converted the Convertible Notes into ordinary shares at a conversion price of 75.4 pence per share at any time prior to January 2013. To the extent the Convertible Notes had not previously been converted, purchased and cancelled or redeemed, the Group would have redeemed the Convertible Notes on 8 January 2013 in cash at their accreted principal amount reflecting an overall yield to maturity of 9.75%.

During the year ended 30 October 2011 the holders of the Convertible Notes agreed to relinquish their rights to receive any further payments of principal and / or interest in consideration for the issue by the Company of an aggregate 198,246,415 Ordinary shares of 5 pence each in the Company's capital, which took place on 4 February 2011 ("Conversion"). As a result of Conversion, the liability component of the Convertible Notes of £58.4 million was derecognised from the balance sheet in 2011 with corresponding entries being made to the Group's share capital and reserves.

The amounts recognised in the balance sheet in relation to the Convertible Notes in the financial year ended 31 October 2011 were as follows:

	31 October 2012 £'m	31 October 2011 £'m
At start of year	–	56.7
Finance charges accrued	–	1.7
Liability derecognised upon equitisation	–	(58.4)
Liability component at year end	–	–

C8. Creditors: amounts falling due within one year

	31 October 2012 £'m	31 October 2011 £'m
Trade and other creditors		
Trade creditors	0.1	–
Corporation tax	0.4	0.4
Social security and other taxes	0.1	0.1
Accruals and deferred income	0.3	2.1
	0.9	2.6

Amounts owed to subsidiary undertakings are unsecured, carry interest at 2% over base rate, have no fixed date of repayment and are repayable on demand.

C9. Deferred tax

The movement in the Company's deferred tax asset is shown below:

	31 October 2012 £'m	31 October 2011 £'m
At start of year	0.2	0.4
Charge for the year	–	(0.2)
At end of year	0.2	0.2

The deferred tax asset, which is undiscounted, is analysed below:

	31 October 2012 £'m	31 October 2011 £'m
Accelerated capital allowances	0.2	0.2
Undiscounted deferred tax asset (note C5)	0.2	0.2

The deferred tax asset at 31 October 2012 (note C5) has been recognised to the extent that the Company anticipates making sufficient taxable profits in the future to absorb the benefit of the reversal of the underlying timing differences. At the balance sheet date the Company had unutilised tax losses of £0.2 million (2011: £0.2 million) available for offset against future profits. No deferred tax asset has been recognised in respect of these tax losses due to the unpredictability of future profit streams.

Notes to the Financial Statements – Parent Company for the year ended 31 October 2012 *continued*

C10. Capital and reserves

	Share capital £'m	Share premium £'m	Capital redemption reserve £'m	Profit and loss account £'m	Total £'m
At 1 November 2011	13.5	29.6	0.6	(16.6)	27.1
Loss for the year	–	–	–	(17.1)	(17.1)
At 31 October 2012	13.5	29.6	0.6	(33.7)	10.0

	31 October 2012 £'m	31 October 2011 £'m
Allotted and fully paid		
269,384,959 (2011: 269,384,959) ordinary shares of 5 pence	13.5	13.5

Allotments during the year

There were no allotments of shares during the year.

Purchase of own shares

There were no purchases of own shares during the year.

Share options over ordinary shares

At 31 October 2012 options to subscribe for 256,350 ordinary shares (2011: 271,445 ordinary shares) at prices between £nil and 407.8 pence per share were outstanding under the Company's three equity-settled share option schemes. Options outstanding under these schemes are exercisable at various times up to 14 July 2018 dependent in some instances on the attainment of specified future performance conditions. No further options have been granted since the period end.

Options to subscribe for nil ordinary shares (2011: 567,321 ordinary shares) at an exercise price of 64.5 pence per share were also outstanding as at 31 October 2012 under the Company's save as you earn ("SAYE") scheme. Options outstanding under this scheme were exercisable at various times up to November 2011 and lapsed during the year.

Further details of the share options and SAYE schemes are given in note C11.

Capital redemption reserve

The capital redemption reserve comprises an amount of £0.6 million transferred from share capital upon acquisition of the deferred shares.

C11. Share-based payments

The Company operates three share option schemes and an SAYE scheme for the incentivisation of the Executive Directors, management team and employees of the Group. Share options are granted under the recommendation of the Remuneration Committee. No new share options were granted during the year.

The Accident Exchange Group Plc Unapproved Share Option Plan (2004) was established during the financial year ended 30 April 2004. The Accident Exchange Group Plc Directors and Senior Executives Long Term Incentive Plan and the Accident Exchange Group Plc Approved Company Share Option Plan (2005) were both established during the financial year ended 30 April 2005. The SAYE scheme was established during the financial year ended 30 April 2008.

The number of shares over which options were exercisable as at 31 October 2011 was 838,766. During the year options to over 521,782 shares lapsed due being timed out and 60,634 lapsed due to leavers. The number of shares over which options were outstanding at 31 October 2012 was 256,350. No options were exercised during the year ended 31 October 2012 (2011: nil). The options outstanding at 31 October 2012 have an exercise price in the range of nil to 407.8 pence and a weighted average remaining contractual life of 4.7 years (2011: 5.7 years).

For the year ended 31 October 2012 total share option income was nil (2011: £0.4 million), with a corresponding entry to retained earnings made in 2011.

C12. Profit and loss account

The Company made a loss of £17.1 million (2011: profit of £36.6 million), reflecting primarily the impairment of the Investment in Subsidiary Undertakings (note C4).

C13. Related party transactions

The Company has taken advantage of the exemption conferred by FRS 8 'Related party disclosures' not to disclose transactions with other group companies.

C14. Events since the balance sheet date

On 28 March 2013 the Company concluded a further amendment to its working capital facility such that, in place of scheduled repayment dates, the facility will be repayable in full on 31 December 2015 with interest due at six monthly intervals and capital repayments being dependent on the Group generating cash in excess of its ongoing working capital requirements.

Notice of Annual General Meeting

Accident Exchange Group Plc (company number 4360804)

Notice is given that the 2013 Annual General Meeting of Accident Exchange Group Plc (the "Company") will be held at the offices of DLA Piper UK LLP, Victoria Square House, Victoria Square, Birmingham B2 4DL on Tuesday 30 April 2013 at 11:00 a.m. for the following purposes:

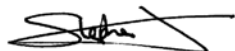
To consider and, if thought fit, to pass the following resolutions as ordinary resolutions:

1. To receive the Company's annual accounts and Directors' and Auditors' reports for the 12 month period ended 31 October 2012.
2. To reappoint PricewaterhouseCoopers LLP as auditors of the Company, to hold office until the conclusion of the next general meeting at which accounts are laid before the Company.
3. To authorise the Directors to determine the remuneration of the auditors.
4. To appoint Nicola Roy as a Director.

To consider and, if thought fit, to pass the following resolution as a special resolution:

5. That the name of the Company be changed to "Automotive and Insurance Solutions Group Plc".

By order of the Board



Stephen Jones

Company Secretary
Accident Exchange Group Plc

4 April 2013

Registered office
Alpha 1
Canton Lane
Hams Hall
Birmingham
B46 1GA

Registered in England and Wales No. 04360804

Notes

Entitlement to attend and vote

1. The right to vote at the meeting is determined by reference to the register of members. Only those shareholders registered in the register of members of the Company as at 6.00 p.m. on 28 April 2013 (or, if the meeting is adjourned, 6.00 p.m. on the date which is two working days before the date of the adjourned meeting) shall be entitled to attend and vote at the meeting in respect of the number of shares registered in their name at that time. Changes to entries in the register of members after that time shall be disregarded in determining the rights of any person to attend or vote (and the number of votes they may cast) at the meeting.

Proxies

2. A shareholder is entitled to appoint another person as his or her proxy to exercise all or any of his or her rights to attend and to speak and vote at the meeting. A proxy need not be a shareholder of the Company.

A shareholder may appoint more than one proxy in relation to the meeting, provided that each proxy is appointed to exercise the rights attached to a different share or shares held by that shareholder. Failure to specify the number of shares each proxy appointment relates to or specifying a number which when taken together with the numbers of shares set out in the other proxy appointments is in excess of the number of shares held by the shareholder may result in the proxy appointment being invalid.

A proxy may only be appointed in accordance with the procedures set out in notes 3 to 5 below and the notes to the proxy form.

The appointment of a proxy will not preclude a shareholder from attending and voting in person at the meeting.

3. A form of proxy is enclosed. When appointing more than one proxy, complete a separate proxy form in relation to each appointment. Additional proxy forms may be obtained by photocopying the form. State clearly on each proxy form the number of shares in relation to which the proxy is appointed.

To be valid, a proxy form must be received by post or (during normal business hours only) by hand at the offices of the Company's registrar, Capita Registrars, PXS, 34 Beckenham Road, Beckenham, Kent BR3 4TU, no later than 11:00 a.m. on 28 April 2013 (or, if the meeting is adjourned, no later than 48 hours before the time of any adjourned meeting).

4. As an alternative to completing the hard copy proxy form, a shareholder may appoint a proxy or proxies electronically by registering electronically at www.capitaregistrars.com or in the case of CREST members, utilising the CREST electronic proxy appointment service in accordance with the procedures set out below.

5. CREST members who wish to appoint a proxy or proxies for the meeting (or any adjournment of it) through the CREST electronic proxy appointment service may do so by using the procedures described in the CREST Manual. CREST personal members or other CREST sponsored members, and those CREST members who have appointed a voting service provider(s), should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf.

In order for a proxy appointment or instruction made using the CREST service to be valid, the appropriate CREST message (a "CREST Proxy Instruction") must be properly authenticated in accordance with Euroclear UK & Ireland Limited's specifications and must contain the information required for such instructions, as described in the CREST Manual. The message, regardless of whether it constitutes the appointment of a proxy or is an amendment to the instruction given to a previously appointed proxy, must, in order to be valid, be transmitted so as to be received by Capita Registrars (IDRA10) no later than 11:00 a.m. on 28 April 2013 (or, if the meeting is adjourned, no later than 48 hours before the time of any adjourned meeting). For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST Applications Host) from which Capita Registrars are able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. After this time, any change of instructions to proxies appointed through CREST should be communicated to the appointee through other means.

CREST members and, where applicable, their CREST sponsors or voting service providers should note that Euroclear UK & Ireland Limited does not make available special procedures in CREST for any particular messages. Normal system timings and limitations will therefore apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member or sponsored member or has appointed a voting service provider(s), to procure that his or her CREST sponsor or voting service provider(s) take(s)) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting service providers are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings.

The Company may treat a CREST Proxy Instruction as invalid in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001.

Corporate Representatives

6. A shareholder which is a corporation may authorise one or more persons to act as its representative(s) at the meeting. Each such representative may exercise (on behalf of the corporation) the same powers as the corporation could exercise if it were an individual shareholder, provided that (where there is more than one representative and the vote is otherwise than on a show of hands) they do not do so in relation to the same shares.

Shareholder Notes



Cut along dotted line

Accident Exchange Group Plc (the "Company")

Company Number 4360804

FORM OF PROXY ANNUAL GENERAL MEETING

I/We*..... (FULL NAME(S) IN BLOCK CAPITALS)

of (ADDRESS IN BLOCK CAPITALS)

.....

being (a) member(s) of the above named Company, appoint the Chairman of the meeting
OR the following person*:

Name of proxy	Number of shares in relation to which the proxy is authorised to act

(* Please refer to Explanatory Note 2)

as my/our proxy to exercise all or any of my/our rights to attend, speak and vote in respect of my/our voting entitlement on my/our behalf at the Annual General Meeting of the Company to be held at the offices of DLA Piper UK LLP, Victoria Square House, Victoria Square, Birmingham B2 4DL at 11.00 a.m. on 30 April 2013 and at any adjournment of the meeting.

☐

Please tick here if this proxy appointment is one of multiple appointments being made.

(For the appointment of more than one proxy, please refer to Explanatory Note 3)

I/We would like my/our proxy to vote on the resolutions to be proposed at the meeting as indicated on this form. Unless otherwise instructed, the proxy can vote as he or she chooses or can decide not to vote at all in relation to any business of the meeting.

Ordinary Resolutions	For	Against	Vote Withheld
1. To receive the Accounts for the 12 month period ended 31 October 2012			
2. To re-appoint PricewaterhouseCoopers LLP as auditors			
3. To authorise the Board to determine the remuneration of the auditors			
4. To appoint Nicola Roy as a Director			
Special Resolutions			
5. To change the name of the Company to "Automotive and Insurance Solutions Group Plc"			

Signed:.....

Dated:.....

Notes:

1. You are entitled to appoint one or more proxies of your own choice to exercise all or any of your rights to attend and to speak and vote at the meeting. A proxy need not be a shareholder of the Company. If you appoint more than one proxy, each proxy must be appointed to exercise the rights attached to a different share or shares held by you. You can only appoint a proxy in accordance with the procedures set out in these notes and in the notes to the Notice of Meeting.
2. If you wish to appoint the Chairman of the meeting as your proxy, please leave the space provided blank. If you wish to appoint a proxy other than the Chairman of the meeting, please insert their full name in the space provided. If you sign and return the form with no name in the space provided, the Chairman of the meeting will be deemed to be your proxy in respect of your full voting entitlement. If you are appointing a proxy other than the Chairman of the meeting and wish the proxy to be appointed in relation to less than your full voting entitlement, please enter in the box next to the name of the proxy the number of shares in relation to which they are authorised to act as your proxy. If you sign and return the form and leave this box blank, your proxy will be deemed to be authorised to act in respect of your full voting entitlement (or if this form of proxy has been issued in respect of a designated account for a shareholder, the full voting entitlement for that designated account).
3. To appoint more than one proxy, you will need to complete a separate form in relation to each appointment. Additional forms may be obtained by photocopying this form. You will need to state clearly on each form the number of shares in relation to which the proxy is appointed. Please therefore indicate in the box next to the name of the proxy the number of shares in relation to which they are authorised to act as your proxy. Please also indicate by ticking the box provided if the proxy instruction is one of multiple instructions being given. All forms must be signed and should be returned together in the same envelope. A failure to specify the number of shares each proxy appointment relates to or specifying a number in excess of the number of shares held by you may result in the proxy appointment being invalid.
4. Completion and return of this form of proxy will not preclude you from attending and voting in person at the meeting if you wish. If you do attend the meeting in person, your proxy appointments will automatically be terminated. If you wish a proxy to make any comments on your behalf, you will need to appoint someone other than the Chairman of the meeting and give them the relevant instructions directly.
5. If you want your proxy to vote in a certain way on the resolutions specified, please indicate with an "X" in the appropriate box above how you wish your vote to be cast. If you fail to select any of the given options, your proxy can vote as he or she chooses or can decide not to vote at all. Your proxy can also do this on any other business which may come before the meeting, including amendments to resolutions and any procedural business.
6. The "vote withheld" option on this form of proxy is provided to enable you to instruct your proxy not to vote on any particular resolution. However, a vote withheld is not a vote in law and will not be counted in the calculation of the votes "for" and "against" a resolution.
7. In the case of a corporation, this form of proxy must be executed under its common seal or signed on its behalf by its duly authorised officer, attorney or other person authorised to sign.
8. In the case of joint holders, only one need sign, but the names of all the joint holders must be stated. The vote of the senior joint holder who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of other joint holders. For this purpose, seniority shall be determined by the order in which the names appear in the register of members in respect of the joint holding.
9. To be valid, this form of proxy (duly signed and together with any power of attorney or other authority under which it is signed) must be received by post or (during normal business hours only) by hand at the offices of the Company's registrar, Capita Registrars, PXS, 34 Beckenham Road, Beckenham, Kent BR3 4TU, no later than 11:00 a.m. on 28 April 2013 (or, if the meeting is adjourned, no later than 48 hours before the time of any adjourned meeting).
10. CREST members who wish to appoint a proxy or proxies for the meeting (or any adjournment of it) through the CREST electronic proxy appointment service may do so by using the procedures described in the CREST Manual. In order for a proxy appointment or instruction made using the CREST service to be valid, the appropriate CREST message, regardless of whether it constitutes the appointment of a proxy or is an amendment to the instruction given to a previously appointed proxy, must be transmitted so as to be received by Capita Registrars (ID RA10) no later than 11:00 a.m. on 28 April 2013 (or, if the meeting is adjourned, no later than 48 hours before the time of any adjourned meeting). Please refer to the notes to the notice of meeting for further information on proxy appointments through CREST.
11. Shareholders wishing to vote online should visit www.capitashareportal.com and follow the instructions.
12. You may not use any electronic address provided in this form of proxy to communicate with the Company for any purposes other than those expressly stated.

Company Information

Directors

David Lees (Non-Executive Chairman)
Steve Evans
Nicola Roy
Martin Andrews (Non-Executive Director)

Company secretary

Stephen Jones

Registered office

Alpha 1
Canton Lane
Hams Hall
Birmingham
West Midlands
B46 1GA

Independent auditors

PricewaterhouseCoopers LLP
Cornwall Court
19 Cornwall Street
Birmingham
B3 2DT

Registered number

4360804



Accident Exchange Group Plc

Alpha 1, Canton Lane,
Hams Hall, Birmingham B46 1GA

ANNEX 2 EXHIBIT 9

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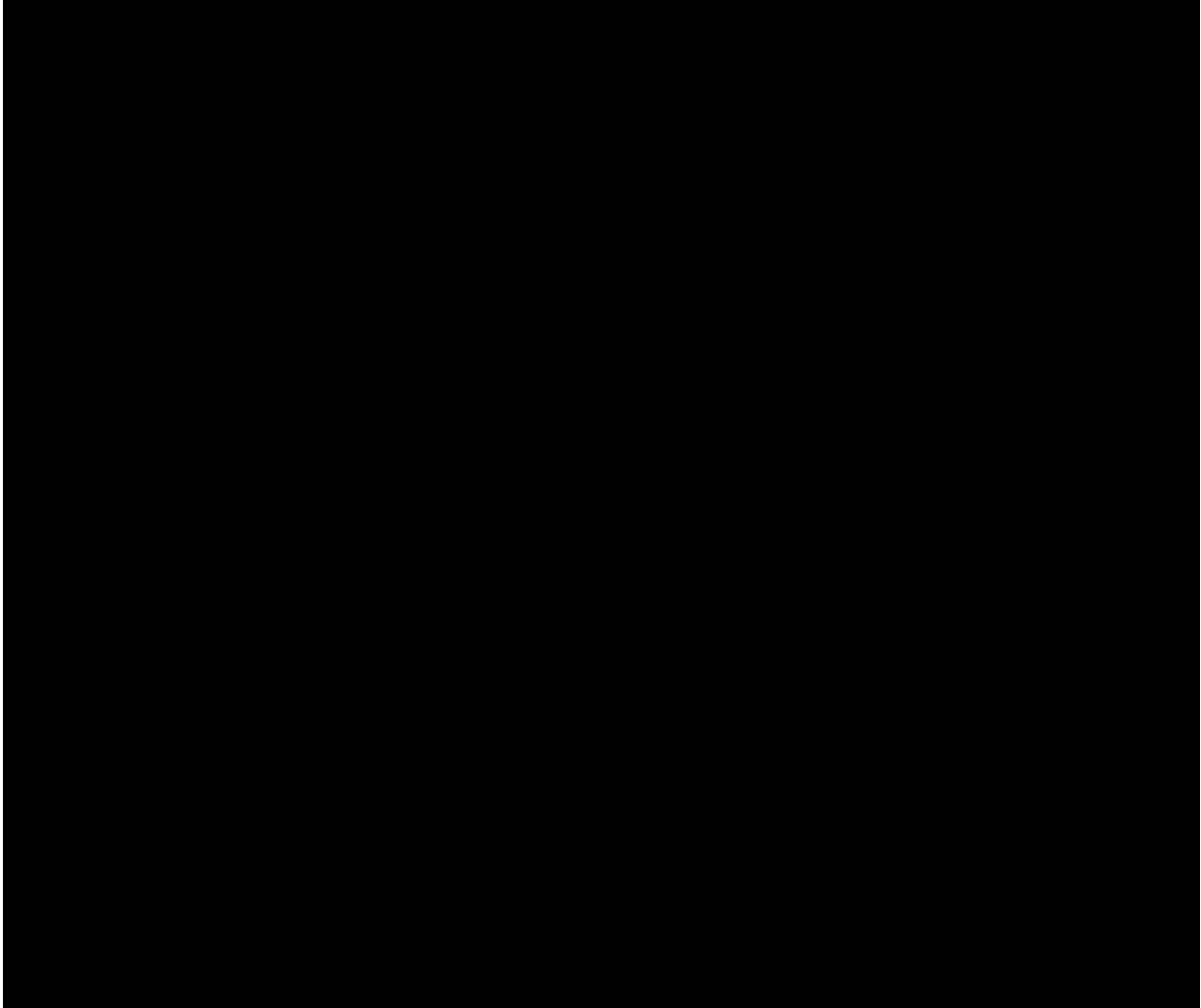


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ANNEX 2 EXHIBIT 10

10) In the attached spreadsheet template, please provide your total credit hire revenues before and after write-offs, number of hires and number of hire days for each GTA vehicle category in 2012.									
a. Please provide this data separately for hires billed under the GTA and hires billed outside the GTA (but using the GTA vehicle categories).									
b. Please set out separately your GTA penalty income for each vehicle category for 2012.									
c. Please split your total credit hire revenues (that you ultimately received) into hire revenues associated with repairable and driveable vehicles, repairable and not driveable vehicles and vehicle write-offs (for each vehicle category).									
Revised on 27/1/14		GTA and non GTA							
All data for 2012 credit hire services	Vehicle Type	Example car	number of hires	number of hire days	Total revenues received (including GTA penalties and including VAT):				
					repairable and driveable	repairable and not driveable	write-offs		



ANNEX 2 EXHIBIT 11

wcl

greenlightLEGAL

Our Reference: 500301661

1st October 2013

03 OCT 2013

Greenlight Legal Limited
Park House
Chantry Court
Sovereign Way
Chester
CH1 4QN
tel: 0870 777 0266
fax: 0870 777 0265
www.greenlightlegal.co.uk

Chief Vehicle Rentals
Roundham Road
Paignton
Devon
TQ46DS

Dear Sirs,

WITHOUT PREJUDICE SAVE AS TO COSTS

Accident Date: 24/09/2013
Vehicle Registration Number: YC54FLN
Third Party Name: All Star Taxis

We understand that you have been instructed to act on behalf the above in relation to the supply of a replacement vehicle.

Please find enclosed a copy of a letter which will be sent to the above by recorded delivery if we are unable to contact them in order to arrange a 'free' replacement vehicle within the next few days.

We trust that you understand that all claimants has a duty to mitigate their loss and that you will assist us in arranging a vehicle at a lower cost.

Should you have any queries please do not hesitate to contact us.

Yours sincerely

Intervention Services

Please note that all calls are recorded

Calls to 0871 numbers cost up to 10p per minute from landlines but will vary depending on your phone company or if using a mobile

Our Reference: [REDACTED]

1st October 2013

[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]

Dear Sirs,

WITHOUT PREJUDICE SAVE AS TO COST

Accident Date: [REDACTED]
Vehicle Registration Number: [REDACTED]

We are acting on behalf of Enterprise Insurance Company PLC.

We are sorry to learn that you have been involved in a road traffic accident with one of their policyholders and we would like to assist you in making the process of pursuing your claim as simple as possible.

OFFER OF FREE HIRE VEHICLE

You may require a replacement vehicle whilst your own vehicle is 'off the road', either due to the vehicle being 'unroadworthy' (i.e. not fit for its intended purpose if it is a commercial vehicle or taxi/private hire vehicle) or for the repair period. Accordingly, we would like to offer you a replacement vehicle, **at absolutely no cost to you**. The full cost of the replacement vehicle will be sent directly to us for payment avoiding the need for you to enter into any credit hire agreement or put yourself at any unnecessary financial risk.

We can provide you with a vehicle, suitable for your needs, via our own fleet of vehicles or through one of our nationwide hire vehicle suppliers which include Enterprise, Thrifty, PVS etc.

If your own vehicle is repairable, a replacement vehicle will be provided to you for the duration that your own vehicle is 'off the road'.

If your vehicle should be beyond economical repair (i.e. 'Write Off' or 'Total loss') the replacement vehicle will be provided to you until 7 days after you have received payment for the pre-accident value of your vehicle to allow you reasonable time to obtain a new/replacement vehicle of your own.

At this stage, we do not have full details of your own vehicle therefore we do not know what type of replacement vehicle you may require. To assist you we have enclosed information detailing the types of vehicles available to you (Please note: The information we have provided is not an exhaustive list of vehicles, we can supply you with any type of vehicle **at no cost to you**, if your own vehicle type does not appear to be listed, please contact us and we will be more than happy to assist you).

You will note also that we have included the 'charges' for each type of vehicle. This is simply for your own information and to give you an understanding of the cost that **we will be charged and that we are happy to pay**. As explained there will be **absolutely no cost to you** for the replacement vehicle.

If you are intending to enter into hire or a credit hire agreement, we would take this opportunity to remind you that you have a legal obligation to mitigate your claim (i.e. keep your cost to a minimum). We will obviously ask why you have chosen to pay more for a vehicle (if the cost involved is more expensive) than we could supply a vehicle to you and may not pay all of the hire charges. This could leave you in a position where you may be asked to pay the outstanding charges directly to the credit hire company.

If you have already entered into a credit hire agreement and wish to cancel this and take advantage of our offer you are able to do so. Simply contact the hire company and advise them of this. Please note that you have a legal right to cancel the credit agreement within 7 days of entering into it. If you encounter any problems with cancelling your agreement, please contact us and we will assist you.

In any event we strongly suggest that you pass a copy of this letter to your own Motor Insurer, your legal representative and or credit hire company (if you have one appointed).

In order to ensure we have covered any of your concerns we have also enclosed a list of 'Frequently Asked Questions' which covers some key questions which you may have. If you have any questions which are not listed please feel free to contact us and we will be more than happy to assist you.

IF YOU HAVE BEEN INJURED

If you have suffered a personal injury as a result of the accident we are able to assist you. We can appoint an independent solicitor who will act **in your best interest** to ensure you receive the correct compensation. The legal cost incurred by the solicitor will be paid by us.

If you wish to take advantage of the offer of a replacement vehicle 'at no cost to you' or require a solicitor to deal with your personal injury claim and are in any doubt as to the contents of this letter, or if there is anything which is not covered, **please contact us on 0870 777 0266** and a member of our claims team will be happy to assist you.

We trust you understand the above, however, if you have any further questions please do not hesitate to contact us.

Yours sincerely
Intervention Services

'FREE HIRE' VEHICLE (FREQUENTLY ASKED QUESTIONS)

The Frequently Asked Questions information has been designed to assist your understanding of our offer to you of a replacement vehicle 'at no cost to you'. If you have any further questions please feel free to contact us on 0870 7770266 and one of our claims team members will be happy to assist you.

Q1: Why are you offering me a replacement hire vehicle, at no cost to me? Is there a 'catch'?

To help make the experience of pursuing your claim against Enterprise Insurance Company PLC as simple as possible and to assist you in keeping your losses to a minimum. There is no 'catch', we understand you may need a replacement vehicle and we accept that we should meet reasonable costs for this. By arranging for the replacement vehicle ourselves we are able to control the cost and ensure sure you are not put at any financial risk.

Q2: 'At no cost to me', does this mean I will not have to pay ANY of the replacement vehicle charges?

YES. **ALL charges incurred** for supplying the hire vehicle will be paid by us.

Q3: I have already been provided with a hire vehicle from a credit hire company within the last 7 days, can I cancel this agreement?

YES. You have at least 7 days to cancel your agreement under The Cancellation of Contracts made in a Consumer's Home or Place of Work etc. Regulations 2008. Simply contact the credit hire company and advise them that you wish to cancel the agreement and to send their invoice for any hire charges to date to us. If you need any assistance or encounter any problems with cancelling your agreement please contact us.

Q4: I have already been provided with a hire vehicle from a credit hire company over 7 days ago, can I cancel this agreement?

YES. Please contact us directly and we will assist you in cancelling your agreement.

Q5: Who will provide the hire vehicle?

We have our own fleet of hire vehicles. However, to ensure we are able to provide a vehicle suitable for your needs, we also have access to several hire vehicle suppliers. These include Enterprise, Thrifty and PVS. All of these companies are long established, nationwide, hire companies and we are confident that we will obtain a vehicle that is suitable for you.

Q6: Are there any restrictions regarding the type of vehicle supplied to me or what I can use the vehicle for?

We will provide you with a replacement vehicle which is suitable for your needs and which can be used as if it were your own eg. If you use your own vehicle for work, you will be

able to use the hire vehicle for work; if you have named drivers on your policy, the names drivers will also be able to drive the hire vehicle; if your own vehicle has adaptations, we will provide a vehicle with necessary adaptations, etc. Any charges incurred in meeting your needs will be paid by Enterprise Insurance Company PLC.

Q7: For how long can I use the replacement vehicle?

The replacement vehicle will be provided to you for the duration that your own vehicle is 'off the road'. In the event that your vehicle is repairable, this will be until the repairs are completed. If your own vehicle is beyond economical repair (i.e. 'write off' or 'total loss') the replacement vehicle will be provided until 7 days after you receive payment for the pre-accident value of your vehicle to allow you time to find an alternative vehicle.

Q8: Will I be required to provide any deposit for the vehicle?

MAYBE, it is common practice for a hire company to apply a small security deposit when providing a vehicle. This deposit is taken to ensure the hire company is protected in the event that you incur any speeding fines, parking offences, or return the vehicle without any fuel. The deposit is fully refundable upon return of the vehicle. If you are concerned about the cost of any deposit, please contact us on 0870 7770266 and a member of our claims team will be happy to discuss this with you.

Q9: Who will insure the hire vehicle?

The replacement vehicle will be insured on a "fully comprehensive" basis by the company supplying the vehicle. There will be a policy excess in force, however, we will ensure is not greater than the policy excess on your own Motor Insurance policy (if necessary, we will use a product called a "Collision Damage Waiver" to ensure the policy excess is brought down to the appropriate amount – the full cost of this would be paid by Enterprise Insurance Company PLC. The company providing you with the vehicle will establish if this was required when arranging the vehicle for you. If you wish to reduce the excess to zero and therefore be in a better position than you are already (i.e. you normally have an excess when driving but will not in the replacement vehicle) you may be able to take out additional insurance with the hire company. This cost will not be met by us as it is an additional benefit that you are choosing to take out.

Q10: Is there any possibility that the replacement vehicle will have to be insured by me?

If you believe there are any reasons why the replacement vehicle supplier would not be able to cover you to drive the vehicle please contact us on 0870 7770266 and a member of our claims team will be happy to discuss this with you. We are confident that whatever your personal circumstances, we will be able to provide you with a replacement vehicle, which meets your needs and Enterprise Insurance Company PLC will meet the cost of placing the replacement vehicle on your own insurance policy if required.

Q11: Will I be asked to sign any paperwork?

You will be required to sign a document which confirms you have received the vehicle and that you will be responsible for any parking fines, speeding fines (and similar) incurred whilst the vehicle is in your control. You will NOT sign any documents which require you to make any payments in relation to the hiring of the vehicle. **ALL hire charges will be sent directly to us for payment.**

HIRE RATES WE WILL PAY FOR YOU

<u>Hire Group</u>	<u>Vehicle Type</u>	<u>Daily Rate</u>
CP1	Single Cab Pickup Truck	£43.00
CP2	Double Cab Pick Up Truck	£32.50
CP3	Land Rover Defender Pick Up Truck or equivalent	£34.00
CM1	12 Seat Minibus	£33.75
CM2	15 Seat Minibus	£38.00
CM3	17 Seat Minibus	£43.00
CV1	3.5t SWB Chassis Vehicle / Drop Side / Tipper	£28.00
CV2	3.5t MWB Chassis Vehicle / Drop Side / Tipper	£29.00
CV3	3.5t LWB Chassis Vehicle / Drop Side / Tipper	£31.25
CV4	7.5t Chassis Vehicle / Drop Side / Tipper	£42.60
CV5	18t Chassis Vehicle / Box / Curtain Side	£140.00
CV6	26t Chassis Vehicle / Box / Curtain Side	£165.00
CV7	32t Chassis Vehicle / Box / Curtain Side	£190.00
TR1	38t 4 X 2 Wheel Configuration Tractor Unit	£210.00
DC	Dual Control Vehicle for driving instructor	£30.00
F2	Mitsubishi Shogun 2.5 or equivalent	£49.00
F3	Landrover Discovery 2.5 or equivalent	£56.00
F4	BMW X3 2.5 or equivalent	£68.00
F5	BMW X5 3.0D or equivalent	£100.00
F6	Mercedes ML350 or equivalent	£108.00
F7	Porsche Cayenne S or equivalent	£125.00
F8	Range Rover 4.4 or equivalent	£132.00
F9	Porsche Cayenne Turbo or equivalent	£165.00
M1	Citroen Picasso or equivalent	£29.00
M2	Vauxhall Zafira or equivalent	£38.00

M3	Ford Galaxy or equivalent	£47.00
M5	Mercedes Viano 2.2 or equivalent	£86.00
P1	BMW 116 or equivalent	£41.00
P2	BMW 118 or equivalent	£44.00
P3	Mercedes C180 / BMW 318 or equivalent	£50.00
P4	Mercedes C200 / BMW 320 or equivalent	£58.00
P5	Mercedes E200 / BMW 520 or equivalent	£70.00
P6	Mercedes E240 / BMW 525 or equivalent	£100.00
P7	Mercedes E350 / BMW 530 or equivalent	£100.00
P8	Mercedes S280 / BMW 730 or equivalent	£110.00
P9	Mercedes S350 / BMW 735 or equivalent	£152.00
P10	BMW 750 /Mercedes S500 /Audi A8 6.0 or equivalent	£215.00
P11	Mercedes S600 or equivalent	£330.00
P12	Bentley Arnage / Rolls Royce Phantom or equivalent	£460.00
PV1	Car derived van or equivalent	£22.50
PV2	SWB van Ford Transit or equivalent	£31.75
PV3	LWB Renault Master or equivalent	£34.00
PV4	LWB Hightop Renault Master or equivalent	£35.00
PV5	Mercedes Sprinter MWB or equivalent	£46.00
RV2	Van - Chilled / Freezer	£62.00
S1	Up to 1000CC vehicle for SD&P and commuting	£15.50
S2	Up to 1200CC vehicle for SD&P and commuting	£18.00
S3	Up to 1400CC vehicle for SD&P and commuting	£21.00
S4	Up to 1600CC vehicle for SD&P and commuting	£23.00
S5	Up to 1800CC vehicle for SD&P and commuting	£26.00
S6	Up to 2000CC vehicle for SD&P and commuting	£31.00
SP1	Mini Cooper or equivalent	£39.50

SP2	Mini Cooper S /Mini Cooper Cabriolet or equivalent	£46.00
SP3	MGTF / Mazda RX8 or equivalent	£52.00
SP4	Audi TT Coupe 180 or equivalent	£63.00
SP5	Audi TT Roadster / BMW Z4 or equivalent	£70.50
SP6	Subaru Impreza or equivalent	£99.00
SP7	Porsche Boxster or equivalent	£136.00
SP8	Mercedes SLK350/CLK 350 or equivalent	£121.00
SP9	Porsche Boxster S or equivalent	£142.00
SP10	BMW M3 Cabriolet or equivalent	£193.00
SP11	Porsche Carrera or equivalent	£235.00
SP12	Mercedes SL55 / Porsche 911 Turbo or equivalent	£330.00
SP13	Bentley Continental GT /Ferrari F430 or equivalent	£435.00

* All rates excluded VAT.

ANNEX 2 EXHIBIT 12

Indicative Costs for recovery of excess, other losses and re-instatement of no claims bonus

Solicitor	Liability Conceded Cost £ + VAT + Disbursements	Liability Disputed Cost £ + VAT + Disbursements
Anonymous 1	£150	£250 + £90 per hour if litigated
Anonymous 2	£500 - £1000	£750 - £2000
Anonymous 3	£434.70 - £1,014.30	£1,142.40 - £1,722.70

Notes provided by Anonymous 3**1. Scenario 1 - Indicative costs where liability is conceded and recovery of excess, other losses and re-instatement of no claims discount.**

10 units/1 hour for taking initial instructions/review of liability and setting up of file

5 units/30 mins for FE to review case do a risk assessment/assess ULR to be claimed

Initial letters sent out to client with our retainer docs/financial loss questionnaire 3 units

Perusal of financial loss documentation/drafting of schedule of loss 3 units

Letter of claim sent out to Defendant/TPI (if we have details) 2 units

***** if we don't have details then DVLA is done with a cost of £2.50 1 Unit

Submit claim to TPI with ULR 1 unit – If TPI pay then cheque is reviewed that it will settle claim and letter out to client 1 unit perusal 1 unit letter

Closure 1 unit for review

Total units 27 Units @ £16.10 per unit £434.70 plus VAT £86.94 total = £521.64,

with possible further fee of £2.50 for DVLA and 2 unit for the DVLA letter/and updating file when we get DVLA info in.

Total range in a straight forward case £521.64 - £559.56. This scenario is on a case where we have not had to chase TPI on the phone or send chase letters, it also does not cover any costs in case we need to litigate

If we needed to litigate then you could easily add the following

30 mins/5 units for perusing file and sending papers to counsel for POC

30 mins/5 units issue

18 mins (consider any defence) or 1 unit enter judgment

18 mins (on average perusal of any court orders/small claim)

7 units/42 mins discuss and prepare witness statement

10 units/1 hour preparation of court bundles and instructions to counsel

3 units Post hearing costs (chasing cheque/advising client of outcome)

Plus you would have court issue fee of £70 on an average case worth £500

Total units 33 units @ £16.10 = £531.30 plus vat £106.26 = £637.56

Or

36 units @ £16.10 = £579.60 plus vat £115.92 = £695.52

Add issue fee of £70 average fee for a case worth £500

Total range in a straight forward case where litigation has had to become involved £1159.20 to £1255.08,

again this does not take into consideration any chase telephone calls to third party insurer's or solicitors,

it also doesn't factor any client updates, third party insurer delays, incorrect data being provided and rectified either by the defendant or

client and also indemnity issues with the third insurer's, all this would obviously add additional costs.

***You could easily add a further 200 – 400 for this alone in terms of client care/unforeseen investigations/chasers and updates to COI to reinstate the NCD.

2. Indicative costs where liability is disputed and recovery of excess, other losses and re-instatement of no claims discount

See above which would come as standard and striped to the min, plus you could add the following factors/costs into a disputed case.

Investigations into independent witnesses: 1 unit sending out questionnaire, 2 units for perusal of the questionnaire, total units for 1 witness 10 units,

post litigation discussing with witness and completing formal statement 7 units (includes typing up)

Obtaining police report and perusing the same 1 unit for letter plus fee usually around £83 pounds – review of police report 3 units total units 4 plus dib fee

Instructing agent to obtain a locus – 1 unit – perusal of locus and taking instructions from client 2 units plus 1 unit for sending out locus – locus fee £300

Considering defendants position on liability and taking instructions from our client 5 units

Court costs in addition to the post issue costs above

Perusal of Defence and taking client instructions 5 units

Preparation of list of docs for filing with the court 1 unit – sending out to client 1 unit – filing to court and def 2 units

DQ fee £40 – completion of DQ and filing of proposed directions 5 units

Perusal of court orders for directions, court dates etc – on average 5 units

Perusal and completion of a Pre Trial Check List filing with defendant and court 5 units plus Fee £325

Total unit £708.40 plus VAT £141.68 total £850.08

Plus Dibs £748.00

Total added to a disputed claim with only 1 witness £1598.08 stripped to the min – this figure does not take into consideration unforeseen factors,

i.e. dealing with multiple defendant witnesses, post hearing date costs etc and client care updates throughout the life of a claim.

***see above paragraph re total range re additional costs you could add more the dealing with a disputed case depending on circs Ive mentioned in this paragraph.

Subject: RE: [REDACTED]
Date: Monday, 27 January 2014 07:04:12 Greenwich Mean Time
From: [REDACTED]
To: Steve Evans

Good Morning Steve

I hope that you have had a good weekend.

[REDACTED]

[REDACTED]

For example the client who simply wishes to recover their excess and possibly some minor incidental expenditure will have a much more simple case than the client who wishes to embark on a claim for recovery of financial loss relating to property damage, diminution in value and loss of earnings. On a simple level the more extended the claim becomes the more complicated and involved the work required and indeed the potential disbursements for example if an engineers report is required or it is necessary to obtain bank statements or in the case of the self employed client P&L accounts. Thus each separate head would require an expense of time analysis with consideration as to the level of fee earner and approximate work required. So for example a basic excess recovery would be a simple case of securing proof of that excess and submission to the Defendant Insurer. It is unlikely anyone more than a low level fee earner would be required and therefore a nominal Grade D or lower grade could be applied in the region of say £100 per hour such that the base cost would be around that figure once letters and calls had been factored in (to which there would be added VAT). This would then act as a starting point for any calculations on an upwards scale [REDACTED]

[REDACTED]. Needless to say there would be a sliding scale upwards with grades of fee earner and hourly rate and time increasing with complexity of the case. Lets say liability were disputed and the client having a prestige vehicle wished to claim diminution and loss of earnings. The dispute may involve a need for witness evidence or locus plans, the dim would require an engineers report say cost of £120 and the loss of earnings analysis of accounts and consideration as to loss of opportunity. The costs of such a case at a grade c level at £146 per hour could go into several hours numerous letters and dubs exceeding £200. The conclusion however is very simple in that the suggested reform should it result in the client having to seek representation would give rise to a cost well in excess of the balance frictional cost you have identified.

The second limb to this must be a consideration as to how the solicitor would actually charge for the work and this I see would work on three possible levels. Straight invoicing by the hour and unit (unlikely from the point of view of being competitive) fixed fee tariffs (when the hourly rate would be likely to drop below £100) and DBA contingency fees where the client would lose 50% of the amount recovered to make payment of charges. The DBA as a no win no fee type arrangement would however be more attractive to the client than the solicitor given the low level of damages that are likely to be recovered unless proposals relating to DBA combined with discount rates come into play. It should also be considered whether any geographical factors would come into play or if the client would search the market to locate the cheapest service available to them.

The reality is that many firms would choose not to take on this work because the profit margin would be too low. If they did undertake it they would be on a claims farm level which goes back to the Jackson arguments as to a deskilling of the profession that is harmful to the client in that being unaware of what they are actually entitled to recover they may not be properly advised. There is clearly an access to justice point [REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

Speak later

[REDACTED]

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V.A.T. Reg No. [REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

From: Steve Evans [mailto:sae@aisgroupplc.com]
Sent: 25 January 2014 08:47
To: Steve Evans
Subject: [REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

Steve Evans
Chief Executive Officer

T: +44 (0) 8700 116 719
E: sae@aisgroupplc.com

Automotive and Insurance Solutions Group Plc,
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Birmingham B46 1GA

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Automotive and Insurance Solutions Group Plc registered in England, registered number 04360804, registered office Alpha 1, Canton Lane, Hams Hall, Birmingham B46 1GA.

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For more information about Automotive and Insurance Solutions Group Plc, please visit our web site at www.aisgroupplc.com

ANNEX 2 EXHIBIT 13

Legal expenses insurance - cost and cover levels**Car insurance providers**

	Online premium	Pre-ticked box (LEI selected as default)	Level of cover
AA	£25.99	No	£50,000
Admiral	n/a [a]	n/a	£100,000
Aviva	£27.00	No	£100,000
AXA	£29.99	No	£100,000
Churchill	£26.50	No	£100,000
Direct Line	£26.50	No	£100,000
John Lewis	£24.00	No	£100,000
Lloyds TSB	£25.99	No	£100,000
LV=	£24.90	No	£100,000
Marks & Spencer	£24.99	No	£100,000
More Than	£24.99	No	£100,000
Nationwide BS	£24.90	No	£100,000
RIAS	£29.60	No	£100,000
Saga	£27.00	No	£100,000

ANNEX 2 EXHIBIT 14

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Prestige Car Hire (select logo)



UK Super Car Hire Services

Prices are subject to geographic location. Please see the table below for details of prices and locations. Prices displayed are one way only.

Should you wish to collect your vehicle, we will collect you at our local train station which is 5 minutes from our premises.

LOCATION DELIVERY COLLECTION - SUBJECT TO VAT

Delivery Collection

London £75 £75
Manchester £145 £145
Birmingham £125 £125
Home Counties £75 £75
South West £175 £175
West £145 £145
Wales £145 £145
Midlands £145 £145
Anglia £145 £145
North West £195 £195
North East £195 £195

AIRPORT DELIVERY COLLECTION

All London £95 £95
East Midlands £125 £125
Manchester £175 £175

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At Signature Car Hire, we want to offer a prestige car hire service most convenient for you, so we have a variety of options available to arrange handover of the car. You can either collect your chosen rental car from our London office; or we can trailer deliver the car direct to your door. Not only that, we also have a specialist trailer service to deliver cars to many European locations too.

[COLLECTION](#) [UK DELIVERY](#) [EUROPEAN DELIVERY](#)

We can deliver your chosen rental car direct to your door. For delivery or collection to your preferred location there is an additional fee applied. For your convenience, we have listed below a zoned guideline to give you an approximate idea of these costs. However, for a more accurate quote, simply email us your postcode, or call us and we can advise you what the cost for delivery and collection to your address will be.

Where possible, we deliver the car on a trailer, so that we can ensure the car arrives in pristine condition, fully valeted and ready to go. Prices are quoted for delivery/collection Mon-Fri, 9.30-5pm. Out of offices hours may incur a surcharge.

BAND 1	BAND 2	BAND 3	BAND 4	BAND 5	BAND 6	BAND 7
£50	£75	£95	£125	£150	£195	£POA

Airport Service

If you are travelling internationally, we can meet you at the airport for your convenience. Simply advise us of your flight details, and we will ensure we are there waiting for you as you arrive. We offer a chauffeur driven service too.

	BUSINESS HOURS	OTHER HOURS
Heathrow Airport	£50	£75
Gatwick Airport	£95	£125
Manchester Airport	£295	£350
Luton Airport	£95	£125
Stansted Airport	£110	£130



What Happens When You Take Over The Car?

We take great pride in our fleet of prestige and performance rental cars, and this means upholding a high level of maintenance and appearance. This is why all our cars are fully valeted before and after each hire. When you take over the vehicle for your rental hire, we will also ask you to inspect the car with us thoroughly. This only takes a few minutes, but it is essential in ensuring that you are happy with the condition of the car before you leave, and that we can both be happy that any minor scratches on the car have been noted, giving you peace of mind for the rest of hire.

Not only that, we will take care and attention to ensure you are fully satisfied with how the car is handled and performs, so that you can get the best performance from the car for your rental experience. If that means we need to take a little bit of extra time to show you how to get the most from the car, then we are more than happy to go the extra mile to make sure you comfortable and confident before you leave.

All that is left to do before you drive off is to check your original documents against the copies sent through prior to your hire. You will also be asked to sign some documents, a copy of the rental agreement and damage report sheet. This is standard practice for all reputable car hire firms. You will then be handed over a copy of the rental agreement for yourself as proof that you are fully comprehensively insured by us for the duration of your hire. This includes point of contact numbers and a copy of our [terms and conditions](#) , although we can provide full [terms and conditions](#) in advance if you wish to read them at your leisure. Please feel free to view these On-line.

After that, all we have to do is hand over the keys and wish you a happy rental!

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Location and Delivery

All cars can be delivered and picked up from locations throughout the UK and Europe. Alternatively, collect your vehicle at our depot, located within 8 miles of the centre of London.

Prestige Car Hire

PCH House
Unit 5 Finway Road
Maylands Business District
Hemel Hempstead
HP2 7PT
United Kingdom
Tel: +44 (0) 870 4600 604
Fax: +44 (0) 870 4600 016
E-mail: enquiries@PrestigeCarHire.co.uk

London and UK Delivery Tarriffs

Band 1.....	£ 25
Band 2.....	£ 55
Band 3.....	£ 75
Band 4.....	£ 95
Band 5.....	£115
Band 6.....	£175
Band 7.....	£225

The Tariff for bands 1-7 shown above are for one-way delivery or collection during normal business hours. All prices are exclusive of VAT.

Heathrow Airport

Business Hours.....	£ 35
Others Hours	£ 65

Gatwick Airport

Business Hours.....	£ 65
Others Hours	£ 95

Stanstead Airport

Business Hours.....	£ 35
Others Hours	£ 65

Luton Airport

Business Hours.....	£ 35
Others Hours	£ 65

Manchester Airport

Business Hours.....	£ 175
Others Hours	£ 250



Please click on the map bellow for our full European Delivery Prices



The prices on our European Tariff shown above are for one-way delivery or collection during normal business hours. All prices are exclusive of VAT

Delivery & Collection

Prices are subject to geographic location. Please see the table below for details of prices and locations. Prices displayed are one way only.

Should you wish to collect your vehicle, we will collect you at Ware train station which is 2 minutes from our premises. Ware train station is on the National Rail network and is reached directly from Liverpool Street Station in Central London. The journey time is approximately 30 minutes.

LOCATION	DELIVERY	COLLECTION
London	£95	£95
Manchester	£145	£145
Birmingham	£125	£125
Liverpool	£175	£175
Home Counties	£95	£95
South West	£175	£175
West	£145	£145
Wales	£145	£145
Midlands	£145	£145
Anglia	£145	£145
North West	£195	£195
North East	£195	£195
Scotland	£295	£295
Ireland	POA	POA

AIRPORT	DELIVERY	COLLECTION
All London	£95	£95
East Midlands	£145	£145
Manchester	£175	£175

All prices are subject to VAT.

- [About Us](#)
- [How To Find Us](#)
- [Delivery & Collection](#)
- [Meet The Team](#)
- [Tariff List](#)

Terms & Conditions

All Terms & Conditions are subject to completion of the contract hire form.

1) Insurance - Fully Comprehensive Insurance included for the Hirer/Insured Driver ONLY. All drivers are subject to approval by the Insurance Company. Other drivers are not allowed to drive the car under any circumstances. Additional driver insurance available on request. Vehicle must remain on UK mainland unless European cover has been purchased.

The Hirer may use the vehicle for the purpose of their business and for social domestic and pleasure purposes. The vehicle may not be used for any purposes for which they are not expressly designed. Further, the Hirer will not use or permit the vehicle to be used for hire, driving tuition, off road, racing or pace-making, or for competing in any rally, or any other form of motor sport, track days, or for any illegal purpose whatsoever. You are insured to tow but only the towing vehicle will be insured, not what is being towed.

2) Driver Information/Identification - Aged between 23 - 70 years. Driver must have held a UK driving licence for minimum of 5 years. Driving Offences - maximum of 6 points. No convictions for drink/drug driving, dangerous/careless driving within past 10 years. Passport; 2 utility bills (last 3 months); & current driving licence required for verification of identity prior to vehicle hire.

3) Mileage Allowance - 150 miles per day 0 - 7 days; 100 miles per day 7 - 14 days; 500 miles miles per week for 14 days and over. Additional mileage cost is charged at 45p per mile over the towing vehicle above.

4) Payment/Deposit/Excess - A non-refundable booking fee equal to 50% of the full hire cost is payable upon completion of the Booking Form. The balance of the hire costs must be paid for in full before use of the car.

A security deposit of £1500 is required per vehicle hire. Payment must be made by credit card or cash. We reserve the right to increase the security deposit prior to hire of vehicle, subject to notification.

The security deposit is used as:

- (1) A security bond.
- (2) For payments towards any mechanical damage which is not covered by the Insurance, e.g. tyres including spare, wheels, clutch, gearbox, engine, etc which was sustained during the hire period due to misuse and abuse, excluding normal wear and tear.
- (3) Insurance Excess against any accidental damage, loss or theft caused to the vehicle by the hirer or a third party.
- (4) Any additional charges incurred during the hire period, e.g. excess mileage, petrol reimbursement costs, parking charges, speeding fines, congestion charges, etc.
- (5) Damage caused to bodywork i.e. dents, scratches, chips including windscreen chips.

5) Cancellation/Charges

The Booking is not valid until confirmed by the Lessor Company. The following charges apply for cancellation by the Hirer: Less than 7 days: 100% of hire charges & booking fee. 7 - 14 days: 75% of hire charges & booking fee. 15 - 28 days: 50% of hire charges & booking fee. The 50% booking fee is non-refundable.

6) General

All cars are subject to availability and may be subject to change without prior notice. Images shown are intended as a guide only. Actual vehicle colour and/or specifications may vary subject to availability. Whilst every endeavour will be made to supply the make and type of vehicle, the Lessor cannot bind itself to do so, as circumstances beyond its control may prevent this.

- Driving may be postponed in extreme weather conditions (e.g. strong winds, snow or flooding) which could potentially make driving the cars potentially dangerous. Please call us to confirm if relevant.

- Liability is limited to a refund of the hire charge. No consequential loss liability will be covered.

CONDITIONS OF HIRE

1. (a) For the purpose of this agreement 4x4 vehicle hire is referred to as the Lessor (b) The "Hirer" means the person, firm or organisation by or on behalf of whom this agreement is signed (c) Authorised Driver means the driver(s) additional to the Hirer, approved as specified overleaf (d) The Hirer will ensure that any authorised drive will comply with all conditions of this agreement.

2. The Hirer undertakes to return the vehicle in a clean condition with all tyres, tools, radio and other accessories in the same condition as when received.

3. The contract of hire is conditional on:

- (a) the acceptance by the insurers of the hirer for insurance and
- (b) the correctness of statements made by the hirer on the hire agreement.

4. If any incorrect or untrue statement shall be made therein whereby the insurance is liable to be invalidated, the contract shall be void except that the hirer shall indemnify the Lessor from and against loss or damage to the vehicle, and all actions, claims and liability for which the Lessor may be responsible and shall cause the vehicle to be returned to the Lessor's premises in as good state of repair as it was when issued to the hirer and shall pay the agreed rate of hire until it shall be so returned.

5. The hirer is responsible for hire charges from the time the vehicle leaves the garage until the vehicle returns. Charges will be debited from the damage deposit. All damage deposits are authorised from a credit card. Most credit cards welcome.

(a) All hire charges and damage deposits are required in advance of the vehicle leaving the garage.

6. The hirer must sign the Lessor's Hire Agreement. No booking is binding on the Lessor until the Lessor's Hire Agreement is completed and signed by the hirer and accepted on behalf of the Lessor when the total amount of hire charge is paid as confirmation of a booking. This fee will be non-returnable in the event of cancellation regardless of reason. Money paid on a Contract cannot be transferred to any other vehicle on any other date.

(a) If at any time prior to departure of the vehicle, there shall come to the knowledge of the Lessor any information, which in its opinion render the contract prejudicial to the interest of the Lessor, then the Lessor shall have the right to cancel the contract forthwith.

(b) Failure to collect a vehicle, or contact the Lessor within two hours of the specified date and time of collection, will result in the vehicle becoming available to other clients.

7. British drivers must produce a current British Licence; visitors from overseas would be required to produce a valid domestic licence or an international driving permit. All drivers must have held a full licence for a minimum of 5 years. A current licence must be produced before commencement of hire.

8. For each hour or part thereof by which a vehicle is retained by the Hirer after the termination of hire an additional charge of £100 shall be due PROVIDED ALWAYS that where a vehicle is retained by the Hirer after the termination of hire for the day then in addition to the hourly charge of £100 a further charge of one complete day's hire charge shall also be due for each period of twenty-four hours or part thereof during which the vehicle is so retained unless originally hired on an hourly rate where the full hourly rate will be applicable. Should the vehicle not be returned by the hirer in accordance with the conditions of hire, the Lessor reserves the right to take whatever steps they consider necessary to regain possession thereof and the deposit will be retained and applied towards making good any loss or expenses incurred by the Lessor.

9. All damage, not considered by the Lessor to be fair wear and tear will be the hirer's responsibility.

(a) Any damage caused whilst the vehicle is left unattended, will be the hirer's responsibility.

(b) Unexpired hire, resulting from an accident or theft cannot be refunded, or hire transferred to another vehicle unless the repair is executed before the expiry of the hire.

10. Subject to the conditions 8 and 9, the Lessor shall reimburse the hirer the cost of repairs arising from mechanical failure not due to any act or default of the hirer on production of a receipted account.

11. Every endeavour is made by the Lessor to keep its vehicles in serviceable condition. But the Lessor does not warrant that any vehicle is in such condition and will accept no responsibility for loss, damage or injury sustained as a result of a breakdown. The hirer, however, shall be entitled to the benefit of all moneys paid to the Lessor under its insurance policy so far as they relate to any such loss, damage or injury suffered by the hirer.

12. All accidents must be reported to the Lessor immediately.

13. The hirer shall be liable as owner of the vehicle in respect of:

(a) any of the following offences which may be committed with respect to that vehicle when it is stationary and when a fixed penalty notice is issued being on the road during the hours of darkness without the lights or reflectors required by law: waiting, or being left or parked or being loaded or unloaded, 'in the road', being used or kept on a public road within the meaning of the Vehicles(Excise)Act 1971 without a licence under that Act being exhibited on the vehicle in the manner prescribed under that Act; and the non-payment of the charge made at a street parking place; and

(b) any excess charge which may be incurred in pursuance of an order Sections 35 and 36 of the Road Traffic Regulations Act 1967 (provisions on highways of parking places where charges are made.)

14. The hirer in the event of an accident must not admit liability or offer any sums in payment to any third parties whether the hirer is at fault or not.

15. If the vehicle is unable to be checked due to dirt/mud etc, we will check for any damage once the vehicle has been cleaned, and you will need to sign for this on collection.

Additional Terms Supplement

1. Smoking - Smoking is strictly not permitted in any of the vehicles. The company will make a charge of £500 for a full valet if the vehicle has been smoked in.

2. Cigarette Burns - Any cigarette burns will incur a charge of £500.

3. General Interior Condition - If the company deems the interior of the vehicle unacceptable in condition/cleanliness there will be a charge of £200.

4. Alloy Wheels - You will be charged £150 to repair any damaged alloy or £500 to replace each alloy depending on severity of damage.

5. Fuel - Must be replaced, or you will be charged accordingly. Fuel will be charged at current pump price plus admin fee of £15.00.

6. Oil and Water levels are to be checked at very regular intervals.

7. If cleaned, hand wash only - No car wash programmes are acceptable.

8. Speeding fines, parking fines and congestion charges are your responsibility.

I have read and understood the terms and conditions above

Signed _____

Print _____

John Dennis 4x4 Vehicle Hire

Uppings Farm · Buckingham Road · Aylesbury · Bucks · HP22 4DR
Telephone **01296 640637** · Fax **01296 640637**



SERVICE • REPAIR • PARTS • HIRE

"Very Satisfied with overall experience. Itemised bill with understandable explanations"
Mrs Barn, Herts



Tel: 01296 640750

Mobile: 07768 173131

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Latest news from 4x4 Car Hire and John Dennis 4x4

- 4x4 CAR HIRE, LANDROVER HIRE, RANGE ROVER SPORT HIRE, DISCOVERY 3 HIRE, competitive prices from 85 per day!
- CHEAP 4x4 Hire, CHEAP RANGE ROVER HIRE, CHEAP DISCOVERY HIRE - Excellent Service - Week rates from 400 + vat per week...
- Affordable 4x4 Car Hire - Flying in to Manchester? London? Newcastle? Birmingham? Hire you 4x4 from us. CHEAP 4x4 Hire. Call Today 01296 640750

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4x4 Care Hire FAQ

Does the hire costs include Insurance on the 4x4?

Yes all of our 4x4 hire prices include insurance for one named driver.

How much does it cost to hire a 4x4?

Our prices start from £85.00 + vat per day - our full prices are available on the main page of the website

Can I hire any of the 4x4's for longer than a month?

Yes you can hire our 4x4's for longer than month, prices on request

Can I take the vehicle abroad?

All of our vehicle can be taken abroad but European hire cover must be purchased first and consent from us

How many miles can I use?

150 per day - longer hires vary so please ask

Do I get charged for extra mileage, if so how much?

Yes additional miles are charged at .45p

Can I add more drivers?

You can add as many drivers as you wish they are charged at £10.00 + vat per day

How old do I have to be to hire a 4x4?

We hire vehicles to drivers ages 23-71, who hold a full UK licence

I have a foreign driving licence can I still hire a 4x4 from you?

Of course you can, please speak with our team for advice on this

I have points on my licence does this matter?

Send us a quick message

To enquire about our **4x4 car hire** service please complete the form below. If you know the dates you require please click on the calendar icons and let us know.

Your
Name

Your
Email

Contact
No.

Question

Hire from



Until



4x4 Hire Tweets

- Independant #4x4 Specialist req FT Tech pref with #Landrover exp. Good salary & fam run biz in HP22 area. DM for more detail. #jobs about 4 hours ago
- @landrover_uk << You're welcome :) Have a great Day.. about 6 hours ago
- Check out our Video on <http://youtu.be/mahxqZJ9h58> #4x4hire #4WD #youtube about 7 hours ago

[follow me on Twitter](#)

the
Good Garage Scheme

Each case is individual, we do not accept points for Dangerous driving or Drink driving, please enquire with our team

Do your offer a 4x4 chauffeur service?

Yes we do - all of our 4x4's can be chauffeur driven - costs do vary so please contact us for details

Do you deliver?

Yes we do

How much do you charge for delivery?

We charge £1 + vat per mile should you be booking for a week or more this is reduced

Can we collect the car from the Airport?

We can delivery to Gatwick, Heathrow, Luton or Stansted - any time of day.

Do any 4x4's have a tow bar?

Yes many of our 4x4 cars have two bars fitted

What is the maximum Towing weight?

2-3 tonne depending on what 4x4 vehicle you hire from us

Can I insure the vehicle myself?

Yes you can - we would need to see a full cover note certificate

Do you have snow chains for my trip to France?

We do offer snow chains at £5.00 + vat per day

Do you provide roof boxes for my luggage?

Yes we can hire roof boxes on some of our 4x4 hired vehicles prices are from £7.50 + vat per day

What happens if I have an accidents?

You need to report it to us immediately we have an excess of £750.00

What happens if I break down?

All of our vehicle have Landrover Assistance - The telephone number is in the vehicle - simply contact them and they will fix the car or provide a vehicle to you

Do any 4x4's have DVD players?

You can hire in car entertainment from us from £10.00 + vat per day

Do you provide car seats?

Yes we do for any age - process from £3.00 + vat per day

Can pets travel in the 4x4's ?

Sorry NO pets - however a provisions is made for very small dogs with a guard/box, please enquire

LOOKING TO HIRE A 4X4?

Download our free
eBrochure today
(2mb PDF file)

► **DOWNLOAD HERE**



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of Small Businesses



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Delivery and Collection

Exclusive Car Hire offers a UK wide delivery and collection service for all our vehicles. This service is available to, or from, your home, work, airport, hotel, or any other UK destination.

Please note all charges are quoted for deliveries or collections made during normal business hours. There is an additional charge of £50 for deliveries made outside these times

You won't need a car to access the [online casino games](#) like [online craps](#) and slots through Casino Guru Online. Enjoy all the casino fun online!

All Tariffs Are Exclusive of VAT

BANDS	ONE WAY TARIFFS
Band 1	£ 25.00
Band 2	£ 50.00
Band 3	£ 75.00
Band 4	£ 120.00
Band 5	£175.00
Band 6	£250.00
Band 7	£475.00
Band 8	£655.00
Band 9	£955.00
Band 10	£1355.00

Gatwick Airport

Business Hours	£ 60.00
Outside Hours	£ 100.00

Heathrow Airport

Business Hours	£ 25.00
Outside Hours	£ 50.00

Luton Airport

Business Hours	£ 50.00
Outside Hours	£ 75.00

Manchester Airport

Business Hours	£175.00
Outside Hours	£215.00

Stansted Airport

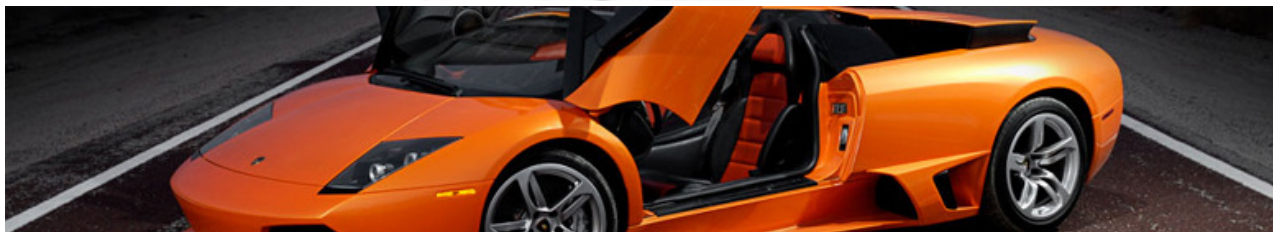


Business Hours	£ 55.00
Outside Hours	£ 85.00

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Terms & Conditions

Age and Licence Requirement

Drivers are required to be between the ages of 25 and 75, and must have held a full licence for a minimum of 12 months. Non-UK residents must have held a full licence for 2 years or more. Drivers under the age of 25 will be considered subject to a premium. Drivers over the age of 75 will not be considered. Certain endorsements may not be accepted. Please check prior to making your reservation.

Insurance

Full Comprehensive insurance will be provided for the named driver only. Cover for an additional driver can be arranged at a charge of £25 per day. See rental agreement for further details.

Rental Period and Early Termination

Rentals are on a minimum of a 24 hour basis between 9am and 5:30pm. You will have the vehicle for the period shown in your rental agreement. Exclusive Car Hire do not allow refunds in the event of the hire being terminated early. We may suggest that the vehicle is booked only for the period required. If you wish to extend the agreement you must contact a Exclusive Car Hire representative 3 hours before the initial period has elapsed. Failure to do so would result in the withdrawal of all insurance cover, additional hire charges and legal action.

Booking and Cancellation

Cancellation Charges

There is a booking fee of £100 for all vehicles which is non-refundable on cancellation. Exclusive Car Hire require confirmation in writing by fax, or email of your request for cancellation.

Charges for cancellations are as follows:

- 24 hours or less prior to hire date - 100% of the hire charges less the booking fee
- 2 - 4 days prior to hire date - 50% of the hire charges less the booking fee
- 5 days+ prior to hire date - Booking fee

Excess and Security Deposit

The excess and security deposit act as:

- A security bond
- Payments towards any mechanical damage which is not covered by our insurers (e.g. tyres, wheels, clutch, gearbox) and which was sustained during the hire period due to misuse and abuse
- An insurance excess against any accidental damage or loss to the vehicle by a third party or the hirer. The hirer is liable for the amount shown as excess. The excess can be reduced subject to a premium of £30 per day
- Additional charges incurred during hire for excess mileage and/or petrol reimbursement charges.

Use of Vehicle

The hirer may use the vehicle for the purpose of their business and for social domestic and pleasure purposes. The vehicle may not be used for any purposes for which they are not expressly designed. Further, the hirer will not use or permit the vehicles to be used for hire, driving tuition, towing, racing or pace-making, or for competing in any rally, or any other form of motor sport, track days, or for any illegal purpose whatsoever.

Petrol

You will have to return the vehicle at the same fuel level, when it was hired to you. If this is not the case, any reimbursement for petrol

will be charges at the pump price, plus £10* administration charge.

Overseas Travel

Please note that none of our vehicles are permitted outside mainland UK.

Mileage Allowance

All vehicles have a daily mileage allowance of 100 miles. An excess mileage charge of £2.25 per mile applies. Exclusive Car Hire offer bulk miles at an additional cost of £1.50 per mile. These bulk miles can only be purchased prior to the hire. Please ask a sales representative.

Delivery & Collection

Exclusive Car Hire offers a UK wide delivery and collection service for all our vehicles. This service is available to, or from, your home, work, airport, hotel, or any other UK destination and are subject to a charge. Please note all charges are quoted for deliveries or collections made during normal business hours. There is an additional charge for deliveries made outside these times.

Availability

All vehicles are offered subject to availability. If your chosen vehicle is not available, a similar vehicle will be offered as an alternative.

Traffic Violations

Exclusive Car Hire reserve the right to levy an administration charge of £15* for the processing of any traffic violations incurring during a hire period.

Payment

We accept all major credit cards. Account facilities are available to UK Companies, please ask for further details.

Prices

Prices are subject to change without prior notice, however once a car as been booked and a deposit received, we will not alter the price for that hire.

Please note all rentals are subject to Exclusive Car Hire full terms and conditions on the reverse of the hire agreement, and all drivers are subject to approval by Exclusive Car Hire. and the company's insurers.

Exclusive Car Hire reserve the right to refuse any rental business without giving prior reason or notice.

** Please note that VAT is applicable.*

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Developed and Maintained by - Hilal Technologies

Airport Delivery Tariff

Heathrow - Out of Hours	FREE
Gatwick - Out of Hours	£95
Manchester Airport - Out of Hours	£275
Luton Airport - Out of Hours	£95
Stansted - Out of Hours	£95



Delivery Tariff

Central London	£50
Band 1	£85
Band 2	£95
Band 3	£180
Band 4	£210
Band 5	£260
Band 6	£295

Prices shown are each way.

Please note:

All cars for self drive hire require a £5,000 credit card pre authorisation. This is the security excess deposit.

Delivery is available to most parts of the UK. To obtain a quotation for delivery please contact us.

All prices include comprehensive insurance. There is no extra charge for an additoinal driver.

All **sports car hire** vehicles have a mileage allowance of 150 miles for 24 hour hire, from 300 miles for weekend hire (Fri-Mon) and 500 miles for a 7 day week hire. Excess mileage can be purchased from £2.25 + VAT per mile.

***All prices quoted are in pounds sterling and subject to VAT charged at 20%

Requirements:

Driving License: A full license must have been held for at least five years. Any endorsements will be considered carefully.

Age restriction : Minimum age 28 years, maximum 70 years.

Hire period:

Weekend **Supercar hire** covers from 11am on Friday to 10.30am on Monday. Mileage allowance : 300 miles

Weekday Special (3 days) includes Tuesday 10.00 am to Thursday 10.00 am. Mileage allowance : 250 miles.

We can also provide bespoke self drive hire packages for indiviudals or corporates so please contact us to discuss your requirements.

Delivery information

[contact us](#)

Delivery Tariff	
Central London	FOC
Band 1	£25
Band 2	£55
Band 3	£75
Band 4	£95
Band 5	£115
Band 6	£225
Scotland or other Mainland locations - Please enquire	



More information

All prices include insurance. All vehicles have a mileage limitation of 100 miles per day. Additional mileage will be charged at between 50p and £3.50 per mile depending on vehicle.

All prices quoted are in pounds sterling and subject to VAT charged at 20%

Delivery can be arranged for an additional charge anywhere in the UK (free local delivery).

Requirements:

Driving License: A full license must have been held for at least two years. Any endorsements will be considered carefully.

Age: Minimum 25 or 30 depending on vehicle. Maximum 70 years.

Deposit: A refundable deposit of between £1000 and £5000 will be required on all vehicles

* Cars not available for drivers under the age of 30.

However the TVR Tamora, T350 are available to Drivers over 27, subject to insurance approval.

Self Drive Hire

Delivery Tariff

DELIVERY & COLLECTION

Vehicles can be collected from, and returned to the Bespokes bases in Kings Cross Central London, Hertfordshire and Cheshire.

However, Bespokes also offers a delivery or collection service for any of our vehicles, to any mainland UK destination for a nominal charge. This service applies to any location: home, work, airport, hotel or any other pre-nominated address.

Delivery Charges: All delivery charges are quoted for delivery or collection made during normal business hours. There is small additional charge for deliveries made at any other time.

Any Location, Any Time: If you require delivery or collection to, or from, a specific location not detailed on our map, or outside normal business hours, please call us for an accurate quotation.

DELIVERY TARIFF

LONDON BANDS:

Band 1	£25
Band 2	£55
Band 3	£75
Band 4	£95
Band 5	£115
Band 6	£175
Band 7	£225
Band 8	£275

CHESHIRE BANDS:

Band 1	£25
Band 2	£55
Band 3	£75
Band 4	£95
Band 5	£115
Band 6	£175
Band 7	£225
Band 8	£275

PLEASE CALL FOR A
QUOTATION ON
DELIVERY TO OTHER
AIRPORTS OR ANY
OTHER MAINLAND UK
DESTINATION

CENTRAL LONDON AIRPORT

Business Hours	£45
Other Hours	£75

GATWICK AIRPORT

Business Hours	£65
Other Hours	£95

HEATHROW AIRPORT

Business Hours	£35
Other Hours	£65

LUTON AIRPORT

Business Hours	£35
Other Hours	£65

MANCHESTER AIRPORT

Business Hours	£40
Other Hours	£60

STANSTEAD AIRPORT

Business Hours	£35
Other Hours	£60

Delivery & collection within the M25 is available free of charge between the hours of 12-2pm for weekend hires only.

PRICES ARE EXCLUSIVE OF VAT

THE TARIFF FOR BANDS 1-7 SHOWN ABOVE ARE FOR ONE-WAY DELIVERY OR COLLECTION DURING NORMAL BUSINESS HOURS.



MERCEDES
S CLASS
from
£160 /day



Home

Our Vehicles

Prices

Delivery

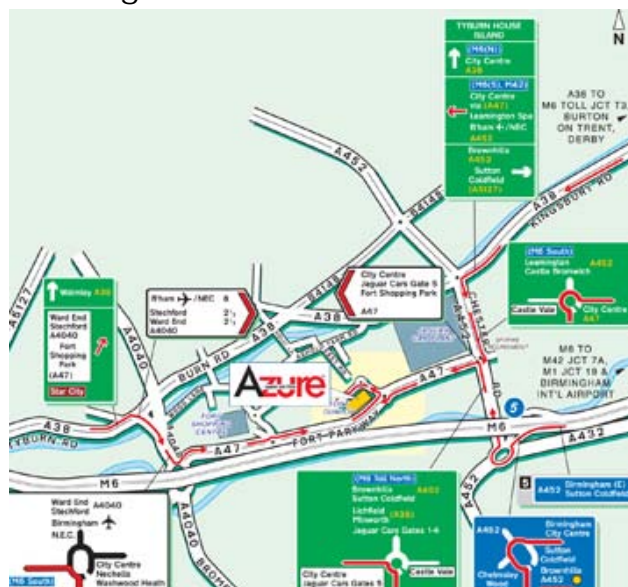
Reservation

Our services

Enquiry

Contact us

Birmingham Office



Head Office:

Azure Super Car Hire
Fort Dunlop
Fort Parkway
Birmingham B24 9FE

Tel: 0121 629 7812

Fax: 0121 629 7701

sales@azuresupercarhire.com

[Click Here for detail of how to find us](#)

Our Self Drive Fleet



4 x 4 ▶



Performance ▶



Executive ▶

London Office



London Office:

Azure Super Car Hire
9 Valley Point
Beddington Farm Road
Croydon
CR0 4WP

[Click Here for detail of how to find us](#)

Advantage Point Reward Account!

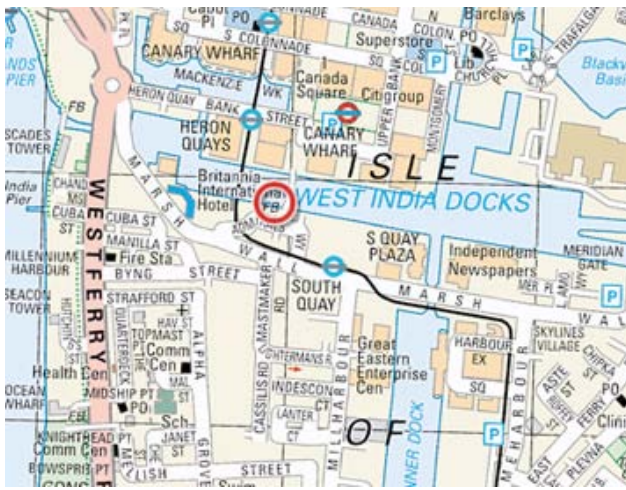
Click Here ▶

Make points for FREE HIRE



London Office:

Azure Super Car Hire
Suite 6,
Scott House,



Admirals Way,
Canary Wharf,
E14 9UG.

[Click Here for detail of how to find us](#)

Location & delivery

Birmingham Office



London Office



Band1 £70 Band2 £90 Band3 £125 Band4 £165 Band5 £180 Band6 £280 Band7 £450

Heathrow Airport

Business Hours £80 / Other Hours £110

Gatwick Airport

Business Hours £110 / Other Hours £130

Manchester Airport

Business Hours £300 / Other Hours £350

Luton Airport

Business Hours £120 / Other Hours £130

Stansted Airport

Business Hours £110 / Other Hours £130

0121 629 7812

Azure super car hire



To find information and requirements about renting vehicles in our different countries please select the country below you intend to rent a car in:

-  [Antigua and Barbuda](#)
-  [Argentina](#)
-  [Aruba](#)
-  [Australia](#)
-  [Austria](#)
-  [Belgium](#)
-  [Bosnia and Herzegovina](#)
-  [Bulgaria](#)
-  [Canada](#)
-  [Chile](#)
-  [Costa Rica](#)
-  [Croatia](#)
-  [Cyprus](#)
-  [Czech Republic](#)
-  [Denmark](#)
-  [Dominican Republic](#)
-  [El Salvador](#)
-  [Estonia](#)
-  [Finland](#)
-  [France](#)
-  [Germany](#)
-  [Greece](#)
-  [Guadeloupe](#)
-  [Guam](#)
-  [Guatemala](#)
-  [Honduras](#)
-  [Hungary](#)
-  [Iceland](#)
-  [Ireland](#)
-  [Israel](#)
-  [Italy](#)
-  [Jordan](#)
-  [Latvia](#)
-  [Lithuania](#)
-  [Macedonia](#)
-  [Malta](#)
-  [Martinique](#)
-  [Mauritius](#)
-  [Mexico](#)
-  [Morocco](#)

Terms and Conditions

Cancellation Charges

We will not charge for reservations cancelled 7 days or more before your pick up time. If you cancel your booking after this time, the following charges apply:

- If you cancel your booking less than 7 days before pick up time, you will be charged either the full cost of your booking or up to a maximum of £20 whichever is the lesser.
- If you cancel your booking less than 24 hours before your pick up time, you will be charged either the full cost of your booking or up to a maximum of £50, whichever is the lesser.

In the event of a cancellation, your credit card will be refunded, less the above charge.

No-shows & late or early arrivals

Your vehicle will be held for 2 hours from the specified reserved time. After this time we cannot guarantee a vehicle will be available upon arrival.

For all airport bookings, however, where a flight number has been supplied the vehicle will be held until the flight has landed and cleared. Where a flight delay results in a customer arriving after the station closing time a member of staff will wait for the flight to land and clear. If the delay is in excess of one hour after the station closing time an out of hours fee may apply. Where no flight number has been supplied we will hold the vehicle for a period of up to 2 hours or until station closing time, which ever is the earlier. Staff will not wait beyond closing time where no flight number is supplied.

When booking your vehicle please ensure the dates entered are correct, if your circumstances change and you require the vehicle on different dates/times please amend your reservation online.

Customers who arrive 1 day or more early at our rental stations with a reservation that does not match the current date will not be able to use the reservation reserved online. The branch may be able to offer an alternate reservation but please note the rates will not match the online reservation.

If you fail to collect your car on the specified pick-up date, we reserve the right to charge a no-show fee of either the cost of the booking or up to a maximum of £50, whichever is the lesser. In the event of a no-show, your credit card will be refunded, less the no-show charge.

Unused Rental Days

Please note that any unused rental days on prepaid reservations are non-refundable.

Rules and regulations - check before you travel

If you are planning to drive to abroad, you will need to be aware of your responsibilities to follow driving laws in your destination country. We strongly recommend you make your own investigations before travelling.

The RAC website (www.rac.co.uk/driving-abroad) provides useful information and tips on driving abroad.

Driving abroad in Winter conditions

Whilst driving abroad in winter conditions, legally some countries will have restrictions on the equipment a vehicle should carry or have fitted, this can include snow tyres. Whilst driving abroad its important to adhere to the driving laws in that country. Failure to do so could result in a fine or temporary loss of your vehicle. Snow tyres and snow chains are available to hire for an additional fee and must be requested at time of booking. For online bookings where the pick-up country specified requires snow tyres a charge will normally be added to your reservation and these will be fitted to the vehicle. However, if you are planning to drive cross-border please check country requirements and request equipment be added to your reservation where appropriate by contacting our Call Centre.

We strongly recommend you make your own investigations as to whether or not you will require any additional winter equipment before travelling abroad. The RAC website (www.rac.co.uk/driving-abroad) provides additional information and tips on driving abroad.

United Kingdom

Additional Driver Policy

Additional driver charge is as follows: For the following airport Locations: Aberdeen Airport, Belfast City Airport, Belfast Int Airport, Birmingham Airport, Cardiff Airport, East Midlands Airport, Edinburgh Airport, Glasgow Airport, Inverness Airport, Leeds/Bradford Airport, Liverpool Airport, London City Airport, London Gatwick Airport, London Heathrow Airport,



Luton Airport, Manchester Airport, Newcastle Airport, Prestwick Airport and Stansted Airport: £6.67 per day + VAT per additional driver, with no maximum charge. A maximum of 8 additional drivers are allowed per rental. For all other Locations: £5.83 per day + VAT per additional driver, with no maximum charge. Additional drivers must be over 21. All additional drivers must meet the age and license requirements set out below.

Age Requirements

Minimum rental age is: 21 years for car groups: MCMN (Mini), MBMN (Mini), ECMN (Economy), CCMR (Compact), CDMR (Compact). 23 years for car groups: IDMR (Intermediate), CCAR (Compact), IVMR (Intermediate Passenger Van), IWMR (Intermediate Wagon-Estate), CWMR (Compact Wagon-Estate), SDAR (Standard), SDMR (Standard) and IXAH (Intermediate Special). 25 years for car groups: FCAR (Fullsize), FVAR (Fullsize Passenger Van), FVMR (Fullsize Passenger Van), FWAR (Fullsize Wagon-Estate), PWAR (Premium Wagon-Estate), PDAR (Premium), LDAR (Luxury), DTMR (Compact Elite Convertible) & DSMR (Compact Elite Sport). All overseas drivers must be over 25 years old to rent from Aberystwyth, Pembroke, Carmarthen and Llanelli. A young drivers surcharge applies to drivers aged 21 - 24 years (inc) as follows: £25.00 + tax per day. The age policy may vary at certain locations; please contact the rental branch directly if you are under the age of 26 and have any questions. There is no upper age limit except at the following locations where the maximum age limit is 75 years: Aberystwyth, Pembroke, Carmarthen and Llanelli, and the insurance excess is increased by £400.00 for under 25's at these locations. Please Note: For drivers aged between 21 and 25 (*21-23 years at London Croydon South & 21-30 years at Bradford), Mastercover Plus (Risk Reduction Cover), Peace of Mind, Risk Reduction Cover Plus and Value Cover (Windscreen & Tyres Waiver) cannot be purchased to waive the excess at the following locations: London Lewisham, London Kings Cross, London Fulham, London Marble Arch, London Kennington, London Croydon South* and Bradford. In these cases the full CDW/DW excess is always applicable.

Cross Border Policy

Vehicles may be taken abroad but renters will be required to purchase the Europdrive Package (Overseas Breakdown Cover) which costs as follows: 1-2 days = £33.33 + VAT per rental 3-5 days = £41.67 + VAT per rental 6-7 days = £58.33 + VAT per rental 8-13 days = £83.33 + VAT per rental 14-20 days = £95.83 + VAT per rental 21-27 days = £104.17 + VAT per rental 28-34 days = £112.50 + VAT per rental 35-41 days = £120.83 + VAT per rental 42+ days = £129.17 + VAT per rental The Europdrive Package is only available to purchase at the counter and applies to vehicles going to the Republic of Ireland also. Any vehicle rented (irrespective of insurance cover) requires written permission from Alamo/National by means of obtaining a completed VE103 form prior to departure. Countries which you are allowed to travel to are: Andorra, Austria, Belgium, Denmark, Finland, France, Germany, Gibraltar, Ireland, Iceland, Italy, Lichtenstein, Luxembourg, Netherlands, Norway, Portugal, San Marino, Spain, Sweden and Switzerland. Cars may not be driven into any outside those listed above. The following vehicles are not allowed to be taken overseas: PDAR(Premium)/FCAR (Fullsize), PWAR (Premium Wagon-Estate)/FWAR (Fullsize Wagon-Estate) and LDAR (Luxury). Please be advised that due to a change in law in Germany, it is mandatory for all vehicles crossing the border into Germany to have winter tyres fitted during the Snow & Icy conditions. Customers will be fined on the spot if they are stopped by police and found to not have the appropriate winter tyres. Please note we do not supply winter tyres and any customer wishing to fit winter tyres must do so at their own cost and ensure that the rental vehicle is returned in the same condition as supplied without winter tyres.

Delivery / Collection

Payment for the full cost of the hire must be made at time of reservation. The cost for delivery and collection of the vehicle is: £10.00 (inc VAT) each way up to a maximum distance of 15 miles from the nearest Rental Station; £20.00 (inc VAT) each way from 16 miles up to a maximum distance of 30 miles from the nearest Rental Station; and £30.00 (inc VAT) each way over 30 miles from the nearest Rental Station. Available at all UK Rental Stations excluding airports and Euston Station. Delivery is only available to a home address. Collection is available from a home, work or hotel address. If the vehicle is collected from a different address, by a different hire location, a one-way charge may be incurred and price will be dependent on distance from the original hire location. Delivery and collection is only available during normal Rental Station opening hours which may vary from Rental Station to Rental Station. Delivery and Collection will be made within a 1 hour time framed agreed at the time of booking. The vehicle will leave the nearest Rental Station with a full tank of fuel. The customer is responsible for the fuel used for delivery. Unless the customer has taken the Full Tank Option, the customer is responsible for leaving the vehicle with a full tank of fuel on collection. If the customer's collection point is within 15 miles of the nearest Rental Station, the customer will not be charged for any fuel used. Outside of this area the customer will be charged all fuel used for the collection of the vehicle in line with our refuelling policy. Delivery and Collection is subject to car and driver availability and cannot be used in conjunction with any other promotion. The hire is subject to the normal rental agreement. Delivery and Collection cannot be reserved once a reservation has been confirmed. National reserve the right to suspend, cancel or amend delivery and collection service at any time without giving prior notice. Before we accept your request for a reservation we will verify your identity by carrying out a check using Experian's Authentication check. If there is an unsatisfactory search result the customer's will need to provide paper-based proof of identity at the delivery of the vehicle or when they pick up the vehicle from the Rental Station. National retain the right not to deliver a car if the customer fails to comply with any of these Terms and Conditions.

Insurance Excess

Collision Damage Waiver & Theft Waiver limits the customer's financial responsibility for loss, damage or theft of the rental vehicle. The maximum excess that is payable in the event of one of these incidents is £800. The maximum excess will vary depending on the vehicle you are

renting, please ask at time of rental for further information on which excess applies. If you would like to reduce or remove your excess responsibility please ask the rental staff when collecting your vehicle about additional products that are on offer below: Risk Reduction Cover: What is it? RRC can be purchased to top up the cover offered by Collision Damage Waiver and Theft Waiver. Reduces the renter's excess to zero. Includes one free additional driver. What are the benefits? Can save up to £800 in the event of damage or theft and can share the driving on long journeys. Are there any exclusions? Damage caused to the vehicle hitting a bridge, car park barrier or other overhead object or damage caused by driver/ renter negligence Value Cover: What is it? VC can be purchased as top up to the cover already provided by Collision Damage Waiver and Theft Waiver. Reduces the renter's liability for the cost of damage to the windscreens, tyres and other glass down to zero. What are the benefits? Can drive with the reassurance that you will not need to pay for the cost of any damage to the windscreens, tyres and other glass. Are there any exclusions? Damage caused to any part of the vehicle other than the windscreen, tyres and other glass or damage caused by driver/ renter negligence.

License Requirements

Drivers must present a full valid national licence at time of rental, which must have been held for at least 1 year prior to the rental checkout. For Plymouth, Exeter, Taunton, Carmarthen, Pembroke, Aberystwyth and Llanelli the licence must have been held for at least 2 years prior to checkout for young drivers under 25 years of age. Should your driving license not be resident to the country of origin of your booking we reserve the right to charge an appropriate rate for your country of residence. Visitors to the UK - All visitors to the UK must present a full valid licence. Licences issued overseas must be clearly identifiable as a driving licence, otherwise an International Driving Licence will be required. A Passport, ID showing home address and proof of entry/exit into/out of the UK (e-tickets acceptable) must also be produced if not a UK resident. UK residents who hold the new photo card licence must also present the paper counterpart at the start of the rental. Endorsements are only shown on the paper counterpart so customers MUST produce both documents. Holders of the old style UK paper licence must also provide an additional form of photographic ID in the form of a Full Valid Passport, Armed Forces ID Card or a Police Warrant Card, no other form of identification will be accepted. UK residents that hold a non-EU licence may drive in the UK for up to 12 months from the time you become resident. After 12 months your overseas licence will be deemed illegal in the UK and it must be exchanged for the UK equivalent. UK residents that hold a non-UK EU licence, your License is valid until the age of 70 or for 3 years after becoming a UK resident - whichever is longest. A renter holding a non-UK licence must produce a full valid passport at time of rental. Holders of any licence that does not show the current address must also produce proof of current address in the form of a Current Credit Finance Agreement, Current Utilities Bill, or Current Bank Statement. All renters with a UK home address will need to pass an Experian Authenticate check as verification of residence at their given address. Any customer failing an Authenticate check will not be allowed to rent. If there is an unsatisfactory search result you will need to provide paper-based proof of identity such as a Current Credit Finance Agreement, Current Utilities Bill, or Current Bank Statement that is less than 4 months old when you pick up the vehicle from the Rental Station. Visitors to the UK will have their Passport and Driving License checked for authenticity by the ID Scan system at participating stations. ID Scan is a scanning system, which can detect fraudulent documents. Any customer whose documents fail the ID Scan check will not be allowed to rent. UK Nationals residing overseas are advised to use a driving license of the country in which they reside or they will be subject to the above. Experian Authenticate Check: Experian Authenticate Plus enables Europcar UK Group to combat identity fraud by using independent data sources to establish a degree of confidence in a person's identity. This is achieved by validating that the presented details relating to the person's name and address being supplied Europcar UK Group are correct and that this person exists, and that the owner of these details is the person presenting them to Europcar UK Group. This check will leave an electronic note, or 'footprint' on your record to say that a check has taken place, but it does NOT affect your credit rating, is not used as part of the credit vetting process, and the information is not sold to third parties. Authenticate Plus enables Europcar UK Group to accurately authenticate a person's identity without the need for documentary proofs. A level of confidence in the identity of an applicant can be gained using the authentication index, number of identification confirmations and the absence of Fraud Alerts. The Authentication index, ID confirmations and Fraud Alerts are created by matching information provided by the applicant against that held on Experian's database of over 500 million records from a variety of different data sources. Should you have any concerns over the search or require your credit records investigating to avoid any future issues, then please contact Experian directly, who will be able to investigate. www.creditexpert.co.uk Customer Support Centre, Experian Ltd, PO Box 1135, Warrington, WA55 1EP Email: customerservice@creditexpert.co.uk Telephone: 0844 481 0800

One Way Rentals

Domestic Retail One way rentals made in the UK are allowed. All consumer one way rental reservations for both Alamo and National will carry a one-way charge, which will be dependant on the distance travelled. A penalty charge of £150.00 will apply to all rentals dropping off a one way rental into St Pancras and London Paddington RRS (this also includes all London stations). One way rentals are not allowed for drop off at Southampton Port (SOUN01/71) and Poole Ferry Terminal (BOHP01/71), however one way pick ups are allowed from this location. One way rentals are not allowed (for pick up or drop off) at London East Croydon RRS (LONX05/75). One- ways between Mainland U.K. and Northern Ireland are permitted and cost £150.00 + VAT. The following conditions apply for Northern Ireland: 1) Intermediate and Fullsize Passenger Vans (IVMR & FVMR) and automatic vehicles (CCAR (Compact), SDAR (Standard), PDAR (Premium), PWAR (Premium Wagon-Estate), LDAR (Luxury) and IXAH (Intermediate Special)) are not allowed to be used for one way rentals from Northern Ireland to the Republic of Ireland or UK Mainland. 2) GPS must not be left in vehicles terminating in any location in the Republic of Ireland or UK

Mainland stations. The full loss of deposit will apply. One-ways are not permitted between the Mainland U.K. and the Republic of Ireland. One-Ways between Derry and Belfast locations = £40.00 + VAT. One-ways between all other Northern Ireland locations are free of charge. One-way rentals are permitted from any Northern Ireland location to the following locations in the Republic of Ireland:- to Dublin = £150.00 + VAT. To: Cork, Knock and Shannon = £450.00 + VAT. All one way rentals to and from UK Mainland into Northern Ireland are subject to availability. International one-ways are NOT permitted.

Out of Hours Policy

All Out of Hours reservations are on request at a charge of £40.00 + VAT and available at all locations (except Oxford, Bracknell, Eastbourne and London Victoria RRS). Out of hour returns are allowed at some locations (please refer to the additional information in the locations section of Visionnet). Where a vehicle is returned outside office hours, the branch should confirm at pick-up the procedure for returning the vehicle out of hours and the location of the key return box. All customers must be advised that they remain liable for vehicle damage until the vehicle is checked in on the next working day. Please note that when returning out of hours at Marble Arch additional charges may apply (see location information for details).

Payment Policy

National Charge cards, all major Credit cards (MasterCard, Visa, Diners, American Express), debit cards (EXCLUDING Maestro) and Cash payments permitted on all car groups, except executive cars (FXAR & SSAR). Visa Electron is also accepted, however the card will only authorise the payment, which will be taken at the end of rental (i.e. as per Visa credit cards). Please ensure the same payment card as used for booking is presented at time of rental for deposits (see 'Standard Deposits' details below) Cash is not accepted at the following locations: Aberystwyth, Basingstoke, Birkenhead, Carmarthen, Leeds, Pembroke & Swindon. All locations (excluding ones listed above) within normal working hours will accept cash deposits at the discretion of the station manager and with a copy of customers passport and airline ticket. Travellers Cheques are accepted in £ sterling only. Standard Deposits: Renters will be asked for the following deposits: 1) The estimated cost of the rental 2) A £250 Security Deposit. (The £250 deposit is not linked to the amount of the renters damage or theft liability excess and is required on all rentals). Please note: All first time consumer customers who present a foreign driving licence and have a UK address will be required to pay a deposit of £500.00 (rather than £250.00). Cash renters resident in the U.K. will be subject to a credit check by Equifax, and must provide either a NEW style driving licence complete with counterpart or an OLD style licence plus a full valid Passport. Non-UK resident Inbound renters paying by cash will need to produce their passport, dated return flight ticket and full driving licence that meets the criteria set out in the Licence requirements section. Cash renters cannot expect to receive a refund of their deposits in cash and cheque refunds can take up to 28 days. The refund will probably take the form of a Sterling cheque which will be posted to their home address. Customers will be charged for loss of vehicle keys @ £140.00. All deposits will be authorised which means that the amount is 'marked' against the card but not actually charged to it. The Authorisation therefore reduces the cardholder's available credit as against their approved limit. The amount does not appear on the customer's monthly statement.

Refuelling Policy

All vehicles are supplied with a full tank of fuel at start of rental. If the car or van is not returned with a full tank of fuel or the Full Tank Option is not purchased, National will provide a re-fuelling service at our standard re-fuelling service charge (which includes the cost of the fuel) of £1.39 per litre (including VAT) above the national average (as published by petrolprices.com) For the current price, please refer to staff at time of rental. Fuel prices are checked and updated weekly according to the national average forecourt price. Fuel used when delivering and/or collecting a rental car or van to and/or from you is the renter's responsibility. Renters can choose from extra re-fuelling options which will be advised at the start of the rental and are briefly described below: Full to Full If the car or van is returned with a full tank, no refuelling service charge will apply. Full Tank Option Customers can choose to purchase a full tank of fuel at the start of their hire, please ask a member of staff for details. ** Prices are checked and updated daily according the national average as published by the www.petrolprices.com

Roadside Assistance

In case of breakdown or accidents, emergency telephone numbers can be found on the vehicle tax disc and key fob. Cover is provided through either the AA or RAC, dependent on the vehicle manufacturer. Customers should call the emergency number shown on their vehicle. Coverage is 24 hours a day, 7 days a week.

Special Equipment

GPS units are available at a cost of £9.17 + VAT per day with a maximum charge of £91.67 + VAT per rental. A £300.00 deposit (replacement amount) is required. GPS is available from all locations. Please refer to the One Way Rentals policy for details with regards to GPS and one ways from Northern Ireland. Child/Infant seats (CSI) are available and cost as follows: (All Locations) £9.17 + VAT per day, with a maximum charge of £64.17 + VAT per rental. A security deposit of £200.00 (replacement amount) is required for each seat, which will be refunded to the renter upon return of the child- check-in. We offer one type of Infant seat, which is the Britax Baby Safe Child Seat, suitable for ages 0 to 9 months, which is approved to British Standards. Child/Toddler seats (CST) are available and cost as follows: (All Locations) £9.17 + VAT per day, with a maximum charge of £64.17 + VAT per rental. A security deposit of £200.00 (replacement amount) is required for each seat, which will be refunded to the renter upon return of the child- check-in. We offer one type of toddler seat,

which is the Britax Eclipse Child Seat, suitable for ages 9 months to 4 years, which is approved to British Standards. Booster cushions (BST) are available and cost as follows: (All Locations) £8.33 + VAT per day, with a maximum charge of £58.33 + VAT per rental. A security deposit of £50.00 (replacement amount) is required for each booster cushion, which will be refunded to the renter upon return of the child- check-in. We offer two types of booster seats: The Britax Adventurer (which has a back support) and the Britax Horizon (which is without a back support). Both are suitable for 4+ years. All requests for a child/booster seats must be stated at the time of reservation. Customers will be required to fit the child seat/booster seat themselves. This country does not provide reflective jackets and is not required by law to do so.

Surcharges

Premium Location charge is 15% per rental, plus VAT (Includes - Aberdeen Apt, Belfast Int Apt, Belfast City Airport, Belfast City, Birmingham Apt, Birmingham City, Blackpool Apt, Bournemouth Apt, Bournemouth City, Bradford, Bristol Apt, Bristol City, Bristol Horfield, Cardiff Apt, Cardiff City, Cardiff East, Dover, East Midlands Airport, Edinburgh Apt, Exeter Airport, Gatwick Apt, Glasgow Apt, Heathrow Apt, Humberside Apt, Inverness Apt, Inverness City, Leeds Bradford Apt, Liverpool Apt, Liverpool East, London Barking, London Bayswater, London City Apt, London Croydon South, London Edgware, London Enfield, London Euston, London Finchley, London Fulham Broadway, London Kennington, London Kensington, London Kings Cross, London Kingston Upon Thames, London Lewisham, London Marble Arch, London North Cheam, London Orpington, London Park Royal, London Putney Bridge, London Richmond, London Streatham, London Victoria, London Waterloo, London Woodford Green, Luton Apt, Luton City, Manchester Apt, Manchester City, Manchester Salford, Newcastle Apt, Newcastle Gateshead, Norwich Apt, Prestwick Apt, Southampton Apt, Southampton City, Stansted Apt, Swansea, Teeside Apt). Vehicle Licence fee (RFT) £1.36 per day plus VAT. Congestion Charge is applicable in Central London. The charge is payable daily Monday to Friday for each day that a vehicle moves within the zone. No charge is payable for vehicles if they are parked for a full day(s) within the zone. The daily charge is GBP 10.00 if paid by midnight on the day of travel and GBP 12.00 if paid the next day. It is payable either by phone, on the Internet or at selected retail outlets within the zone (next day payment only available online or by phone). There is a fixed penalty system that will issue fines of GBP 120.00 per day for non-payment, which is reduced to GBP 60.00 if paid within 14 days. Marble Arch, London Bayswater, London Victoria and London Waterloo are the only Alamo and National locations that fall into the Central London zone. If the customer picks up a car from Marble Arch between Monday to Friday (07.00-18.00) inclusive, Alamo will offer to add the first day's Congestion Charge fee to the rental agreement for their convenience. The customer will then be responsible for paying the daily charge for all subsequent days (Saturday, Sunday and public holidays are exempt). For a customer picking up a car from Marble Arch on a Saturday, Sunday or public holiday no Congestion Charge fee will be added to the rental agreement for that first day. They will then be responsible for paying the fee for all subsequent chargeable days (excluding Saturday, Sunday and public holidays). A smoking ban applies to all vehicles in the National/Alamo fleet. From this date customers will not be permitted to smoke in any National/Alamo vehicle. Fail to adhere to acknowledge the no smoking signs placed in the vehicles could be subject to a £50.00 fixed penalty notice. DVLA Check - £8.33 + tax (paid locally) - Customers are only charged this fee when they do not have their full driving licence. A mileage charge no longer applies in the UK.

Tax

20% For more information about driving abroad, visit: www.nationaldrivesafe.com



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ANNEX 2 EXHIBIT 15

Initial Flag on Claim

Liability Flag	Split
Agreed	46.12%
ACF	7.10%
Disputed	17.59%
Not Known	17.85%
Not Report	11.33%
Grand Total	100.00%

ACF = the insurer has told us they are “awaiting a claim form” from their insured - they are aware of the accident but are waiting for their insured’s version of events.

Not Known = the insurer has told us they have not yet determined their stance on liability.

Not Report [sic] = means the TPI has told us the accident has not been reported to them at that point.

ANNEX 3

Subject: Private Motor Investigation

Date: Friday, 24 January 2014 17:01:50 Greenwich Mean Time

From: Steve Evans

To: Sean Cornall

CC: Stephen Jones

BCC: Neil Dryden, Vernon, Kate

Sean

Further to our telephone conversation this afternoon and with reference to ToH1 and your calculation of the difference between credit hire and direct hire, could you please indicate whether each of the following includes VAT

- the average credit hire bill (£1,085)
- the average credit hire daily rate (second numerical column of Appendix 6.1/Table 6)
- the average insurer direct hire daily rate (third numerical column of Appendix 6.1/Table 6)

Where the figures above includes data from multiple sources could you please indicate whether the treatment of VAT by the CC is consistent across sources.

Regards

Steve

Mr Steve Evans
Accident Exchange
By email only

From: Sean Cornall
Inquiry Management

Direct line: 020 7271 0391

31 January 2014

Dear, Steve.

PRIVATE MOTOR INSURANCE MARKET INVESTIGATION

Please accept my apologies for the delay in responding to your correspondence. I address in this letter the points raised by your recent correspondence.

Additional disclosure

The Group is considering making some additional disclosure in response to your request. As you are aware the Group has to give careful consideration to its rights and obligations under Part 4 and 9 of the Enterprise Act when considering such requests. We note your response (received on 22 January) to our request for clarification and further explanation in relation to the information you are requesting, following your extensive initial request. We will be seeking further clarification in relation to a number of aspects in order for the Group to be in a position to fully consider the basis on which disclosure is requested.

Any additional disclosure would be made after the deadline for response to our PFs (7 February). We would request that Accident Exchange provide by that deadline its response to the PFs as published. We recognise that in light of your request you may wish to include certain reservations or caveats. An additional period for supplementary/further submissions would be set in relation to any additional material disclosed.

VAT

The average credit hire bill (£1,085) and average credit hire daily rates (second numerical column of Appendix 6.1/Table 6) include VAT. Due to an error, the insurer direct hire rates (third numerical column of Appendix 6.1/Table 6) exclude VAT. We are very grateful to you for drawing attention to this inconsistency which we will take into account in our future work.

Yours sincerely,

SEAN CORNALL
Inquiry Manager
sean.cornall@cc.gsi.gov.uk

ANNEX 4

From: Steve Evans <sae@aisgroupplc.com>
Sent: 31 January 2014 17:10
To: Sean Cornall
Cc: Neil Dryden; Stephen Jones; Vernon, Kate
Subject: Private Motor Insurance

Dear Sean,

Following your letter in respect of the VAT point, I am now writing to you in order to clarify some points related to your calculations in the Provisional Findings and related appendices.

In Appendix 6.1, paragraph 32. (b), it is stated that an overall credit hire daily rate has been calculated by dividing the total revenues for seven large CHCs in 2012 by the number of hire days.

In Appendix 6.1, paragraph 35, it is stated that the average credit hire bill of £1,085 has been calculated by dividing the total revenues for the CHCs in your sample by the total number of credit hire claims managed by them.

We had two clarification questions related to the above statements. They are as follows:

- 1) Was data on any CHC not used in calculating the average credit hire daily rate and if so, then on what basis was that CHC excluded?
- 2) Is the set of CHCs included in the sample for calculating the average credit hire bill (=£1,085) the same as the set of CHCs that were included in the sample for calculating the overall credit hire daily rate?

We look forward to hear from you on the above questions. It will be extremely useful to get a clarification on these issues.

Many thanks.

Kind regards,

Steve

Steve Evans
Chief Executive Officer

T: +44 (0) 8700 116 719
E: sae@aisgroupplc.com

Automotive and Insurance Solutions Group Plc,
Alpha 1, Canton Lane, Hams Hall,
Birmingham B46 1GA

www.aisgroupplc.com

Automotive and Insurance Solutions Group Plc registered in England, registered number 04360804, registered office Alpha 1, Canton Lane, Hams Hall, Birmingham B46 1GA.

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For more information about Automotive and Insurance Solutions Group Plc, please visit our web site at www.aisgroupplc.com

ANNEX 5

From: Sean Cornall <Sean.Cornall@cc.gsi.gov.uk>
Sent: 03 February 2014 14:54
To: 'Steve Evans'
Cc: Neil Dryden; Stephen Jones; Vernon, Kate
Subject: RE: Private Motor Insurance

Hi Steve,

Many thanks for your email.

- 1) We used the data from all the CHCs that were able to provide the information required
- 2) The sample for calculating the average credit hire bill is the same as the set of CHCs included in the sample for calculating the overall hire rate

Kind regards,
Sean

Sean Cornall
Inquiry Manager
020 7271 0391

From: Steve Evans [<mailto:sae@aisgroupplc.com>]
Sent: 31 January 2014 17:10
To: Sean Cornall
Cc: Neil Dryden; Stephen Jones; Vernon, Kate
Subject: Private Motor Insurance

Dear Sean,

Following your letter in respect of the VAT point, I am now writing to you in order to clarify some points related to your calculations in the Provisional Findings and related appendices.

In Appendix 6.1, paragraph 32. (b), it is stated that an overall credit hire daily rate has been calculated by dividing the total revenues for seven large CHCs in 2012 by the number of hire days.

In Appendix 6.1, paragraph 35, it is stated that the average credit hire bill of £1,085 has been calculated by dividing the total revenues for the CHCs in your sample by the total number of credit hire claims managed by them.

We had two clarification questions related to the above statements. They are as follows:

- 1) Was data on any CHC not used in calculating the average credit hire daily rate and if so, then on what basis was that CHC excluded?
- 2) Is the set of CHCs included in the sample for calculating the average credit hire bill (=£1,085) the same as the set of CHCs that were included in the sample for calculating the overall credit hire daily rate?

We look forward to hear from you on the above questions. It will be extremely useful to get a clarification on these issues.

Many thanks.

Kind regards,

Steve

Steve Evans
Chief Executive Officer

T: +44 (0) 8700 116 719

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