

ZURICH INSURANCE PLC (UK BRANCH)

RESPONSE TO THE COMPETITION COMMISSION'S PROVISIONAL FINDINGS IN RELATION TO PRIVATE MOTOR INSURANCE

1. INTRODUCTION AND SUMMARY

1.1 Zurich Insurance plc (UK branch) (*Zurich*) welcomes the opportunity to respond to the provisional findings (*PFs*) published by the Competition Commission (*CC*) in relation to its market investigation into private motor insurance.

1.2 As it has explained to the CC in previous submissions, Zurich has long considered that there are structural features of the market which inhibit the best outcomes for consumers, and that a CC market investigation may be the most effective mechanisms for addressing those features. It is in this light that Zurich welcomes significant parts of the PFs and encourages the CC to put in place robust remedies to address the adverse effects identified. We address each theory of harm below.

2. THEORY OF HARM 1

2.3 Zurich considers that the CC's findings in relation to Theory of Harm 1 are the most significant in terms of the detriment to which they give rise. Zurich agrees with the CC that the separation of cost liability and cost control gives rise, at a market-wide level, to a dislocation of incentives leading to an increase in costs. This effect is particularly significant in relation to the provision of replacement vehicles but can also be seen in relation to repairs and write-offs.

2.4 Given that Zurich broadly agrees with the CC, we do not propose to discuss this theory of harm further; however, it urges the CC to take effective action to remedy the issues identified, and draws the CC's attention to its comments on Theory of Harm 1 in its response to the Notice of Provisional Remedies.

3. THEORY OF HARM 2

3.5 Zurich notes the discussion of consumer outcomes set out in the PFs' discussion of Theory of Harm 2. Zurich reiterates¹ that it has in place an audit system which it considers is well targeted at ensuring that the quality of repairs for claims controlled by Zurich is high.

4. THEORY OF HARM 4

No claims discount scale disclosure

4.6 The analysis set out in the Provisional Findings misunderstands both the nature of consumer behaviour and the role of the no claims discount.

¹ See further paragraph 9.1 of Zurich's response to the CC's Working Papers.

4.7 First, consumers are, rightly, most concerned by the overall premium they will have to pay. A larger no claims discount will be unappealing to a consumer if a higher base premium means that they would pay more overall. It is hard to understand the suggestion in the PFs that the non-disclosure of the scale means that it is “difficult for consumers to identify the best-value offers in the market”². On the contrary, it is easy for them to do so on the basis of the actual premium quotation provided.

4.8 Second, this is positive for competition: it means that insurers compete on the factor (overall price) that is most significant, rather than seeking to compete on one visible factor at the expense of the many other (largely non-visible) factors that go into the calculation.

4.9 Third, disclosure of the no claims discount scale is more likely to confuse than elucidate. The information in question, and how it is structured, varies between insurers, and it will be difficult for consumers to make meaningful comparisons. This will be particularly true for brokers as each insurer will have its own scale.

4.10 Fourth, these concerns apply equally in the context of the purchase of no claims discount protection. This will not be altered, or improved in any meaningful way, by disclosure of the scale. We note that the PFs consider that this concern is “plausible”³, but do not go on to explain why disclosure would therefore be meaningful.

4.11 For completeness, with regard to the terms of no claims discount protection, Zurich is supportive of ensuring consumer understanding of the difference between no claims discount and no claims discount protection⁴.

Add-on product terms disclosure

4.12 Zurich is supportive of ensuring all appropriate disclosure to customers of the terms of the insurance products they purchase (and assess in their purchase decisions). Zurich aims to ensure that the descriptions provided on its own website conform to this standard.

4.13 The PFs note that “the descriptions of add-ons provided by the ten motor insurers in our sample on their websites avoid the use of complex language or terminology and, on the whole, provide a comprehensible, high-level overview of the key features of each add-on”⁵. Zurich welcomes this acknowledgement, and the acknowledgement that the industry has (with one identified exception) moved away from an “opt-out” approach to add-on products⁶.

² Paragraph 61 of the PFs.

³ See paragraph 8.38 of the PFs.

⁴ See paragraph 8.33(b) of the PFs.

⁵ Paragraph 8.29 of the PFs.

⁶ See paragraph 8.46 of the PFs.

4.14 Nonetheless, the CC expresses concerns that the degree of detail varies between providers⁷. This is probably unsurprising (as the PFs themselves acknowledge⁸), given the differences in the products and firms' own understanding of their customers. In general, we believe that each insurer will (and should) have its own view on what key aspects need to be communicated to its particular customers, based on its own research into customer behaviour and consistent with its regulatory obligations to those customers⁹.

5. THEORY OF HARM 5

5.15 Zurich believes that both "wide" and "narrow" MFN clauses in the context discussed by the CC are restrictive of competition and that there are no good reasons to justify either type of clause. We believe that both contribute to an adverse effect on competition and poorer outcomes for consumers.

"Wide" MFN clauses

5.16 Zurich agrees that "wide" MFN clauses give rise to an adverse effect on competition for the reasons set out in the PFs¹⁰, and that none of the reasons adduced to justify them are persuasive.

"Narrow" MFN clauses

5.17 Zurich also considers that "narrow" MFN clauses give rise to an adverse effect on competition. It does not find the reasons set out in the PFs to justify them persuasive.

5.18 First, Zurich agrees with the CC that a "narrow" MFN is clearly restrictive and tends to hinder innovation by insurers on their own website or other channels¹¹. The CC finds that the effect will be substantial only for a small number of insurers (those with significant direct sales), but this does not remove the point that it may generate an adverse effect on competition, particularly given that some players within this category are likely to be important market participants.

5.19 Second, with regard to the justifications adduced for "narrow" MFNs:

- (a) it is not our experience that without the "reassurance" of a "narrow" MFN "consumers would not use PCWs"¹². This is contradicted by the wide range of reasons why consumers use PCWs – for example, for their high level of convenience and accessibility. The evidence cited by the CC – that the Italian Competition Authority had found that PCWs had not grown in Italy because

⁷ See paragraph 8.29 of the PFs.

⁸ Ibid.

⁹ These regulatory obligations include, in particular, the "treating customers fairly" obligation under Principle 6 of the FCA's Principles for Business.

¹⁰ See in particular, paragraph 9.38 *et seq* of the PFs.

¹¹ See paragraph 9.53 and paragraph 9.66 of the PFs.

¹² Paragraph 9.70 of the PFs.

(among other reasons) “there were no mechanisms to ensure that the premiums quoted by PCWs were the same as the premiums quoted by each insurer”¹³ – is, at best, of uncertain relevance to the UK. In particular, as the CC is aware, PCWs are an established part of the market landscape in the UK; and

- (b) it is not persuasive that a narrow MFN prevents insurers free-riding from the advertisement provided by the PCW. One might as meaningfully say that PCWs free-ride on the investment of insurers and brokers over time to develop brands, the presence of which on the PCW enhances the credibility of the PCW itself. The CC also correctly finds that other less restrictive mechanisms could have a similar effect to that sought via the “narrow” MFN¹⁴.

6. CONCLUSION

6.20 Zurich continues to welcome the CC’s work to secure better outcomes for customers in the UK private motor insurance market. As the CC is aware, Zurich and several other market participants welcomed the market investigation as a means of addressing some hitherto intractable problems which have negatively affected consumer outcomes, notwithstanding the acknowledged low levels of market concentration and high levels of switching¹⁵.

6.21 Zurich welcomes in particular the conclusions set out in the PFs in relation to Theory of Harm 1. Addressing the issues identified in relation to this Theory of Harm appears particularly likely to improve outcomes for consumers¹⁶.

6.22 Zurich would be happy to assist the CC further at any time in relation to the issues discussed in this response.

¹³ Paragraph 9.74 of the PFs.

¹⁴ Paragraph 9.77 and Appendix 9.3.

¹⁵ Paragraph 40 of the PFs.

¹⁶ See further Zurich’s response to the Notice of Provisional Remedies.