Competition Commission
Private Motor Insurance Market Investigation

LIVERPOOL VICTORIA

LV= Response to the CC's Notice of Provisional Findings

Theory of Harm 1 – separation of cost liability from cost control

We are generally in agreement with the findings of the Competition Commission in this area and we believe that the majority of ways in which harm or an adverse effect on competition are or could occur have been identified. We have previously responded with our views on the proposed remedies. There are however 2 behaviours which the Competition Commission have not expressly commented on which we believe need to be addressed if any reforms are to fully address the areas of concern identified.

1. In paragraph 6.20 of the Provisional Findings report the Competition Commission identifies a number of ways that subrogated repair claims can be managed to make a margin from at fault insurers. However there is no mention of differential pricing for non-fault claims and we see this as an omission. Essentially this arises through an agreement that an insurer can have with its repair network which leads to lower labour rates and higher discounts being applied for fault claims and higher labour rates and lower discounts being applied for non-fault claims. The net income for the repair network is neutral and the not at-fault insurer is subrogating at the actual amount they paid for the repair. However the cost borne by fault insurers is artificially high compared to what those non-fault repairs should have actually cost the non-fault insurer. The ultimate outcome is that at-fault insurers subsidise the non-fault insurer's at-fault repairs.

   Any remedy which seeks to ensure that insurers (and others) subrogate at the actual net cost to them for each individual repair needs to address this as another way that a rent can be earned through the handling of non-fault claims. Even if the Competition Commission has found no significant evidence that this practice is currently prevalent, any remedies introduced need to future proof against a trend towards such practices.

2. Credit repair whilst discussed in the provisional findings report is not expressly addressed in any of the proposed remedies. This is another way that a rent can be earned on handling non-fault claims and we note that the Competition Commission has gathered evidence regarding the referral fees which can be generated in this way. This additional cost is passed on to at-fault insurers facing these claims.

   It may be considered that the banning of referral fees as suggested by proposed remedy 1G would address this and by implication remove this issue. For clarity, however, we strongly recommend that the remedies the Competition Commission mandates should expressly reference credit repair. In paragraph 6.19 of the Provisional Findings report the Competition Commission say that only one non-fault insurer refers customers' claims for credit repair. We believe this practice is more prevalent than that amongst insurers. Whether or not that is correct, if the remedies introduced by the Competition Commission do not address that practice then certainly it will become more widespread.

Theory of Harm 2 – under-provision of service and specifically repairs

We do not accept the Competition Commissions findings regarding under provision of repairs by insurers. We strongly dispute that the evidence obtained by the Competition Commission which is said to support this finding has sufficient technical, methodological or statistical robustness to justify such a finding or the costly remedy proposed to address the perceived harm.

We have taken the limited opportunity provided to review the evidence obtained by the Competition Commission from MSXI including a review of the specific cases identified as being LV= managed repairs as well as a general review of the other heavily redacted documents made available in the data room. We have also had the opportunity to see the draft response of the ABI based on a review of that information completed by a team from Thatcham. We wholly concur with and adopt the criticisms levelled at the MSXI report in the ABI's response.

In addition to the points made, we would emphasise that of the 104 vehicles inspected, 48 had already been returned to the repairer for rectification following issues discovered by the customers. This is an extremely large percentage and is wholly unrepresentative of our experience of repairs being managed through our repair network. Whilst we don't specifically track the number of vehicles which are returned for rectification, our complaint rate for repairs is less than [✂] % - so rectification returns are going to be lower than this. Clearly therefore a sample which included nearly 50% of vehicles which had required rectification contained a skew towards repairs which were already problematic.

We therefore agree with the Competition Commission's own view that *"The results of the MSXI inspections need to be interpreted with care. The achieved sample may not be representative of the general population of non-fault claims because:*

i. The sample was small - only 104 cars were inspected in total.
ii. The sample was not designed to be random; captured claims were over-represented and MSXI was instructed to select cases where they felt they would be able to assess pre versus post repair most effectively.
iii. The 104 vehicles inspected are a sub-sample of the 13,000 in the original Non-fault Survey; and there may be sample selection biases in each of the several steps leading to the 104 inspections."

We do not believe, however, that the Competition Commission have heeded their own note of caution in reaching the conclusions they have on such a small unrepresentative sample. We do not believe that it is appropriate to recommend the implementation of a costly remedy to address a harm based on such inadequate evidence.

Given that the assumption being tested was that insurers focus on costs is at the expense of repair quality, the sample could have been much more easily and representatively put together by looking at repairs managed by at fault insurers for their own customers' vehicle repairs – i.e. claims where the insurer was not going to recover the repair cost and therefore had the same clear incentive to manage costs down.

We strongly recommend that if the Competition Commission does believe there is a need for further action then the first step should be to require insurers, accident management companies and relevant other parties such as the automotive repair industry to work together to commission a properly constructed survey of repair quality using pre-agreed technical and quality assurance methodologies across a statistically valid sample. If all interested parties are involved in the commission and design of that survey, the results will be much more willingly accepted by all sides of the debate.

Finally we would just comment on the points made by the Competition Commission in paragraph 7.28 of the Provisional Findings Report.

"We noted the emphasis the insurers put on PAS 125 accreditation and manufacturer approvals. However, we also noted that these were focused on processes and procedures….. Consequently, we considered that PAS 125 accreditation …..[was] unlikely in [itself] to ensure a high quality of repair."

We consider this to be inappropriately dismissive of an industry standard specifically developed to ensure that post-accident vehicle repairs are completed to a consistent and high quality. The 'processes and procedures' include a requirement for an In-process quality control. With a further requirement that the repair process records include a quality conformance declaration signed by a currently competent person specifically authorized to do so on behalf of the repairer.

To dismiss this as merely processes and procedures is unfortunate. As the Thatcham Team found following their review of the MSXI papers and findings, if MSXI had adopted an approach which itself aligned with the requirements of PAS125 and had placed more reliance on seeking documentation to evidence whether or not the requirements of PAS 125 had been followed by the repairer, their findings would have been significantly more robust.

LV= already allow a reasonable time within every repair estimate for appropriate repair quality assurance processes (such as those within PAS125) to be completed. The Competition Commission should consider a remedy of an enforcement notice requiring all insurers and others involved in authorising repairs post-accident to do the same.