

Motor Vehicle Dismantler Association response to Remedies Notice

We would like to submit to you the following comments regarding insurance motor salvage.

The Motor Vehicle Dismantlers' Association (MVDA) was formed in 1943 and represents the interests of approximately 200 UK vehicle recyclers and associated companies. MVDA members are typically small and medium sized enterprises (SMEs), usually family owned businesses. Insurance motor salvage forms a key part of our members' businesses. In fact, most of the major UK salvage agents are MVDA members and there are some very experienced salvage operators. In view of the fact that neither ourselves nor the British Vehicle Salvage Federation (nor indeed, to our knowledge, any of our members) appear to have been approached/ consulted, we are a little concerned about the accuracy and source of the information that has been provided to you about motor salvage (and particularly 'salvage agents').

As such, even at this late stage, we would be more than happy to meet with you at your convenience to discuss any relevant matters.

It would not be an exaggeration to say that we have, for quite some time, been highly critical of the insurance industry about the manner in which motor salvage is 'handled'. The lack of transparency in all areas related to the working of this industry has allowed a range of questionable practices to thrive unchecked. It is probably true to say that many of the widespread practices (including payment of commissions, referral fees & rebates, cross-charging, inflation of costs, undervaluation of assets etc.) repeatedly observed in the insurance industry in recent years are also frequently to be found in 'motor salvage'.

In the short time we have been aware of your interest, we have advised many of our members to respond directly to you on these questions, but you should be aware that there is great reluctance on the part of individual insurance-contracted salvage agents to be seen to be openly critical of those that provide a significant part of their livelihood.

In considering your questions, and how those issues might be tackled, the most pressing questions (in our mind) are:

- Can the insurance industry be trusted?
- Is there, or is there likely to be in the near future, sufficient transparency in the system to ensure compliance?

In the absence of some really significant changes, we believe the answer to these is a resounding NO. Clearly there is no trust between individual insurers as they seek short term profit at each others expense. The use of referral fees, rebates & cross-charging etc. dramatically complicates matters and destroys transparency, and should not be allowed to continue. There needs to be the facility for full justification and independent scrutiny of transactions, and senior executives in the industry need to be held accountable to the Competition Commission & the Office of Fair Trading.

Not having been involved in any of your previous discussions, we are uncertain of how much information (about salvage operators) you have been provided with, and so we would also make the following observations:

- Are you aware that in recent years there has been an (increasing) trend for insurers to retain ownership of salvage, to utilise salvage agents merely as collection & storage services, with the salvage sale proceeds being returned (net of the salvage agent fees). It is difficult to assess what proportion of contracts are operated under

this arrangement as opposed to the previous % agreement (this is where salvage agents purchase salvage from insurers under a pre-agreed % of pre-accident value).

- Are you aware that most motor salvage in the UK is now sold *via* internet auction? The three main auction sites are <http://www.copart.co.uk/>, <http://www.salvagemarket.co.uk/>, <http://www.hbc.co.uk/>. However, other significant players include Raw2K <http://www.raw2k.co.uk/> and E-salvage <http://www.esalvage.co.uk/eSalvage/>
- With such large volumes of salvage passing through relatively few auction sites, and with the processes being automated & IT driven, it maybe possible to relatively accurately estimate salvage values, and of course, to provide transparency on sales values. As such it should also be possible to substantiate sales values.
- The value obtained for salvage at auction is often subject to a range of additional fees, depending upon operator, typically in the region of 5-7%+VAT of final auction price but with a minimum fee of (for example) £35-50+VAT
- In recent years, there has been a dramatic consolidation of salvage agents, driven by a new entrant into the UK market. As a result the dominant operator is probably four times the size of the next largest operator. As such, care needs to be taken that any changes to the current system do not disadvantage the smaller operators or inadvertently lead to further consolidation. For example, any changes that result in the movement of salvage between salvage operators after claim settlement have the potential to lead to significant financial loss to smaller salvage agents or increased recovery & storage costs.
- Many insurers are currently suspected to be actively manipulating salvage categories so as to maximize their financial returns. In practice, this is thought to be accomplished in a variety of ways, but often by reducing repair costs e.g. artificially discounting parts, paint, or labour costs, or even by failing to complete estimates. There also appear to be a number of other widespread 'questionable' practices associated with maximising salvage revenue, such as non-adoption of the ABI COP, failure to notify MIAFTR (leading to 'unrecorded salvage') and even 'decategorisation' of salvage repaired outside of the approved insurer network. This suggests that insurance industry malpractice may actually be much more widespread in this area than previously thought

However, having considered your stated proposals, it would currently seem to us that **Remedy 1E(b) would be the preferred option for our industry.**

Finally, in considering the complexity of the situation and the potential difficulties in ensuring what you propose is actually workable, effective & transparent, we wonder if you have considered a much more basic, alternative approach? For example, if each insurer dealt with their 'own' vehicles ('knock for knock')? We understand that this might have been a problem at one time, with the high numbers of TPFT policies, but we understand that Comprehensive policies dominate the marketplace nowadays.

We hope that the above is useful. But if we can assist further, or would like to meet with us, please do not hesitate to get in touch.