

**INDUSTRY BODY A RESPONSE TO THE RELATIVE SECTIONS OF THE
COMPETITION COMMISSION DOCUMENT “PRIVATE MOTOR INSURANCE
MARKET INVESTIGATION” APPLICABLE TO THE SALVAGE 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.

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?

The major concern in this instance is that Insurers currently and indeed historically have never been timely in their clearance of their own policyholders vehicles, indeed cases of vehicles left uncleared for many months and in occasional cases over a year have been experienced by contracted salvage buyers. If they have no commercial interest in a vehicle and it is simply “forgotten” then these timescales could extend dramatically with a very adverse effect on Salvage Dealers.

Regarding Remedy 1E(a)

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

The smaller insurers are unlikely to entertain the option of handling third party salvage, however the larger, leading insurers may well consider this a benefit.

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

This option could only be given to the “at Fault” insurer upon settlement of the claim, primarily, if the claim process was effectively interrupted then the considerable risk is run that the costs against the at fault insurer could be raised. Imagine vehicles being moved around at great

expense from storage yard to storage yard. The initial yard will require settlement of fees relating to their recovery and storage and then a fee would be required to be agreed for a recovery and storage at a "new" yard. These increased costs will add to overall claims costs and could be subject to misuse.

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?

There potentially, would be a very large number of smaller salvage companies at considerable risk. The larger volume salvage companies will benefit enormously by the 'at fault' insurer taking ownership of the salvage. In other words the largest companies will gain a huge advantage and the smaller ones will suffer to the point of potential bankruptcy. Surely this is not something that the Competition Commission would want to effectively create.

(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)?

Some large Salvage companies have effectively caused this issue. The problem has arisen because at the point of subrogation the 'at fault' insurers are being asked for reimbursement of a fee that is effectively totally inaccurate. The reason behind this is that some Salvage Companies are based on a business model that is a fee scheme, that is that the Salvage Company never own the vehicle in question, it is sold on their auction site by the Insurer and a fee is paid for that privilege. Therefore the actual claim value can only be calculated properly when the vehicle has been sold and the ACTUAL figures submitted to the 'at fault' insurer, currently it a reasonable estimate which in theory at least is subsequently adjusted to the actual figure when the vehicle sells.

As a footnote, the [...] are very concerned over the potential consequences of the findings and remedies in this document. The two associations within the Salvage/Dismantling industry had not been made aware of the inclusion of salvage aspects to this investigation and are very concerned that we have not had the opportunity to discuss these details in person with the Competition Commission.

Does the inner workings of the Salvage industry need to be included in this document at all ??

Is it too late to have a meeting with the Competition Commission to discuss the matter fully ?