

BVSF Member Comment Document on Competition Commission Investigation into the Insurance Industry.

Remedy 1E: Measures to control non-fault write-off costs

56. We have provisionally found that when the non-fault claimant's vehicle is written off, and the claim subrogated to the at-fault insurer is calculated using an estimated salvage value for the vehicle from the salvage company acting for the non-fault insurer, the estimated salvage value is sometimes set too low, which results in a higher claim on the at-fault insurer (as the claim is the difference between the pre-accident value and the estimated salvage value). The aim of this remedy would be to ensure that claims costs reflect actual salvage proceeds. We have considered two possible ways in which this could be achieved through an enforcement order:

14 (a) *Remedy 1E(a)*. Require that at-fault insurers are given the option to handle the salvage of non-fault vehicle write-offs in non-captured claims (but only once the pre-accident value of the vehicle has been agreed with the claimant by the non-fault insurer or CMC). The amount of the subrogated claim on the at-fault insurer would therefore be the pre-accident value of the vehicle; the at-fault insurer would receive the vehicle in return and would recover the salvage value.

(b) *Remedy 1E(b)*. Require that all insurers use actual salvage proceeds (including any referral fee paid by the salvage company to the insurer) or that the amount of the subrogated claim on the at-fault insurer based on the estimated salvage value is adjusted (up or down) once the actual salvage proceeds (and any referral fee) have been received from the salvage company.

Issues for comment 1E

57. **Views are invited on the effectiveness and proportionality of this remedy and, in particular, on the following: (a) Would either variant of this remedy give rise to distortions or have any other unintended consequences?**

Comment from...Steve Hankins (HBC Vehicle Services)

I do think there could be some unintended consequences. Some insurance companies are inherently bad at clearing their own vehicles for disposal. At HBC we focus on vehicle clearance and proactively work with all Insurers to clear vehicles, this approach ensures our current 'days to clear' is highly efficient, however, the industry in general are known to leave vehicles standing 'unclear' for several weeks. The 'at fault' insurer has no insurable interest in the vehicle or the policyholder, therefore I envisage these vehicles will be left in storage as 'unclear' for excess periods of time. The danger is that this inefficiency will add to the reduction in salvage values when vehicles are eventually sold.

Regarding Remedy 1E(a)

(b) **Would at-fault insurers be likely to take up the option of handling the salvage?**

Comment from.....Steve Hankins (HBC Vehicle Services)

The larger insurance companies will welcome the opportunity to handle salvage but this will deliver a negative effect on customer service. The smaller companies will suffer and the likelihood is that they will need to increase workforce and costs to keep up with the changing market.

(c) At what point in the claims process should at-fault insurers be given this option?

Comment from...Steve Hankins (HBC Vehicle Services)

If the 'at fault' insurer is given the option to handle salvage then timing of this decision is critical and should happen at the point of agreeing settlement. If the 'at fault' insurer intercepts the claim prior to settlement then it becomes unclear to the insured who is actually in control of the claim. In addition to this, the insured is likely to be penalised.

Regarding Remedy 1E(b)

(d) **What impact would this remedy have on salvage companies? To what extent would this proposal reduce the incentives for insurers to get the best salvage value from salvage companies?**

Comment from...Steve Hankins (HBC Vehicle Services)

Point 1The issue here is that in general terms vehicles are removed from storage locations to the insurers nominated salvage yard ASAP to stop charges being incurred. The settlement process generally completes way after vehicles have been stored (sometimes for considerable period of times, therefore if the 'at fault' insurer intercepts the claims process, and that insurer doesn't have a contract with the company currently storing the vehicle, then what is the process ?. The following needs consideration:

- What salvage rates are to be used?
- Does the 'at fault' insurer have correct title to the vehicle?

If an insurer approached me currently under these circumstances then I would request a copy of the engineers report and negotiate each purchase. This simply could not be the case if the volume was significant.

The alternative of course would be for the 'at fault' insurer to remove the car from the current salvage agent and take to their own contracted agent. Under this scenario the 'at fault' insurer would have to pay a collection charge and storage charges, which frankly would be open to abuse.

In addition, if this were the scenario then it would defeat the object and it would significantly add to the overall claims costs.

Point 2.... There could be very different business consequences for salvage companies. There is currently one dominant player in the salvage market who would benefit enormously by the 'at fault' insurer taking ownership of salvage due to the number of contracts that they handle all of which produce large volumes of salvage. This proposal feeds straight into their hands, dramatically increasing their business whilst smaller operators would suffer, possibly to the point of businesses closing.

I do not believe the industry should support and promote such a dominant market situation. Insurers would have placed 'all their eggs in one basket' putting them in a difficult trading position.

(e) What administrative costs would the adjustment mechanism have? What evidence would need to be provided to verify the salvage proceeds (and any referral fee)?

Comment from...Steve Hankins (HBC Vehicle Services)

Our largest competitor in the salvage industry is one of the companies to have initially created this problem. This issue has partly arisen because at the point of subrogation the 'at fault' insurers are being asked for reimbursement of claims costs less the amount received for the salvage. Currently the amount requested is fictitious because our competitor's business model is fee scheme based and therefore the amount to subrogate cannot be confirmed until the vehicle has actually been sold or disposed of. It is only then that the true value achieved at auction can be subrogated properly, currently its guess work with a supposed 'adjustment' when the vehicle actually sells