

COMPETITION COMMISSION

PRIVATE MOTOR INSURANCE MARKET INVESTIGATION

Notes of a hearing with Repairers and Salvage companies

held at

Victoria House, Bloomsbury Place, London WC1A 2EB

on

Thursday, 27th February 2014

PRESENT:

FOR THE COMPETITION COMMISSION:

Professor Alasdair Smith Chairman

Mr Roger Finbow Member

Mr Robin Aaronson Member

Mr Steve Oram Member

Mr Anthony Stern Member

Ms Erika Lewis Inquiry Director

Mr Peter Baker Inquiry Co-ordinator

Mr Graeme Reynolds Director of Remedies and Business Advice

Mr Dipesh Shah Business Adviser

Mr Philip Dixon Business Adviser

Mr Katy Cox Business Adviser

Ms Julie Bon Economics Director

Mr Peter Wantoch Economic Adviser

Mr Tony Curzon-Price Economic Adviser

Mr James Jamieson Economic Adviser

Mr Enrico Alemani Economic Adviser

Mr Adriano Basso Economic Adviser

Mr Simon Jones Legal Director

Ms Charlotta Blomberg Legal Adviser

Mr Pietro Menis Legal Adviser

FOR COPART:

Mr Nigel Paget Chief Executive Officer, Europe

Mr Nick Farrell Account Director

Ms Kareen Cranston Solicitor

FOR NAB:

Mr Tony Lowe RMIF Group Board Member

Mr Chris Oliver Non Executive Chair of NAB

Mr Frank Harvey Head of NAB

For NATIONAL SALVAGE

Mr David Graham Network Director

Mr Walter Jones Head of Sales

For VBRA:

Mr Malcolm Tagg	VBRA Director General
Mr Joe Godfrey	VBRA Director
Mr Mike Adlem	VBRA Director

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7th Floor, 61 Southwark Street, London, SE1 OHL
Tel: 020 7269 0370

(at 2.07 p.m.)

PROF SMITH: Okay, if we're ready to go, let me start off first of all by saying to some of you, welcome back, and to some of you, welcome to the Competition Commission. We're very grateful to you all for taking the time to come in and see us here today. I want to start with introductions, then I'll say a few preliminary remarks, and then we'll get down to business. I'm Alasdair Smith; I'm a deputy chair of a Competition Commission, and I'm chair of the inquiry into - the private motor insurance investigation. Let's start with the introductions of the CC side, if I may.

MR DIXON: Philip Dixon, Financial and Business Adviser.

MR SHAH: Dipesh Shah, Financial and Business Adviser.

MR MENIS: Pietro Menis, Legal Adviser.

MR BASSO: Adriano Basso, economist.

MR FINBOW: Roger Finbow. I'm one of the members on the Panel.

MS LEWIS: Erika Lewis. I'm the Inquiry Director.

MR ORAM: Steve Oram, Panel member.

MR AARONSON: Robin Aaronson, Panel member.

MR CURZON-PRICE: Terry Curzon-Price, economist.

MR REYNOLDS: Graham Reynolds. I'm Director of Remedies and Business Analysis.

MR ALEMANI: Enrico Alemani, economist.

MR WANTOCH: Peter Wantoch, economist.

PARTICIPANT: [Inaudible], legal researcher.

MR JONES: My name's Simon Jones; I'm a Legal Director

1 MR TAGG: I shall probably forget most of those, so I apologise in
2 advance.

3 PROF SMITH: All the names will appear in the transcript, and I should
4 add that one member of the inquiry group, Anthony Stern, is
5 not able to be here today for health reasons. He sends his
6 apologies, but assures you he will be reading the transcript
7 carefully and with great interest. Can we have introductions
8 on your side?

9 MR GRAHAM: My name's David Graham. I'm the Network Director for
10 National Salvage Group.

11 MR FARRELL: Good afternoon. Nick Farrell, Account Director with
12 COPART UK.

13 MR PAGET: Good afternoon. I'm Nigel Paget; I'm the Chief Executive
14 of COPART in Europe.

15 MR GODFREY: Joe Godfrey. I'm from the VBRA, Vehicle Builders and
16 Repairers Association.

17 MR TAGG: I'm Malcolm Tagg, Director General of the VBRA.

18 MR OLIVER: Good afternoon again. I'm Chris Oliver. I'm a body
19 repairer, and I'm a Board member of the National Association
20 of Bodyshops.

21 MR LOWE: Good afternoon. Tony Lowe, also a body repairer and a
22 member of the Board of Directors of the RMI, which is the
23 [Inaudible] holding.

24 MR HARVEY: Frank Harvey, National Association of Bodyshops.

25 MR ADLEM: Good Afternoon. Mike Adlem, from the VBRA.

26 MS CRANSTON: Kareen Cranston, from COPART.

27 PROF SMITH: Actually, if the - well, no, it's fine. Let's not move

1 people around now. Let me say a few things by way of
2 introduction. First of all, as you're aware, today's meeting
3 is structured as a joint meeting, and we've been mindful of
4 this in preparing the questions that we're opening up for
5 discussion, but I have to remind you that it's primarily your
6 responsibility to make sure that you don't stray into areas of
7 discussions that would be inappropriate to have in the same
8 room as people with whom you have competitive or other
9 commercial relationships. If there are pieces of commercial
10 information or sensitive views that you wish to communicate to
11 us following the discussion today, then please do that in
12 writing, and we will treat it in the usual way that we treat
13 sensitive information.

14 I'm not going to go through our rules and proceedings for
15 today, because you've been sent information, but let me just
16 draw your attention to the fact that we are taking a transcript
17 of this hearing. So, first of all, it'd be helpful for the
18 purpose of taking an accurate transcript if everyone could aim
19 to speak as clearly as possible. It's helpful in a room this
20 size, anyway. We'll send you a copy of the transcript, I hope,
21 within about a week, and we'd be grateful if you'd check it
22 and correct any obvious errors - errors of transcription or
23 minor slips in anything you might have said. If, on reading
24 the transcript, you see things that need to be changed in
25 substance or need to be added to, it's best to do that in a
26 separate communication rather than trying to modify the
27 transcript.

1 We usually publish summaries of our hearings on our website,
2 but because this and the other hearings we're conducting this
3 week are all multi-party hearings, we've decided that the most
4 appropriate way to publish a record of what goes on in these
5 hearings is simply to publish the transcript on our website.
6 So when you receive the transcript, would you please check it,
7 and make sure there isn't inadvertently anything that's
8 commercially or otherwise sensitive in the transcript that
9 needs to be redacted before it's published? I have to remind
10 you that it's a criminal offence under Section 117 of the
11 Enterprise Act 2002 knowingly or recklessly to provide false
12 or misleading information to the Commission at any time,
13 including at this hearing.

14 So what we're going to do today is that Steve Oram and I will
15 go through most of the questions that we've prepared in advance,
16 but the other members of the Panel and members of the staff
17 team may well want to chip in with supplementary questions as
18 the discussion proceeds. On each question, we'll probably ask
19 one of you to take the lead in responding, and if others of
20 you agree with what's been said you might - don't feel you have
21 to take up time by spending a lot of time agreeing with what's
22 just been said, but clearly, if you have additional things to
23 add - and especially if there are things that you disagree with
24 with what's been said - then do please come into the discussion.
25 The more the discussion is free-flowing, the more useful it's
26 going to be for us.

27 I think the only other thing I want to say before we start is

1 just to remind you where we are in our inquiry. We've published
2 our provisional findings. We've published our initial
3 proposals on remedies. We've had written responses to the
4 original findings and to the remedies notice. We're now giving
5 further consideration to the remedies proposals, and the
6 hearings we're having this week are part of that further
7 consideration. We hope, early in the summer - May or June -
8 to publish a further working paper on remedies, giving our
9 developed thought on remedies, and then we will be publishing
10 our final report in September - or, I suppose, I should say
11 'by September', but that probably doesn't mean in September.
12 So I appreciate that at various points along the way, the
13 timescale for response to our work has sometimes been a bit
14 constrained, but I hope that as we are now in - you know, for
15 the remaining whatever it is, seven or eight months of our
16 work, there will be plenty of opportunity for people who want
17 to make further contributions to the development of our
18 thinking to make these contributions.

19 So, let's get underway. I'm going to start off by inviting
20 you to make any general remarks that you want to make about
21 our investigation so far. We'd be particularly interested in
22 whether you think we're missing some important issues that we
23 should be giving more attention to, or if you think that the
24 focus of our investigation is right; if we're spending time
25 doing things that we shouldn't be doing, or you think we're
26 getting things wrong. So we're open to any general remarks
27 about the progress of the investigation so far. I'd like you

1 to keep your introductory remarks to a limit of five minutes,
2 so that we have - we keep most of the time for question and
3 answer and discussion. I think it'd also be helpful, since
4 you're quite a diverse group of parties today, if in introducing
5 your remarks you said just a sentence or two at the very
6 beginning about what your organisation is, although perhaps the
7 National Association of Bodyshops doesn't require much more
8 than listing its title for us to know what it is.

9 MR OLIVER: Not sure whether that's good or bad.

10 PROF SMITH: Shall we start with you?

11 MR LOWE: Absolutely, if you like. Thank you, Mr Chairman. Yes,
12 contained within our opening statement, which you've already
13 been served with, are where we feel the deficiencies lie. And
14 without wishing to repeat those, specifically, we would like
15 to highlight - and it's absolutely the salvage sector of the
16 business is here today - we'd like to - we do feel there are
17 several things upon two policy holders, in respect of
18 consumers, in respect of the handling of salvage. We feel that
19 there's a whole black economy market operating within the
20 salvage market. We feel that that particular sector of the
21 business is also rife with money laundering, and all other
22 aspects of not the correct behaviour. I'm not saying that the
23 sellers or retailers of these represented in the room today
24 would be actually responsible or involved in that. What we're
25 saying here is the wider picture that we have major concerns
26 over illegal salvage. We have sent you several notes about
27 safety and quality of vehicles that are being put back on the

1 roads, and we just find it a little bit perplexing that while
2 we're talking about the risk of harm, we know that the actual
3 reference terms are around cost. But, you know, we seem to
4 have hit on the total loss situation, and unfortunately we
5 don't feel that this is being addressed in any way, shape or
6 form. We would like to place that on record, Mr Chairman.

7 PROF SMITH: Okay. Thank you. VBRA?

8 MR TAGG: Okay, yeah. Vehicle Builders and Repairers Association.

9 Our membership splits into two sectors. One is involved with
10 commercial vehicle body repair and hence nothing to do with
11 this, and the other is the repair of accident-damaged vehicles,
12 which is where it fits with this. I would just stress that
13 when we first appeared here, and in various documents that
14 we've provided to you, that we contend that it's not only a
15 monetary issue that's at stake here. Service and choice are
16 equally important so far as the end customer, the motorist, is
17 concerned, and we reiterate that now.

18 A customer, at the point that they actually have an accident,
19 is in a very unfamiliar situation, which impinges on the
20 remedies that you've mentioned in terms of information to be
21 provided. We do feel very much that information provided to
22 the policy-holder at the point of him purchasing a policy of
23 insurance, and at the point of him notifying a claim, needs to
24 be clear. We think it also should be that tort law is the
25 default position, and that those involved in the claims process
26 generally know a lot more about the policy-holder's potential
27 legal position than he does himself, and therefore the

1 information that's provided needs to be concise and
2 particularly informative. But, equally, we understand that you
3 can tell somebody as much as you feel is necessary; you can't
4 actually make them absorb what you tell them, so it is the
5 customer's responsibility as well.

6 With regard to replacement vehicles, which forms part of your
7 agenda today, I believe, we firmly believe that controlling the
8 cost rather than determining who provides replacement vehicles
9 is the most important aspect. One of the responses that you
10 have had from an individual, from an Yvonne Bailey, summarises
11 in large part the bit about cost not being the only element,
12 but one of the potential remedies is that the third party -
13 that the at-fault insurer - should hold responsibility for
14 dealing with the repair, dealing with the replacement vehicle.
15 And she particularly makes the point, which we agree with, that
16 she wouldn't want to find herself in a position where she is
17 compelled to deal with somebody who is an at-fault insurer who
18 holds no allegiance to her and who really ought to have the
19 best interests of their customer at heart, and not her as the
20 injured party.

21 There's various mentions of the possibility of standardised
22 repair costs, which, as an organisation, we don't think is
23 realistic. Whilst the times to repair vehicles might
24 realistically become standardised, and to some extent already
25 are, we're very much of the opinion that there is no standard
26 repair, and we would therefore not like the idea of thinking
27 that, you know, replacing a wing is exactly this amount of

1 time, because it might be difficult; might be a particular
2 vehicle that makes it more difficult, for example. So there's
3 a lot of non-standard elements. We're also concerned that in
4 the ABI response, which touches on that, they do suggest that
5 there are a number of remedies whereby a standardised time or
6 cost might be derived, which comes across as an advert for the
7 insurer-owned Thatcham and escribe product. Already, many
8 repairers regard insurers as an essential in the equation
9 because that's where they derive much of their work from, but
10 they also regard them as a bit of a bully, and therefore
11 wouldn't necessarily take kindly to being told that an
12 insurance-owned product might be part of the solution.

13 And, finally, just turning to repair quality issues - which,
14 again, come up in your agenda later on - we haven't looked
15 individually at the MSXI report, but we've read the response
16 that NAB and ABI have given to you, which are fairly similar,
17 and we pretty much concur with their views. There also seems
18 to be a suggestion that PAS 125[?], as you mentioned in your
19 remedies, is a quality system or a quality standard, and as an
20 organisation we don't view that as such. We regard it as a
21 process which can encourage good outcomes, but it is only a
22 process; it doesn't have a measured quality outcome. I think
23 that's all I need to say at the moment.

24 PROF SMITH: Thank you very much. COPART?

25 MR PAGET: Thank you. COPART is a NASDAQ-listed, four and a half
26 billion dollar market capitalised business that's the largest
27 vehicle remarketer in the world, so what I'd like to do is

1 explain a little bit of our background here in the UK, because
2 I think the Commission will find that helpful, and we're pleased
3 to be able to assist you today.

4 We auction vehicles on behalf of insurance companies on four separate
5 continents, and deal with buyers throughout the world. The
6 vast majority are written off; they're total loss vehicles, and
7 they're of interest to specialist buyers.

8 We came to the UK in 2007. The salvage market at that time
9 comprised a relatively small group of trade buyers. They bought
10 write-offs directly from insurers at a pre-determined rate that
11 was set as a percentage of the pre-accident value of the
12 vehicle. They bought them for as little as they possibly could,
13 and they sold them for as much as they could. That market rate
14 was set, essentially, by the buyers. They pretty much knew
15 what each buyer would pay for a vehicle, and therefore the
16 insurer's value in a salvage vehicle was set within a narrow
17 range of what the market was prepared to pay. These were
18 purchase contracts; they could last for up to three years, and
19 they were priced in a way to minimise risk for the salvage
20 company, because the insurer simply could change the
21 underwriting approach; the market could change, so the market
22 value for salvage was pretty set.

23 It was, as a consequence of that, artificially depressed. The
24 consequence of that

25 is an adverse effect on claims costs when that happens. Clearly,
26 decisions could be wrongly made, and there wasn't really at
27 that time an alternative to that commercial model. There were

1 no online auctions to speak of, and COPART believes that apart
2 from one insurance company we are aware of, everybody utilised
3 that kind of purchase contract commercial model. As we've seen
4 you state yourselves, lower salvage values are bad for claims
5 costs. They can cause adverse claims costs. What we found
6 was a familiar picture to us, in fact. It was something we'd
7 seen in the United States some 10 years before, before the
8 advent of the Internet, before vehicles were considered to be
9 of value themselves and a notional value was used to determine
10 what would happen during an insurance claim.

11 Our model was to change the whole approach. The seller of the
12 vehicle - that is, an insurance company, a claims management
13 company, or others - takes ownership of the vehicle during an
14 insurance claim. What we want them to be able to do is access
15 the widest possible group of legitimate, registered, specialist
16 buyers directly. We act as an agent; we help them to do that.
17 Our operating model drives the highest possible value at an
18 auction for that vehicle. It realises its true market value,
19 not the notional trade value. The auction is an online auction.
20 It reaches an international buyer base, and because it's live,
21 it replicates what would be an on-site auction, something
22 you'll be familiar with. But it's anonymous, so it prevents
23 any collusion, which is common at physical auctions, so it's a
24 very different proposition. An auction, as you'll realise, is
25 a very pure marketplace. It's the most efficient market of
26 all for selling something, and the most effective, efficient,
27 widest auction makes sure the vehicle's true market value is

1 established and achieved.

2 Auctions were, at that time in 2007 - and still are today -
3 used by salvage traders to sell the vehicle that they bought
4 under a purchase contract. Our model eliminates their trading
5 margin and replaces it with a service fee, and over 90% of the
6 vehicles we sell today are actually sold on the basis that the
7 seller - an insurance company or other - receives value for
8 the vehicle that is related to the value at auction. There's
9 no significant difference in time taken between the time that
10 we pay whoever sells our vehicle and what would happen under a
11 purchase contract, which still do exist in the insurance market
12 today, and our prime intent here and elsewhere is to add value
13 to the seller of the vehicle. And yet we can do so by minimising
14 processing cost and claims cost.

15 Sellers now approach dealing with total loss differently. They
16 make different decisions; they're better-informed decisions,
17 and when the economics need to be taken into account, they're
18 also able to facilitate a reduction in the total time to handle
19 a claim. So, whilst they might have settled with the insured,
20 it takes a lot longer - as you'll know - to conclude a claim.
21 They're incentivised, because they don't want the vehicle to
22 depreciate or degrade in its value, just to conclude that claim
23 more quickly. They deal better with cherished plate transfers,
24 vehicles with a finance arrangement on them, and therefore that
25 time reduction - we've seen those times almost halve - sees
26 payments made more quickly as well, so the whole flow of cash
27 is better.

1 We've also seen other benefits. We introduced new service
2 standards. We collect vehicles pretty much the next day from
3 bodyshops, releasing space for them so they can get on with
4 their business, and we reduce the storage costs associated with
5 that. We take them into free storage. That helps with claims
6 costs, too. What we've been able to do, we believe, is
7 stimulate a shift in the mindset and change the way in which
8 insurers looks at the salvage. What that's done through a more
9 attractive commercial model is help them benefit from improved
10 salvage values. It's clearly changed the ratio of total loss,
11 to repair.

12 So, turning to the remedies, for us the remedies - we see it
13 like this. Remedy 1EA has a deterrent value: it enables the
14 at-fault insurer to take control. Anything that deters
15 somebody from doing something that would be inappropriate, for
16 us, is a good thing. We see that as a valuable remedy, but we
17 are seeing some insurers suggest some obstacles. We believe
18 they're surmountable. We believe the insurance industry can
19 find a systemised and effective way to deal with such a remedy.
20 We do, though, agree with those insurers who think that remedy
21 1EB is more difficult, and could be damaging to the salvage
22 industry. We don't believe that actually making fees - service
23 fees and such matters - transparent is going to have a positive
24 effect. We think it would diminish competition in our industry,
25 and ultimately reduce the value of salvage. It'd have a
26 negative impact on claims costs. Only yesterday, the ABI
27 published some figures to say that around 13.6% of vehicles

1 were subject to insurance claims in the last year. Of those
2 claims, around 13%, again, lead to total loss, but only about
3 one-third are total loss where there's no fault - sorry, there's
4 no fault on behalf of the driver of the written-off vehicle.
5 We're therefore talking about 1.7% or so of all vehicles with
6 one third of these involved in a subrogated total loss claim
7 or 0.6% of the total vehicle pool.

8 What we would say is the potential gain, therefore, to the
9 consumer is pence on the motor insurance premium, but the
10 potential damage if the salvage values are in any way diminished
11 through remedies would be far more significant. We would urge
12 you to be very careful in considering the remedies you finally
13 propose in respect of the value of salvage. Thank you.

14 PROF SMITH: Thank you. Mr Graham?

15 MR GRAHAM: I represent the salvage groups that COPART have just
16 referred to, that have been in existence since the 1980s, where
17 we have agreed salvage contracts on fixed-rate percentage terms
18 with insurers. I'd like to think that those were negotiated
19 returns, and were certainly not dictated by the salvage agent
20 to the insurance company. The group is made up of about 40
21 ATF salvage yards. We contract with insurers on a fixed-rate
22 basis, or on an auction basis. We can do - we can auction
23 salvage. The difference between us and our competitors is that
24 we do not auction Category B vehicles. We specifically only
25 auction repairable salvage.
26 Salvage contracts provide lots more benefits to an insurer than
27 simply a salvage return. We offer free collection, free

1 recovery and storage charges, free re-delivery charges, and we
2 pay salvage charges on behalf of the insurer to obtain release
3 of the salvage. So a salvage contract is not simply about the
4 salvage return. We don't believe that the Remedy A is
5 practical. We would not be looking to release salvage to
6 another salvage contractor having done all the work that we
7 were contracted to do with our insurer. We believe that Remedy
8 B is the option. We're quite happy to be transparent about
9 the salvage returns that we pay to insurance companies.

10 PROF SMITH: Good. Thank you. I'm going to park the salvage issue
11 for a bit, because I want to ask some questions about other
12 things, but you've both provided us with an excellent
13 introduction to the discussion we want to have on salvage. But
14 can I start off with what, in our provisional findings, we
15 called theory of harm one - the separation of responsibility
16 for cost and for payment. In particular, because of who's
17 represented at this hearing, I want to focus on the aspect of
18 theory of harm one concerned with repair costs, and in
19 particular the remedy 1D, which we suggested measures to
20 control non-fault repair costs. So, first, I'd like to ask -
21 and maybe I can direct this question to NAB first - do motor
22 repairers typically know, when they're doing a repair, whether
23 that repair has been done on an at-fault or a not-at-fault
24 basis?

25 MR LOWE: Generally, I'd answer yes, they would normally know, because
26 it very often gives the circumstances of the accident on the
27 notification to the repairer, along with an indication of the

1 area of damage, which is essential for the repairer to know in
2 order to estimate accurately. So, yes, they would normally
3 know.

4 PROF SMITH: And would you normally be expected to - by the insurer
5 to handle an at-fault repair differently from a not-at-fault
6 repair?

7 MR LOWE: That depends on the individual contract with that particular
8 insurer. Each contract varies. There are some insurers that
9 actually will refer a non-fault claim to a claims management
10 company - CMC, as you refer to them - which will involve a
11 different model of costing than the normal at-fault would be.
12 So that may be - it would be certainly most likely to be more
13 costly, because the labour would be more enhanced, and then
14 that would be possibly rebated back to the claims management
15 company. The claims management company may then require a
16 credit note, or may take a reduction in the invoice value, or
17 a reduction in payment that they pay to the repairer.

18 MR OLIVER: Just for clarification, Chairman: commercial terms aside,
19 if I understood the question correctly, the handling of the
20 process - commercial terms aside - is there any material,
21 significant difference between fault and non-fault? We'd
22 probably both agree there is not. Is that the premise of your
23 question, Chairman?

24 PROF SMITH: Well, that was part of the question, yes. Well, it's
25 certainly helpful to have the distinction made, so that - the
26 handling of the repair job would not be different?

27 MR LOWE: No.

1 PROF SMITH: But the commercial terms would be different, and if I
2 understood you right -

3 MR LOWE: They could be, depending on the contract.

4 PROF SMITH: They could be different. So a repair handled by a claims
5 management company, you said, might give you a higher labour
6 rate, but might then take a discount on the overall bill.

7 MR LOWE: Absolutely.

8 PROF SMITH: Anyone else want to comment on this?

9 MR TAGG: Can I just - one of my colleagues might want to comment on
10 this moreso. It's all very good to suggest that the non-fault
11 repair costs need to be controlled, but of course the at-fault
12 ones - the own damage claims - are already artificially
13 controlled by the insurer saying, 'This is what we will pay.'
14 And it could be argued that the non-fault repair market is a
15 more liberal market, because it's a better indicator of market
16 rate for repair, than the non-fault one. Is that right?

17 MR GODFREY: Yeah. I would say that it seems that the - it's implied
18 that the separation of costs between fault and non-fault, that
19 the non-fault is higher than the fault, because of being
20 inflated. The truth of the matter would be that the non-faults
21 are a more realistic rate for the job in the first place,
22 whereas the fault claims are so heavily controlled by the
23 at-fault insurer, the fault insurer for their own claims -
24 they've got complete control over the cost of their claims.
25 They're able to keep those costs down artificially low.

26 MR LOWE: Chair, if I could come in on that, just one more time: we
27 note that you highlighted a desire to see those costs being

1 reduced. You find them artificially inflated in respect of
2 party non-faults. Throughout NAB's submission, we would urge
3 you and the economists to come in on this, to assist us with
4 the fact that we have a mixed basket of work coming in through
5 those various repair centres throughout the country. The
6 margin on the model that actually is the not-at-faults may be
7 - or will most likely be - a much wider margin than the
8 at-faults through a contract with a main high street insurer.
9 What we urge you is that, you know, there's got to be a
10 realignment of first party costs before you start bringing the
11 pressure down to reduce the third party non-fault stuff.

12 We need to see an alignment, and I know you're keen to see an
13 alignment, because you're looking at standardising - or looking
14 at the possibilities of standardising - and in order to
15 standardise, you've got to bring the one up, and perhaps the
16 one down would be possibly where we'd like to see it, even
17 though we might want to see the one from the lower going up to
18 the one at the higher. I'm sure we'd all agree that'd be
19 fantastic, but I don't think we're likely to get away with
20 that. But I would like you all to be aware that without that
21 - and we keep putting it in the last line of every submission
22 we put in - we will not have an industry to support the needs
23 of the consumer, unless we see a realignment in both directions:
24 one up, one down.

25 PROF SMITH: Thank you. NAB proposed that repair prices might be set
26 - standardised repair prices might be set by an independent
27 lead body. How practical would it be for such a body to set

1 prices, given the huge variety of repair jobs that come to you?

2 MR LOWE: We view an independent lead body as actually the way forward

3 for the industry as a whole. I'll just give you an overview

4 of where we see it at this moment. The market has been

5 dysfunctional for some time. There's been extremely bad

6 behaviour going on between insurers. It's been 'How can we

7 obtain a commercial advantage over the next insurer?' Total

8 lack of transparency in subrogation; not declaring discounts,

9 sort of rebates that've been applied, and - look, we're very

10 simple people. We come from a very simple background, and

11 insurance companies should really be just claiming what they

12 are actually - what costs they're actually incurring.

13 We see an independent lead body as being able to take over from

14 the CC's investigation. The CC's investigation will come to

15 an end in September, when it will have a requirement to report

16 and then exit. We don't believe that the work will be done

17 within this sector in that time. There are some huge issues

18 to address. We feel that they can only be addressed on a

19 structured way forward. We feel an independent lead body's

20 the only way to do that, and that independent lead body needs

21 to be able to shape the industry as we go forward; to implement

22 the recommendations of the CC, and the desires and directions

23 of the CC.

24 It's a bit bland for us all to say that the behaviour has been

25 wrong within the industry, but I think what we need is a

26 rulebook being drawn up by interested parties who get round

27 the table and say, 'This is the way the industry should operate.'

1 This is the way the insurance sector should operate. It's here
2 to serve the public', and this is a requirement. It's not as
3 if we can opt out of it. We can opt out of having gas or
4 electric in our house. We can't opt out of not having motor
5 insurance if we've got a car, so we owe it to the consumer to
6 make sure that, going forward, that we have a sustainable
7 insurance industry that's going to be able to meet the needs,
8 and the repair industry, and all the other aspects of the
9 insurance.

10 MR OLIVER: Chair, if I could briefly clarify a point that you made
11 - thank you - NAB did say, with some qualification, that
12 standardisation may be possible under certain circumstances.
13 Standardisation by a lead body, where all stakeholders were
14 inputting into that lead body, and - to use a colloquial term
15 - an umpire or referee made those decision would be possible,
16 we agree. That's the standardisation that we want the Panel
17 to focus on.

18 If the CC and the Panel were to recommend standardisation of
19 costs and in particular regard to this particular remedy,
20 saying costs were subrogated at - for argument's sake - £1,000,
21 we believe the effect that would have on the market would be a
22 number of insurers are likely to say to their suppliers, 'Your
23 costs now must not exceed £800.' And that has the potential
24 to impact on consumers. That has serious, serious
25 consequences. We don't believe that is a way to standardise
26 costs, and we were slightly puzzled with that. If we've
27 understood the remedies correctly, that would seem like

1 something that the Competition is trying to get away from,
2 because that would appear to be fixing the price in a similar
3 way to a cartel is. We're sure that's not your intention, but
4 that's the way it could be interpreted, and we would hopefully
5 steer - encourage the Panel to not look at that.

6 Under the auspices of a lead body, where there is some kind of
7 sheriff, where there is some kind of umpire, where there is
8 some kind of adjudicator or watchdog, independent of all of us
9 - let's be clear about that - then we think the remedies that
10 you've suggested are workable. They would take some work, but
11 they are workable, yes.

12 MR LOWE: We're also mindful of the fact that if we had a
13 standardisation, would that then become a fixed price repair?
14 Now, NAB has been particularly verbal in saying that fixed
15 costs repairs are detrimental, and we would hate to have fixed
16 cost repairs that would drive the wrong behaviour. And our
17 members that actually do fixed cost repairs don't like doing
18 them, because they firmly believe it is not the way forward.

19 MR OLIVER: The second area that puzzled us, Chair, is this remedy -
20 if I may very briefly - is worse customer-wise. This seems
21 like an area being driven by insurers. **[CONFIDENTIAL]** It
22 doesn't seem to have any focus on customers, and that's where
23 our members would like to be, and that's the position that we
24 would like the Panel to focus on. Where are the customers in
25 this remedy?

26 PROF SMITH: Let me make a couple of comments, and then come back to
27 you with a further question. The first comment is just on the

1 timing issue of us reporting in September, which you mentioned,
2 Tony. I hope it's some reassurance to you when I say that's
3 not the end of the process as far as we're concerned. If our
4 final report in September finds that there's an adverse effect
5 on competition requiring remedies, then we will continue to be
6 involved in the remedies process. We don't just announce
7 remedies in September and then wash our hands of the process
8 to get on with it.

9 MR LOWE: Thank you for confirming that.

10 PROF SMITH: But on the issue of standardised costs, I just want to
11 be sure that we're talking about the same thing. I think what
12 we envisaged in discussing standardised costs is not fixing a
13 single price for all jobs that people have got to somehow work
14 their way around. Nor is it intended to be price-fixing across
15 the market as a whole. The standardised pricing model which
16 we suggested in our remedy here was intended to be simply a
17 model to determine the prices at which bills get passed from
18 non-fault insurers to fault insurers in the subrogation
19 process. It wouldn't have to affect the negotiation between
20 the fault insurer who's getting the job done and the repairer
21 who's doing the job for them. That business continues the way
22 it's continuing at the moment. It's just that when the bill
23 for the repair gets passed on to the fault insurer, there is a
24 standardised way of deciding how much money has got to flow
25 from one insurer to the other. It wasn't intended to control
26 the prices which the insurers actually pay the repairers. That
27 continues to be their own business.

1 MR OLIVER: So for the purpose of communicating back to our members
2 - thank you for that clarification, Chair - communication back
3 to our members, the cost is the cost, and we have concerns
4 about that, because it's dynamic. It's dynamic across
5 different manufacturers; it's dynamic across different models
6 from different manufacturers; it's dynamic because of the
7 severity of impact, the speed, the type, the nature of the car,
8 etc, etc, ad infinitum. The Panel is not suggesting that that
9 specific, narrow element around the cost of reinstating the
10 damage to the pre-accident condition is standardised; what it's
11 suggesting is once that's done, the process of transporting
12 that cost to where the liability is is standardised.

13 PROF SMITH: That's correct.

14 MR OLIVER: Thank you for that clarification. That was entirely our
15 misunderstanding.

16 MR TAGG: Yeah, I understood the same way. That actually clarifies
17 the point. Thank you.

18 PROF SMITH: Thank you. It doesn't, of course, mean - once you
19 establish a model like that, it might then - one of the things
20 we would need to think about was 'Does it then affect the
21 relationship between insurers and repairers?' One could
22 imagine that insurers would say, 'Well, look, when we pass this
23 bill on, we're only going to get £1,500 from the at-fault
24 insurer, and you guys are telling us it's going to cost £2,000
25 to do the job.'

26 MR OLIVER: Who's going to bear the difference, Chairman?

27 PROF SMITH: Yes.

1 MR OLIVER: That's one of the interdependencies and complexities of
2 this market. It's clearly very pleasing to see the Panel are
3 aware of it. Thank you.

4 PROF SMITH: But just to go back to - the intention behind my first
5 question was - you said, 'Yes, we could operate a standardised
6 cost model.' I asked, 'Is that possible given the' - you know,
7 every accident is different. Every repair job is different.
8 There's a long list of different car models, and an infinitely
9 long list of different accidents.

10 MR OLIVER: A very short response from me, Chair, then I'll pass.
11 I'm sure the other associations - we've discussed this, and
12 with willing parties on all sides acting in good faith, with a
13 tremendous measure of transparency, yes. That characterisation
14 at the moment does not exist to any extent in the market. If
15 that did exist, your remedy is possible.

16 MR TAGG: Yeah, my comment was going to be - and maybe I still
17 misunderstand - that if the standardisation is as I understand
18 you now to have clarified it to us, that doesn't really affect
19 the relationship between the insurer and the repairer, because
20 there is still a cost to repair that car, whatever it may be.
21 And therefore, I don't think the repair sector enters into that
22 discussion, because that's really between one insurer and
23 another rather than directly involving a repairer. Or am I
24 still misunderstanding?

25 PROF SMITH: No, no. That's right. It doesn't - I'm being referred
26 to paragraph 52 of our notice of possible remedies, which says
27 - do you want to read it out, Robin, since you've -

1 MR OLIVER: That's where our misunderstanding took place, Chair.

2 Thank you.

3 MR AARONSON: Yeah, I just thought it might be helpful, if you're
4 making further communication with your members, to look at
5 paragraph 52 of the remedies notice, where it says, 'The repair
6 costs recoverable through subrogated claims would be limited
7 to standardised costs. If the actual repair costs were higher
8 than the standardised costs, then the non-fault insurer would
9 not be able to recover that cost and would incur the costs.
10 Conversely, it would keep the benefit if it was the other way.
11 It is not proposed that the standardised costs would be used
12 for any purpose other than in relation to subrogated claims.'

13 MR LOWE: I can't help but think, perhaps, somebody might start
14 insuring Rolls-Royces at a very, very preferential rate, and
15 would then rely on their £1,900 repair costs to be paid over,
16 so they would cut their costs.

17 [Crosstalk]

18 MR AARONSON: Again, there may be some unclarity about the meaning of
19 the word 'standardised.' Certainly, from my perspective, I
20 didn't read 'standardised' as meaning 'the same for any type
21 of vehicle, size of vehicle.'

22 MR OLIVER: I think, possibly, the misunderstanding - certainly on
23 our part - arose because, in that particular paragraph, you
24 talk about 'actual repair costs.' And you couple that with
25 standardisation. That's where the confusion arose on our part,
26 because you're talking about standardisation and in the same
27 breath - indeed, in the same sentence - under paragraph 52,

1 you're talking about actual repair costs. So we took that to
2 mean the actual repair costs on the [inaudible], with all the
3 variables that we mentioned earlier, would have an element of
4 standardisation. But the Chair seems to have clarified that,
5 although an element of confusion -

6 PROF SMITH: And I think the paragraph that Robin read does include
7 the term 'actual repair costs' and 'standardised repair costs',
8 in order to say they're not the same. So I think Robin is
9 right to draw your attention to that. But, on the second issue,
10 the term 'standardised repair costs' is not intended to mean
11 the same costs for every accident and for every vehicle. And
12 some of the responses we've had to this proposal have said,
13 'Yes, it's perfectly easy.' Others have said it's not so easy,
14 but some people have said it's perfectly easy to produce a
15 standardised cost that's different job by job using a standard
16 cost estimating system like Audatex. So you take an Audatex
17 estimating template for any job and you put some standardised
18 rates into it, and that produces your standardised price. Is
19 that a - some people have said to us that's feasible. Others
20 have found difficulty with that.

21 MR TAGG: I don't find it a particularly easy concept to deal with,
22 because the price that a given repairer needs to charge will
23 depend on all of his various overheads. At the moment, insurers
24 tend to draw a distinction between repairers within the M25,
25 for which they'll pay one rate, and everybody else that's
26 outside the M25, but that takes no account of - a site which
27 strives for particular excellence may have higher costs,

1 because they put more back into the community by having
2 apprentices and therefore, artificially, their costs are
3 higher. I don't see the - I can see every reason why repair
4 times might be standardised, but I can't see any justification
5 for standardising an hourly rate.

6 PROF SMITH: How does a repair shop that has high costs because it
7 has lots of apprentices survive in competition at the moment?

8 MR TAGG: Well, largely, they don't, and that's of detriment to the
9 whole community.

10 MR LOWE: I mean, our concern, Chair, is that the cost of the repair
11 to that vehicle is the cost of repair to that vehicle, and
12 depending on whose fault it is that should be recovered or
13 absorbed by the insurer concerned at that cost. It's - how
14 much it costs to repair is what should be claimed, or taken
15 in-house if it's an at-fault claim. Why do we need to be
16 looking at trying to even things out across standardised
17 templates through something like Audatex? We can't see the
18 logic behind it, to be honest.

19 MR OLIVER: And we're not saying it's easy, Chair. I heard you say
20 it's easy to do; they clarified it'd be feasible. We're saying
21 it's workable with willing parties on all sides and a level of
22 transparency and good will. It's a solution that could be
23 worked if there was some - if that was under the auspices of a
24 legal body where an adjudicator had the final say. There's
25 certainly big differences of opinion - you've seen that - and
26 differences of interpretation.

27 MR TAGG: Yeah. If by 'standardisation' it was that to repair these

1 three cars, one is £15,000, one is £3,000 and one is £7,000,
2 and there is then a fixed add-on that can be charged as an
3 administration fee for recovering that, that's a standard
4 administration fee. But it is the amount of the repair which
5 is actually due back, so I find it very difficult to see how
6 it could actually be standardised, but obviously others think
7 differently.

8 MR OLIVER: Unless you're still missing the point.

9 MR TAGG: Unless we're still missing the point, yeah.

10 MR OLIVER: By definition, that isn't standard, then. That's a
11 variable standard. Sounds like a contradiction in terms.

12 MR GODFREY: The crux of the question was the separation of costs
13 between fault and non-fault. The repair is the repair is the
14 repair. There's no difference between the process and then
15 the actual repair, whether it's fault or non-fault. The
16 difference in cost comes between the people that manage to
17 claim. Now, you hit it on the head at the beginning of your
18 first claim, when you said that accident management companies'
19 primary concern is earning a rent. So there are only around
20 30% of the claims in any given park that are non-fault claims,
21 definite non-fault. So it's those 30% where the costs are
22 going to be higher, because the people that manage them want
23 to earn something out of it, and they do that by various
24 different methods, and those costs end up on the desk of the
25 at-fault insurer.

26 PROF SMITH: I understand that, and let me kick it back to something
27 that Tony said a few minutes ago, where he said, 'Why do we

1 need standardised costs? What we want is that the bill that
2 gets passed forward to the at-fault insurer is the actual cost
3 of doing the repair.'

4 MR LOWE: Total accounts [?]balances

5 PROF SMITH: Well, that's the alternative remedy that we've suggested,
6 that we establish a rule that says the bill gets subrogated at
7 the actual cost of doing the repair. The issue is, is that a
8 rule that can be enforced? How do you ensure that -

9 MR TAGG: It used to happen voluntarily, under the original knock for
10 knock agreement. It's only when certain insurers went down
11 the route of only insuring third party rather than
12 comprehensive for their various underwriting reasons that that
13 model fell apart, so arguably, it used to exist.

14 PROF SMITH: And do you see any problems in making sure - do you see
15 any problems in getting back to that model that you say used
16 to exist?

17 MR LOWE: Yes, Chair, we do. Yes, on the basis that, unfortunately,
18 [CONFIDENTIAL], because - I notice in here you mention pressure
19 on the repairer, which is absolutely correct. [CONFIDENTIAL]
20 So if you recommended to go through with absolute transparency
21 - 'That's what it costs; that's what the bill is; the third
22 party insurer pays that bill because they are at fault, and
23 you can have an admin charge for administering it, because
24 that's fine' - we would see a difficulty with the repairer
25 being held to resist the pressure from its main clients not to
26 have a situation where they're issuing a credit note against
27 that invoice on the back of the invoice. So what we're saying

1 here, again, moves us into the issue of 'Who's going to be the
2 sheriff when you guys have finished your work here?' And,
3 again, it brings us back to the same point where we keep, in
4 our submissions, harping in there - there has to be some form
5 of adjudicator, a sheriff that would actually see these things
6 through and monitor them.

7 PROF SMITH: So, if I understand you right - and, sorry, I don't want
8 this to become a dialogue. Do feel completely free to chip
9 in.

10 MR LOWE: Malcolm knows me.

11 PROF SMITH: But if I can just pursue that: you're suggesting one way
12 of circumventing a rule that says, 'The not-at-fault owner
13 passes forward the bill for the actual repair costs' - and if
14 I understand right what you've said, one way of circumventing
15 that is to get a bill from the repairer that is not the same
16 as the bill that would have been submitted for a job being done
17 for the insurer itself, and some sort of rebate is paid off
18 the back of the bill so the bill doesn't represent - the bill
19 is an overestimate of the actual cost.

20 MR TAGG: Well, it impinges on your later agenda item of referral
21 fees, because that is what it would become by another name.

22 PROF SMITH: Another problem that people have put to us about ensuring
23 that insurance companies put forward bills at their actual cost
24 is that that's quite hard to enforce where insurers have their
25 own repair shops within their own companies, so you've got
26 vertical integration between repairers and insurers. The
27 nominal value of the bill doesn't matter for jobs which are

1 done for the owner, because that's just an internal money
2 transfer, and there's then no standard for saying, 'What is
3 the actual repair cost that you can enforce?' Do you see that
4 as an issue?

5 MR LOWE: We're of the opinion that there has to be a rulebook applied
6 to the conduct, and without that rulebook and terms of reference
7 - we spoke about this earlier on today in conference with some
8 of our members, and it's a situation where we need to see -
9 how did we describe it this morning?

10 MR OLIVER: You're doing very well. Keep going. The Chair's already
11 told you to be quiet once).

12 PROF SMITH: I missed that. Maybe you don't want to repeat it.

13 MR OLIVER: We do. It's clear, Chair. If it worked currently, we'd
14 not be here today. So it doesn't work. Going forward in the
15 current system is not going to continue to work. It's as simple
16 as that. 'How would you police it?', I think, was your
17 question. You would only police it if you had a set of rules.
18 It's no good having a GTA; it's no good having bilaterals; it's
19 no good having voluntary codes.

20 MR LOWE: There has to be a set of rules. There has to be a sheriff
21 in the town, and he has to be empowered.

22 MR OLIVER: And his word has to be law. You'll have to give him a
23 gun, Chair.

24 MR GODFREY: The repairs that are completed - you were mentioning -
25 by the insurer's own in-house, I would suggest that they only
26 repair their at-fault repairs, their own repairs. Anything
27 that comes through that's not their policy-holder's fault, they

1 would send out to the CMC or the AMC and get it done. So it's
2 not on their patch. That's not their point. They don't have
3 to pay for it in the first place and then get it back.

4 PROF SMITH: You're saying they shouldn't be allowed to do this?

5 MR GODFREY: No, I'm saying that's how it works at the present. So
6 they don't have to worry about calculating their costs. You
7 were concerned that, if it's internal and it's just - all it's
8 doing is going backwards and forwards, then that would be
9 difficult to calculate the cost and pass on to the at-fault
10 insurer. What we would say is that there aren't any non-fault
11 jobs going through those internal shops.

12 MR LOWE: We can assure you, Chair, that there are current charging
13 models out there today operating on two different levels for
14 the same insurer: one where they are at fault, and one where
15 they are not at fault. That is happening as we speak.

16 PROF SMITH: Well, we're aware of some of the ways that happens. I'm
17 looking at my colleagues before we leave this and move onto
18 the next topic. Is there anything else that the Panel wants
19 to ask on this? Peter?

20 MR WANTOCH: I just wanted to check one point: you are saying that
21 you actually receive higher prices for a non-fault repair than
22 a fault repair, or - from insurers, as well as -

23 MR LOWE: No, that would probably be from a CMC.

24 MR WANTOCH: From a CMC.

25 MR LOWE: So in the market, there would be a model for a CMC, which
26 will be a much higher labour rate; no discount off parts, or
27 minimal discount off parts. We may even be able to charge for

1 the courtesy vehicle or the price of the vehicle if we're doing
2 them as well, and on the back of that, then, would be a rebate,
3 depending on the model. But it would have to be an attractive
4 proposition to the repairer to actually do that, so one would
5 assume - and I could virtually guarantee the margin would be
6 larger on that than a core business for a major insurer. So
7 that would be an attraction to the repairer.

8 MR WANTOCH: But when you work for insurers, you generally - the terms
9 are generally the same, is that right, between fault and
10 non-fault?

11 MR LOWE: There are exceptions to that at the moment.

12 MR WANTOCH: Exceptions?

13 MR LOWE: There are exceptions, yeah. Our members do report to us
14 that there are certain insurers they are doing work for at the
15 moment that have that two-tier system in place at the moment.

16 MR WANTOCH: Thank you.

17 MR FINBOW: You just mentioned the provision of courtesy cars, and I
18 guess some of your contracts with insurers will require you to
19 supply courtesy cars. When you do that, is that subject to a
20 separate charge, or do you have to absorb that as part of your
21 overheads?

22 MR LOWE: It does depend on the contract. Some insurers actually
23 allow you to charge a nominal amount within the contract. Some
24 will include it in their labour cost. So, yeah - it is factored
25 in. If you asked me if the full cost is factored in, I would
26 say definitely not, because over the years, the repair
27 community has been into a situation where it has charitably

1 given everything away without much resistance to the requests
2 of the insurers to provide this free of charge, or provide that
3 service free of charge. So it is factored in, but ask me if
4 it covers the true cost of those courtesy cars, I would say,
5 no, it doesn't. Any other contract doesn't cover that.

6 MR OLIVER: Slightly clearer, if I may, Chair: just to amplify the
7 point that Tony made, you have to just go back in history.
8 Courtesy cars were introduced in the '80s. They were introduced
9 with the premise that, if you gave our customers a courtesy
10 car, we - in return for doing that, and at cost to us - we
11 would supply you with a significant volume of revenue. That
12 has endured, and that has evolved into free courtesy cars, and
13 as costs have escalated, repairers have borne that cost.

14 MR REYNOLDS: Just one question for Tony and Chris. You talked about
15 the independent lead body, a sheriff in town. Have all your
16 members given thought as to how that body would be funded? Is
17 that something you envisage coming jointly from repairers and
18 insurers? How are you thinking about that?

19 MR LOWE: We've had many debates on that. Many debates on that.

20 MR OLIVER: We've had a number of thoughts. We're happy to give you
21 an outline, or we're happy to write to you separately and give
22 you a much better costing model, and in turn we'll take
23 advice[?] when we take that offline with your colleagues. But
24 we have - there are models in the market currently which work.
25 It would be a cost saving if some of the ideas that we have
26 are embraced - would actually result in reduce costs for
27 insurers.

1 PROF SMITH: Okay, I think we've probably got as far on that one as
2 is useful to get today. I'm sorry if what was intended in our
3 notice of remedies wasn't clear. It's clearly a complicated
4 topic, and difficult to describe in a small number of words,
5 but now that it's clarified that the model that the CC had in
6 mind was one that was intended to standardise only the
7 subrogated bills, not - it isn't a price control on the cost
8 of repairs, just a way of calculating subrogated bills, and
9 also that it wasn't intended to be a single price for every
10 repair job but rather parties, using a standard cost estimating
11 system like Audatex and some standard labour prices and parts
12 prices, produce a standardised bill that would then be the
13 basis for the cost that was passed forward - if that's now
14 clearer and you want to go away and reflect on it, and feed
15 back to us whether you think something like that would work
16 and would be the tool that - or the gun that your sheriff
17 carried on behalf of the independent lead body, or that its
18 bullets were made of chocolate and it wouldn't actually do the
19 job that we want it to do, then just - when you've reflected
20 on it, and get back to us and let us have your views. Given
21 your position - both of your bodies, it's very important for
22 us to have your considered views on whether something like this
23 is feasible or not.

24 MR OLIVER: We're happy to take you up on that invite, Chair. Thank
25 you.

26 PROF SMITH: When I first saw the proposal for the independent lead
27 body, I thought it was the independent lead body, and you were

1 describing the kind of bullets that you wanted the sheriff to
2 have.

3 MR OLIVER: If only.

4 PROF SMITH: Okay, can I move on to - I'm sorry I seem to be leading
5 too much of the questioning, but I'm just doing what I've been
6 told to do, as usual. I want to move on to salvage costs and
7 continue the discussion that you - well, pick up the discussion
8 that both of you, very helpfully, opened up. I couldn't help
9 noticing that your advice on the feasibility of the remedies
10 could not have been more different, in that you, Nigel, said
11 that Remedy A would work perfectly well and Remedy B would not
12 work, and you, David, said - if I remember right - it's the
13 other way around. And it'd be helpful for us, I think, to
14 understand the feasibility of the remedies, to understand what
15 differences lie behind that conflict of advice. And perhaps
16 if I can first of all ask about Remedy A, because I have to
17 say that your response, David, was the one that we've had from
18 - there has been the common response that Remedy A would be
19 quite problematic, primarily because it would mean transferring
20 the ownership of this salvaged vehicle from one insurance
21 company to another, potentially creating delays in settling the
22 claim, and that would create problems. So, Nigel, how would
23 you respond to that concern?

24 MR PAGET: I think, firstly, the way we understood the remedy was
25 that the option would be given to the at-fault insurer at the
26 point at which PAV was settled and liability was understood.
27 We don't actually see why that would delay settling the claim

1 as far as the policy-holder was concerned, because at that
2 point, the claim can be settled. There clearly, then, is a
3 change in what might happen thereafter, and so given no delay
4 to the policy-holder, is there then friction or transactional
5 costs, etc? We have one insurance customer - we have several,
6 in fact - where over 50% of their decisions to total loss a
7 vehicle are made during the first notification of loss. So,
8 immediately, they know it's going to be a total loss. If they
9 can establish liability fairly quickly, they can be in a
10 position to instruct or advise the at-fault insurer very
11 quickly in the process, very early in the process, that they
12 now have the option to take control of the salvage - well before
13 any of the issues that David described about potentially
14 transferring vehicles between salvage agents.

15 So we don't see that in some - quite a large proportion of the
16 cases, any of those potential issues exist. Then we see that,
17 actually, we believe the insurer giving this a little more
18 thought and actually - you know, 'If you had to do this, how
19 would you do it?' I think you'd quite simply, as an insurer,
20 set some rules in place. I know of insurers who are less
21 comfortable about other insurers than they are of some of their
22 other competitors, so they're less trusting, shall we say. So,
23 in that case, with Insurer A, they're going to be more inclined
24 to want to take control of Insurer B's salvage than Insurer
25 C's salvage, so immediately they can set a rule, a protocol,
26 amongst themselves. Then they can look at value, the category,
27 the type. They can actually make determinations very early

1 that set some ground rules, if you like, between insurers, and
2 they themselves will know,- given the option, whether they want
3 to take it up quickly, rather than do some kind of case-by-case
4 analysis. We can see that that could actually happen in a
5 fairly slick and efficient way, provided insurers pass the
6 information in a slick and efficient way between themselves.

7 PROF SMITH: Any further comment on that?

8 MR GRAHAM: Well, my opinion is that insurers are very slick at the
9 moment in moving cars to salvage. That means that the company
10 that I represent - we've collected the vehicle within 24, 48
11 hours. We may have imaged the vehicle. We'll have incurred
12 costs of release fees, for recovery of storage charges. We
13 can sit with those vehicles for a long time before the insurer
14 actually may decide to move it to the at-fault insurer, or the
15 at-fault insurer may decide that they want to take that salvage
16 over. And there is no way we can do all those services for
17 the contract insurer that we have then to simply hand the
18 vehicle over to somebody else. It just wouldn't work.

19 MR PAGET: Just to say, I think release fees are a little bit of a
20 red herring here, because they're costs associated with the
21 claim, so they'll be fees that will have been paid to a recovery
22 agent, a bodyshop, as part of the process. They'll be ones
23 that the at-fault insurer has to incur in any case, so if
24 they've been settled, they can be settled again and they would
25 be re-settled on behalf of insurers today. So I think they're
26 a little bit of a red herring. I think, in terms of delay, as
27 I said in my opening remarks, we all collect vehicles very

1 quickly; it's become an industry standard, but we collect
2 vehicles once we've been told there's a total loss that requires
3 collection. That isn't typically that quickly after the
4 accident itself; in fact, on average, that can be 10, 11, 12,
5 13 or longer days after the accident that the vehicle is
6 declared a total loss, and then the collection takes place, as
7 David says, fairly quickly.

8 PROF SMITH: Can we move to Remedy B? Could you say again, Nigel,
9 what the problems you see in Remedy B are? Because, again,
10 just reporting what many - the response of many parties in the
11 industry to us, particularly the insurance companies, a lot of
12 the major insurers in relation to Remedy B have said, 'Yes,
13 that's no problem. That's pretty much what we do already.'

14 MR PAGET: Yes. Firstly, can I just come back on - I think it's a
15 difference of perspective, or even of understanding. David
16 said that he would be quite happy to share the salvage return
17 with others, as would we. We have no issue with sharing the
18 salvage return, if that's what we're required to do. That's
19 something that happens today on subrogated claims. That's not
20 an issue for us. Attached to that, though, are the net costs.
21 We charge service fees, as do National Salvage Group and other
22 salvage agencies for services provided on behalf of insurers.
23 They're critical to the insurer in delivering value in terms
24 of handling salvage. Clearly, they're not as simple as 'Every
25 fee is a like-for-like fee', and we're very concerned that if
26 you provide a full invoice setting out each of those fees,
27 you'll start a race to the bottom very quickly. And what will

1 happen will be, our ability as an industry to actually charge
2 fair value, fair fees for fair services provided that add value,
3 will diminish.

4 We'll simply stop investing in services that add value if we
5 can't charge the right fee, through sharing the fees widely
6 across the industry - a simple example I'll give you. I have
7 an insurance customer who gives me 40,000 salvaged units a
8 year, and I have an insurance customer who gives me 4,000 units
9 a year. Do you think that has an impact on fees they get
10 charged? Of course it does. What I don't want is 4,000 to
11 end up with 40,000, and then I can't provide a service at all.
12 Ultimately, we'll see our impact, our ability to provide a
13 slick service that reduces claims costs, diminish because we're
14 transparent on everything. Insurers should be providing - as
15 they do today - the net value of salvage achieved. We can
16 facilitate that. Everybody in this room can facilitate that.
17 We do facilitate that today. That can work. A full, set-out
18 set of fees and charges is going to diminish competition in
19 our industry.

20 Secondly, some of the insurers' responses have said that they
21 would like some kind of standard format to this. Today - Nick
22 will know better than I, but I suspect we provide different
23 information and different invoice services or in formats or in
24 processes to pretty much every insurer to fit their processes,
25 their main processes. They're different frequencies, they're
26 different approaches, they're different formats. Some are
27 supplied electronically. Some literally receive one for each

1 single vehicle, and they take their cheque associated with it
2 as well, so a completely different approach. If we standardise,
3 I suspect we're going to incur a lot of cost as an industry.
4 I don't believe the insurer will cover that cost. If they do,
5 somewhere it's got to be absorbed in any case in what they do,
6 so we're just going to take some costs for doing that. I
7 suspect we'll end up having to provide two sets - one that's
8 in standard form, or one that gets used, or one that has exactly
9 the same information on but a different format to fit their
10 internal processes. So I can see us taking extra cost, and I
11 can see a diminishing of the competition in our industry as
12 well.

13 MR LOWE: Chair, can I make a comment on this as well, just - we did
14 look at this on the basis that these guys were here this
15 afternoon, and we had a little concern, whereby our members
16 are going to be instructed to recover a vehicle into their
17 premises under a contract with Insurer A, okay? And under the
18 terms of that contract, the member may be paid for bringing
19 the vehicle in, imaging the vehicle. The engineer then issues
20 it as a total loss. Throughout this process, the insurer's
21 clever enough to have written a contract that doesn't enable
22 the repairer to have any ability to charge any more than a
23 standardised fee for the whole service, with free storage for
24 up to 21 days. I have a problem at the point at which the
25 transfer of title moves to the at-fault insurer to handle the
26 salvage, because at that point, that insurer may not have an
27 agreement with that repair centre. So, at that point, would

1 not costs be incurred? Would the repairer not at that point
2 be able to charge for storing the vehicle for up to - and I
3 think you used 12 days after, deemed as total loss, before it
4 could be moved? Would that not add cost to the claim? Because
5 that repair is not covered by a contract, or necessarily covered
6 by that contract at which the point of ownership transfers over
7 to the other insurer. Just a point that we noticed.

8 MR PAGET: Could I just comment on that? We need to be a little
9 careful that's not a red herring, because we do that today.
10 The vehicle can be recovered to a garage of the policy-holder's
11 choice; may not have a contract with the insurer in any case.
12 Whether that's fault or non-fault, we will be collecting - and
13 do today collect a portion of vehicles in that situation as it
14 is, and they would have the charges, again, attached to them.

15 MR LOWE: So, you know, handing over the salvage recovery to another
16 insurer - it may have a cost implication that you may not have
17 fully considered at this stage. I think transparency and a
18 rulebook is what's needed, to be honest.

19 MR OLIVER: Can I just amplify that point, very briefly, as well? As
20 Tony indicated, we did look at this in some detail, though we
21 recognise it isn't our direct area of expertise, but we do have
22 a vast amount of experience here. I'd like to pick up a couple
23 of points Nigel made in his opening statement, and then a couple
24 of points on the remedy. Nigel made two comments in his opening
25 statement, and the terminology I wrote down was legitimate
26 buyers and registered purchasers. And he was talking about
27 the salvage market and the context of a wide-open auction.

1 That confers a legitimacy on the process which it should not.
2 If you want clarification on that, we're happy to write to you.
3 Our comments from the very beginning have been that CC should
4 take a wider view and a wider aspect approach in relation to
5 salvage. We remain of that view, and we would urge you to take
6 up on that encouragement.

7 In terms of the remedies, whilst we broadly agree with Nigel,
8 we would be hesitant to adopt them in their current form, and
9 urge you to have a cautious approach to them. There are some
10 man-traps in there. You have codes of conduct; you have rules;
11 you have ways of operating at the moment in the industry.
12 Unfortunately, people don't follow them, so you have
13 categorisation of repairs and you have vehicles being
14 undervalued or overvalued, allegedly. That's what's brought
15 the CC spotlight into this area. Unless the CC makes a
16 recommendation - perhaps an enforcement order; you know more
17 about that than we would - and said, for instance, salvage
18 agents need to be licensed and under the terms and conditions
19 of that licence, these needs to be the way they operate, then
20 I think, frankly, you're shouting at windmills. I think we'll
21 be back here in two years' time looking at similar remedies
22 and asking how you can enforce them. The remedies by themselves
23 are probably workable; it's how you enforce them. We're back
24 to Tony's point about the sheriff. If salvage agents were
25 licensed and that was under the auspices of an independent lead
26 body, you would have some mechanisms to monitor the conduct
27 and behaviour of those people that operate in that sector of

1 the industry. We don't currently have that.

2 PROF SMITH: Perhaps, before we finish this off, it might be worth
3 going back to what perhaps should have been the beginning of
4 the discussion. Our interest in what goes on in relation to
5 salvage is not because we're conducting a market investigation
6 into vehicle salvage. We have to focus on the insurance aspects
7 of - we're focusing on - therefore, the aspects of the wider
8 motor market that impinges on insurance, and we simply cannot
9 get diverted into investigating other potentially interesting
10 questions about salvage that don't impinge on insurance per se.
11 The issue which motivated these remedy proposals was evidence
12 that some people provided to us that, in the process of
13 subrogation of claims, salvage costs were not being reported
14 correctly. Can I just check whether you all think that is an
15 issue that is worth addressing, or, on the other hand, an issue
16 that may exist but perhaps is not a sufficiently big issue for
17 us to spend our time this afternoon discussing it?

18 MR OLIVER: It's the characterisation of a dysfunctional market,
19 Chair, and the CC has already recognised that we have a
20 dysfunctional market. And elements of that dysfunctionality
21 are impacting on the cost of private motor insurance. This is
22 one element. I think, if you ignore it, you're in danger of
23 not having -

24 PROF SMITH: So you're saying there is a significant issue here
25 involving subrogated salvage claims being passed forward at
26 prices that are not accurate?

27 MR OLIVER: That would be our position, and that's the recommendation

1 of our members, yes.

2 MR TAGG: Can I - slightly as an aside from that, your investigation
3 is into the private motor insurance market. Are you taking
4 into account that any remedies that you come up with might
5 apply across the whole of the vehicle insurance market? Because
6 it would be very awkward if it applied one set of rules to
7 private car insurance and another set to commercial, when at
8 the moment the framework in which it operates is all the same.

9 PROF SMITH: That's something we're very much alive to. That's been
10 put to us particularly in relation to the replacement vehicle
11 remedies, that we have to have in mind all of the people who
12 drive on the roads when considering remedies, yes. Do either
13 of you have -

14 MR PAGET: Just to answer both of those questions, I think it's
15 undoubtedly the case - because you've found it in every area
16 that you've looked at in this investigation - that, in some
17 cases, people are not passing full information on. Nobody
18 would deny that that's the case anywhere in the industry. As
19 to who and how and what, I think that it's not our place to
20 one, know, or two, comment. I do think there's an issue of
21 proportionality, though, which is why I made the comments I
22 did in my opening remarks about just what proportion of claims
23 we're looking at here. Then you've got to consider, even if
24 there was full, 100% inaccuracy in what was being passed, you're
25 still talking about a very, very small proportion of what you
26 believe is at risk here to the consumer, and we would just say,
27 whilst that probably does exist - it may well exist - we've no

1 evidence ourselves because we're not that part of the process.
2 We would just ask you to just take care about the
3 proportionality here, against the potential adverse
4 consequences in what you do for motor insurers.

5 PROF SMITH: David, any comments?

6 MR GRAHAM: I would just like to say that, just going back to Remedy
7 A, we - and I say I've got a small share of the market.
8 Obviously, the larger salvage contractors are going to have
9 more at-fault insurers, you know. We're going to lose volume
10 on that basis on Remedy A.

11 MR FARRELL: Sorry, could I - I wasn't able to add when Nigel gave
12 me an opening earlier, so apologies for that. I think I'd just
13 like to go back to something that Chris said; I think he just
14 might have been confusing salvage buyers with salvage agents.
15 We're salvage agents, and I'm sure David would agree, we're
16 all licensed regularly with the Environment Agency and
17 everything, so I think you may have meant buyers of salvage,
18 rather than agents. But I think, because of the model we
19 operate, I think there might have been some confusion, because
20 we moved to a fee model. We don't actually pay any referral
21 fees to any insurance companies we deal with to get salvage.
22 I just thought it was important to say that. There is a smaller
23 side of the industry with claims management, etc, where we
24 would have to to secure that business. That represents about
25 2% of what we do salvage-wise, so it's quite a small area.

26 PROF SMITH: Well, that takes us straight onto the last issue I wanted
27 to ask in the area of salvage, which was, 'How prevalent are

1 referral fees?' And you're saying only the 2% - the off-salvage
2 claims are dealt with by claims management companies.

3 MR FARRELL: Yeah. We certainly do not pay them to our insurance
4 clients in any way, and whether that's some of them that are
5 on a purchase or some of them that are on a fee or a fee related
6 to the sale of the salvage -

7 MR PAGET: In fact, we don't pay them for every claims management
8 company we deal with either. I think it's important that that's
9 understood too. They're very prevalent amongst people who
10 handle small numbers of salvage - independent engineers, for
11 example, assessment companies. They typically look for
12 referral fees, as do some of the claims management companies.

13 PROF SMITH: And what is it that generates the referral? Usually,
14 the impression we have is that referral fees get generated if
15 prices are not well-aligned with costs, so there's money to be
16 made.

17 MR PAGET: Well, in the instances I talked about where there are small
18 numbers of vehicles, you're essentially paying a referral fee
19 for the right to purchase the vehicle, so your assessment as
20 to why they're paid is correct. It's a lower-priced vehicle
21 as a consequence, and they do have an adverse effect on the
22 value of salvage.

23 PROF SMITH: David, I'm expecting you to chip in if -

24 MR GRAHAM: I'm not disagreeing. Historically, referral fees have
25 been paid to claims management companies and to engineers who,
26 perhaps, have one or two pieces of salvage to dispose of and
27 expect a fee.

1 PROF SMITH: Are they problematic? Would it be better if referral
2 fees in this area and in other areas were banned?

3 MR PAGET: The cost is going to find its way into the process somewhere
4 along the line. I think we would still struggle to access from
5 engineers, for example, the salvage, unless we were prepared
6 to do something that reflected the loss of revenue to them.
7 They're relatively small in terms of what we pay,
8 [CONFIDENTIAL] Again, we've seen your figures, but we know
9 what we pay and it's [CONFIDENTIAL].

10 PROF SMITH: I'm looking down the line to see if anyone wants to
11 pursue any issues about salvage. Well, that's all we want to
12 ask about salvage. Thank you very much for giving us quite a
13 lot to think about about the complexities of your sector, and
14 we will need to reflect further on and consider how it impinges
15 on our decisions of different kinds. But I want to move on to
16 the subject of repairs, which we [inaudible], and ask Steve to
17 lead the questions on this.

18 MR ORAM: Yeah, I'll just ask a few questions on Remedy 2A, the theory
19 of harm two, and quality - compulsory repair audits. Firstly,
20 could you explain what mechanisms are repairers currently
21 subject to for monitoring the quality of repairs? And maybe I
22 can fire this one first at the NAB, but I was thinking, if you
23 could reply - when I say what mechanisms you're subject too,
24 if you could split it into three? So firstly, what mechanisms
25 are you subject to by insurers; secondly, what mechanisms
26 you're subject to by CMCs, if it's different; and thirdly, what
27 mechanisms are you subject to by BSI in its role with PAS 125?

1 So taking the first one, insurers.

2 MR LOWE: Okay. It'd be safe to say that insurers and CMCs are
3 virtually, as far as the NAB membership would be concerned,
4 would be treated the same. So there'd be no real
5 differentiation between any of those two sectors of clients.
6 Quality is measured, really, by most of the customers that we
7 serve - the insurers that we serve, and the CMCs - by the level
8 of complaints they receive. So that would be, shall we say -
9 the alarm bell for them would be to monitor the complaints that
10 would be received against the garage and the repairer. Some
11 insurers are very, very good at monitoring complaints, and they
12 will give you your complaints in some considerable detail, so
13 they will - example, it may be once a month with a full list
14 of anybody that had made a complaint against you, and they
15 would give you a reason for that complaint. It may be that
16 the bumper wasn't fitting just the way it did before - so it'll
17 actually be quite well-presented to you.
18 You'd be able to go back on those, and they would probably
19 bring that initial review with one of their engineers, or their
20 relationship managers, as they call them these days. So a
21 relationship manager may come along to talk to you about your
22 average repair cost, because that would obviously feature quite
23 highly with the insurer, cost management. They would then be
24 looking at the complaints, and then the overall engineering of
25 the whole of the claim, so the relationship manager would be
26 monitoring all those things within the process of having you
27 as one of their selective repairers. Okay? So I think you'd

1 soon flag up, which is one of the reasons why we're a little
2 bit, shall we say, amazed that the MSXI report came out, because
3 it doesn't stack up with the statistics that we would recognise.
4 You know, we don't believe that there are 45% of repairs not
5 correctly done, and we'll give you a full reason as to why we
6 don't feel that that was very good.

7 So the insurers are pretty proactive in monitoring the quality,
8 and I can say that that is possibly as a result of intervention
9 by government where they actually ask them to monitor all these
10 different aspects. They take that quite seriously, and do
11 monitor them quite closely.

12 MR FINBOW: Can I just come in there? I'm not quite clear now. You
13 said a moment ago they're quite proactive, but earlier in your
14 response you said that the primary way in which they judge this
15 is by the number of complaints; in other words, they rely on
16 the customer to do the quality control for them. Now, are
17 those two statements consistent with one another? That doesn't
18 sound very proactive, if they're relying on the claimant to -

19 MR LOWE: Oh, sorry. Well, they're proactive in waiting for the
20 repairer, shall I put it that way? So, yeah. They do rely on
21 the customer to make the complaint. Yes, I would agree, yeah.
22 They don't do many post-repair inspections. I think - and we
23 are in agreement as an association, we are in favour of
24 post-repair inspections and a repair regime. The problem with
25 it is we need a set of rules again, and clear parameters to
26 which you actually will determine the quality of the repair.
27 Factored into that, one has to say, are aspects of the

1 aspirations of the policyholders. Factored into that again
2 would be areas of acceptability. Who is going to set the levels
3 of acceptability?

4 I will give you a level of acceptability as an example. A lot
5 of bumpers now come pre-painted from the factory by the
6 manufacturer. Now, it would be normal for that bumper to match
7 to a certain extent. To what extent would be acceptable to
8 the policyholder is a variable, because one policyholder will
9 walk to a bumper and say, 'Actually, that's not a bad batch at
10 all; I'm happy with that', and another policyholder would go
11 and say, 'Well, actually, it doesn't match that 100%, and I'm
12 not prepared to accept that.' What part of that is a valid
13 complaint? So it's a very difficult area, and it does need
14 clearly defined terms of reference to say that that is
15 acceptable or that's not acceptable.

16 Could I just come into BSI, just for a moment?

17 MR ORAM: Before you do, I'd just like to ask: you say that insurers
18 don't do many actual vehicle inspections.

19 MR LOWE: Post-repair inspections?

20 MR ORAM: Yes. Can you say a bit more? When you say 'not many' -
21 like, one a year, or what?

22 MR LOWE: They would probably respond to a customer complaint.

23 MR ORAM: But they don't do ad hoc vehicle inspections at all?

24 MR OLIVER: Let me help. I think you asked three - I'll break it
25 down into three component areas: insurance, CMCs, and BSI. The
26 inspection regime for insurers and CMCs is broadly the same.
27 It's in part reactive; it's in part proactive, to the extent

1 that it's around commercial terms. 'Are you following the
2 commercial terms? Is your price in the right place? Is your
3 average repair in the right place?' In terms of inspecting
4 the quality of the vehicle, that is - I would at best say -
5 secondary. It differs from insurer and CMC to CMC. To what
6 extent one is primary and is one secondary - on the whole, they
7 are secondary. Those inspections of the quality of the repair
8 are secondary, unless a policyholder has given rise to what is
9 termed by the - previously the FSA, an expression of
10 dissatisfaction.

11 MR ORAM: I still haven't got a steer on the kind of scale of these
12 vehicle inspections that they do if there's no customer
13 complaints.

14 MR OLIVER: In a word, limited.

15 MR ORAM: Limited or none?

16 MR OLIVER: Certainly not none.

17 MR LOWE: Limited to none.

18 MR ORAM: So they do do some.

19 MR LOWE: Very close to none.

20 MR OLIVER: And it varies from insurer to insurer.

21 MR ORAM: Okay, I accept that. And before we go onto BSI, have VBRA
22 got anything you want to say or add about the -

23 MR TAGG: I defer to my colleague sitting behind me.

24 MR ADLEM: I'm a repairer, and I don't know of the insurance companies
25 coming and actually inspecting the quality of the repair, and
26 what our guys are actually doing on that job. I would generally
27 say, unless there is a complaint issue, it doesn't happen. I

1 don't think any of us would be averse to inviting people in.
2 We're all quality repairers; we all know how to do the jobs.
3 There's a lot of people out there, unfortunately, who don't
4 follow the rules on how to repair cars properly, the right
5 methodology. We are in the sphere of doing the job properly,
6 and once we've been paid properly, serve the customer properly
7 for the job we're doing. We're quite happy [inaudible] to
8 inspect our methods.

9 MR TAGG: We don't, as an organisation, arrange post-repair
10 inspections. As our area managers are going round doing
11 standards audits for membership, we look at repairs that are
12 in progress, which is actually looking deeper, because once
13 it's got a nice, shiny finish on it you can't necessarily say
14 what was underneath. But, certainly, when we look in the event
15 that complaints come in - and there aren't a huge number of
16 complaints - if we involve an engineer to look in detail at
17 those, depending on the customer's complaint, you're talking
18 about £100 to £300 a vehicle for our inspection, so it's a very
19 expensive process.

20 MR ORAM: Okay. What about BSI in their PAS role?

21 MR OLIVER: That's about the process more than the quality output,
22 but if the process is right, it would encourage and drive a
23 quality output. But there is no qualitative measure in terms
24 of the context of what you're talking about, in terms of
25 inspection either in progress or post-repair. It's around the
26 process - are the right tools being used? Is the methodology
27 the right one? Is there an audit trail to make sure that that

1 can be clearly demonstrated and is transparent? Are the people
2 equipped with the relevant skills? If those three elements
3 are in place and there is a process to manage that, then clearly
4 that will drive a qualitative output, but there is no defined
5 qualitative measure.

6 MR ORAM: Yes. As you said, it's a process, not an outcome measure.

7 But do you believe that if the process is followed, as per PAS
8 125, that it guarantees a quality repair?

9 MR OLIVER: No. Guarantee is a difficult word, and we would not -

10 MR ORAM: So it may do, but it might not.

11 MR OLIVER: It's more likely, but I wouldn't say we could put a
12 guarantee on it.

13 MR ORAM: I understand.

14 MR TAGG: As an illustration of PAS 125, we have a number of members
15 who make a very good living putting right the errors that come
16 out of some PAS 125 bodyshops. Now, that's only hearsay because
17 they're not going to say, 'It's this bodyshop', but certainly
18 there are a number of members who make a very good living doing
19 that.

20 MR LOWE: So a vehicle could be painted black, and the other half of
21 it could be white, and it'd still pass all the quality work.
22 Let's put it that way.

23 MR ORAM: Do you know the proportion of insurer-approved repairers
24 who are PAS 125 accredited?

25 MR LOWE: We wouldn't have that information, no.

26 MR TAGG: We know the total number, which is around -

27 MR LOWE: 1,000.

1 MR TAGG: 1,000.

2 MR ORAM: But you don't know how many are PAS-accredited.

3 MR TAGG: No.

4 MR ORAM: Okay.

5 MR TAGG: And there's two levels of PAS, as well.

6 MR ORAM: So, presumably, you wouldn't know how many of the proportion

7 of total bodyshop repairers - as opposed to insurer-approved -

8 how many total repairers were PAS.

9 MR GODFREY: There's a significant difficulty with that, in that

10 nobody can actually determine how many body repairers there

11 really are.

12 MR OLIVER: We know that there's around 20% of the total number of

13 repairers that do 80% of the work that's directed by insurers,

14 and out of those there's around about 1,000 that are PAS 125

15 out of possibly 4,000, 5,000 in total. But that 5,000 represent

16 the whole sphere. Very small shops, right up to -

17 MR ORAM: Right. A complex sector.

18 MR OLIVER: If that was important to you, we could put some substance

19 to those numbers separately, but we broadly agree with the

20 range of numbers that Gerard's[?] given you. But if that was

21 -

22 MR ORAM: If you could give us an estimate, that'd be helpful, thanks.

23 So taking PAS 125 in summary, is it an accreditation that's

24 worthwhile or respected, or is it derided?

25 MR LOWE: By whom?

26 MR ORAM: By yourselves.

27 MR LOWE: PAS 125 was born out of a veranda -

1 MR TAGG: National Consumer Council, wasn't it?

2 MR LOWE: on the Side of somebody's house one morning, over some
3 bacon rolls, and a desire to bring an industry standard across
4 the whole of the industry - one standard. So, instead of having
5 five or six different standards, we would have one standard
6 that everybody would be able to adhere to and abide by. And
7 it was placed in the direction of BSI as having the credibility.
8 It was designed to be a publically-available standard, PAS,
9 rather than an adopted standard by BSI. There is a move at
10 the moment to bring that PAS 125 into a fully-adopted BSI
11 standard. We have concerns over that, and we don't believe
12 that it is a solution at this stage going forward. As we've
13 said, you can paint half the car black and half the car white
14 and it will still pass a PAS 125 process, so that's our concern.
15 So, no, we don't believe that that is a solution. It could be
16 part of a solution; however, what we would like to say - and I
17 hate coming back to this, but I think it requires further
18 deliberation and consultation across the whole of the industry
19 to move that one forward, and again, we see that sitting within
20 a lead body to take that forward.

21 MR TAGG: As an organisation, we never have been a total supporter
22 of PAS 125, mainly because it was imposed by insurers, again.
23 You must have this before you're welcome to the table to talk
24 about working for them. All it has done, without a doubt, is
25 to bring up the standard of technical training for the
26 technicians over the course of the last few years.

27 MR ORAM: Just going back to an earlier question, because I don't

1 think we covered it - that was the mechanisms that you're
2 subject to by BSI as part of PAS. Just briefly tell me what
3 happens when BSI arrive with their unannounced two a year.

4 MR LOWE: It's unannounced, yeah. Absolutely unannounced, and
5 everybody goes into panic mode), because it is so critical.
6 It's business-critical. If you have a major non-conformance
7 on that particular day, you will have your licence suspended
8 by five p.m. on that day, so you have to be extremely on the
9 ball with this, but it is totally process-driven. They will
10 look at all your documentation. They'll look at all your
11 certification. They will be looking to ensure that all your
12 staff are fully qualified to operate within the sectors of the
13 business of which you have them deployed. They'll be looking
14 to make sure that they are all fully trained, up-to-date
15 certified. They'll be looking at every single certificate for
16 every single piece of equipment you have got to ensure that
17 that is all - it is a very robust, I can assure you, completely
18 robust process, as you would expect with BSI.

19 MR ORAM: So they look at the forms, but they don't look at the cars.

20 MR LOWE: Not at all.

21 MR OLIVER: Not necessarily. Not necessarily true.

22 MR LOWE: They will talk to the operators when you're doing your -

23 MR OLIVER: They will test that the people are competent and
24 qualified, currently competent and qualified; that the
25 development of your people has taken place, and you can
26 demonstrate that. They will look at your equipment and make
27 sure it's calibrated and it's fit for purpose. They will look

1 at the methodology you're using to repair a car and the
2 approach, and they will look at that approach in progress and
3 make sure you are consistently applying it to the vehicle they
4 see in front of them.

5 MR LOWE: But they would not have a final quality of control of that
6 vehicle. They would not look at that vehicle and say,
7 'Actually, that doesn't meet our requirements.'

8 MR TAGG: If you were minded to move in the direction of saying PAS
9 125 should be a requirement for a body repairer, which as an
10 organisation we wouldn't like, I think you need to be very
11 careful to draw the distinction between the kitemarked version
12 of PAS 125 and the generic one.

13 MR OLIVER: We would prefer the CC to talk about a standard, rather
14 than a trademark, which is BSI and kitemark.

15 MR ORAM: Kitemark, yeah.

16 MR OLIVER: We would prefer the industry to talk about a standard
17 that is then audited independently, rather than use the
18 terminology that the industry and, unfortunately, the panel
19 have slipped in by saying the BSI and the PAS and the
20 kitemarking. That's a trademark of a commercial organisation;
21 they may say they're not for profit, but they're a commercial
22 organisation. We would prefer you to talk about an industry
23 standard.

24 MR ORAM: Yes. I must admit, on that, I'm aware of the difference
25 with BSI, kitemark, and independent accreditation, but I don't
26 have a feel of at least two things. One is what proportion of
27 the industry is kitemarked and what proportion are

1 independently accredited, and is there a very big difference
2 in the cost?

3 MR OLIVER: The numbers that Joe gave you earlier - the range of body
4 repairers is between 3,000 to 5,000. 3,000 is probably primary
5 repairers - so the additional body repairers that are doing -
6 car repairers that are doing some body repairs as well. Of
7 those 3,000 to 5,000, 1,000 are kitemark accredited. A very
8 small number are additionally accredited to the
9 publically-available specification packs. Of that 1,000, they
10 are probably doing something like 80% of the insurance and
11 CMC-driven work in this sector at the moment.

12 MR ORAM: So the independent accreditation is pretty small.

13 MR OLIVER: Very small.

14 MR ORAM: That's helpful, thanks.

15 MR OLIVER: We will write to you with some clarification.

16 MR ORAM: To what extent would requiring repairers who undertake
17 insurance repairs to be PAS 125 accredited reduce consumer
18 choice of repair? If we said, 'All insurance repairs have to
19 be PAS 125 accredited', to what extent would it reduce consumer
20 choice of repairer?

21 MR OLIVER: I think the question is, to what extent would repairers
22 as commercial entities embrace that standard? That's the
23 question to ask.

24 MR GODFREY: Can I just clarify that, about the consumer choice? 90%
25 of the time, consumers don't really get a choice in who repairs
26 their vehicle. Their first port of call when they have an
27 accident is to call their insurer, and from that point on, it's

1 more or less taken out of their hands. It's only the very
2 strong consumer that knows his rights and that's got a favourite
3 repairer that has repaired vehicles in the past. They've got
4 the right to choose, but in reality, that right doesn't very
5 often come across. It's certainly not made evident when they
6 call their insurer. They don't tell them that they can choose
7 any repairer to repair their vehicle; they steer them to their
8 preferred repairer, and then the process, more or less, is
9 taken out of their hands.

10 MR ORAM: You'll have seen our Remedy A, which hopes to address that.

11 But just, perhaps, moving on then: who would be the appropriate
12 body, in your view, to monitor repair quality?

13 MR LOWE: It has to be outside any insurance company. It needs to
14 be independent, absolutely, and it doesn't need to be
15 independent engineers. I don't believe that the body actually
16 exists today.

17 MR ORAM: So you wouldn't see an adapted PAS 125 as appropriate?

18 MR LOWE: I think it would have to be debated by all interested
19 parties. All interested parties would have to debate that one
20 out. I think the directive would need to be set, that there's
21 a requirement to deliver this by this date, and then interested
22 parties - our recommendation is, through a lead body, then join
23 together and script it out, write the rules, and this is the
24 way it's going to work.

25 MR OLIVER: One of the constraints you have, Chair, one of the
26 constraints you have here - and you've seen this through
27 evidence with the report you commissioned previously and the

1 anomalies that came out of that report - is there is a massive
2 skills deficit in the industry. You don't have currently
3 qualified people enough - I don't think you have any, but you
4 certainly don't have scale and capacity currently to suggest
5 this could go out to an independent lead body. There is a
6 massive skills deficit. You've seen the anomalies that arose
7 from your report that you commissioned.

8 MR LOWE: We're referring here specifically to the skills of, say,
9 the independent engineering sector, because the independent
10 engineering sector, in our opinion, would be focused on cost
11 control and containment rather than delivering a quality
12 product on behalf of the insurer. So I think there has to be
13 a change of mindset that actually now starts to focus on the
14 consumer and delivering the product to the consumer, rather
15 than having total emphasis on cost control.

16 MR OLIVER: It must be totally independent.

17 MR LOWE: It's got to be independent.

18 MR OLIVER: It must be totally independent. We cannot continue to
19 mark our own homework.

20 MR ORAM: Any comments, or do you agree? You agree? Okay. Putting
21 to one side the difficulty of the skills gap, let's assume for
22 the moment that we've got a body that's got the necessary
23 resources, appropriate resources. In order to be assured that
24 the quality of repairs are being done properly, to the right
25 standard - leaving aside your comment about what standard - to
26 put it in the pre-accident condition, say, do you have a feel
27 for how frequently audits ought to be done in terms of vehicle

1 inspections?

2 MR LOWE: We have this, yes, and we think it should be twice a year.

3 MR OLIVER: We feel a starting point would be biannually, and then

4 on the findings that come out of that, you may want to adjust

5 it. It would be a simple dip test. If you tested a sample of

6 10 and nine passed, then you would probably continue

7 biannually. If you dip-tested a sample of 10 and nine failed,

8 then our suggestion would be you continue to dip test.

9 MR LOWE: Weekly, possibly.

10 MR OLIVER: Probably hourly.

11 MR ORAM: What about sample size? Do you have a view on what sort

12 of sample size ought to be done?

13 MR OLIVER: I think it would depend upon the extent of the output of

14 the facility you were testing. So if the facility you were

15 testing, the repairer you were testing, were producing 100

16 outputs a week, then I think you would want to test a

17 representative sample of that. If they were doing two a week,

18 then I think you would want to test a representative sample,

19 so we would prefer - or certainly encourage CC to make a

20 recommendation around percentages, to make it proportionate.

21 MR ORAM: Right, okay.

22 MR OLIVER: Again, we have given this some serious consideration, and

23 we are happy to amplify our thoughts to you in writing.

24 MR ORAM: Yes, please.

25 MR OLIVER: You're going to be busy. Cancel your holiday.

26 MR ORAM: You've probably answered this on the thing you said earlier

27 about inspections on ongoing work before it's actually

1 completed so that you can see, as opposed to the areas that
2 are hidden. Is there anything you want to add to what you said
3 earlier about the importance of the ongoing?

4 MR TAGG: Well, that was me.

5 MR ORAM: Was that yourselves? Right, sorry.

6 MR TAGG: It is something that we do for members, and have done for
7 years.

8 MR ORAM: Oh, that's right. Yes, forgive me.

9 MR TAGG: And we certainly don't get reports back that there are
10 faults being found, and what we're looking for is such things
11 as 'Have you identified that the metal you're working on is
12 actually the metal you're working on? Does it need any special
13 treatment, rather than just dealing with it in the way that
14 you would with mild steel', for example? And certainly, we're
15 doing that all the time, and it doesn't show a problem. But
16 what we're not auditing - we don't set out to specifically
17 audit in that fashion. We're not looking at vehicles that have
18 been finished unless they happen to be there, waiting to be
19 collected.

20 MR ORAM: I've got no further questions, so thanks very much.

21 MR OLIVER: Could we just add on quality, Chair, just for the record:
22 our members would be delighted to embrace a regime that had
23 its primary output and focus as customer quality, rather than
24 the focus which we have at the moment, which is around cost
25 and business-to-business imperatives. Members are telling us
26 time and time again, they would very much welcome that approach,
27 if that was primary.

1 MR ORAM: Understood.

2 MR TAGG: The problem is the fact that you're looking at, amongst
3 other things - which probably brought this in the first place
4 - the cost of private motor insurance, and a lot of what we've
5 been speaking about has the potential to actually increase it.

6 MR ORAM: That's something, obviously, we'll be considering. I've
7 got no further questions.

8 PROF SMITH: Any more questions along the table? Is there anything
9 that we haven't covered that you had hoped to have the
10 opportunity to say to us before we close?

11 MR OLIVER: You may not wish to, but we did do our homework before
12 this. My lead member's just wandered off. You may not wish
13 to ask us any - for our views on referral fees, but we did prep
14 in advance of your asking us anything on referral fees. If
15 you feel you've adequately covered that, then -

16 PROF SMITH: I think we did want to ask about referral fees in relation
17 to salvage, but referral fees in relation to replacement
18 vehicles - no, we didn't.

19 MR OLIVER: My only comment - and it's a word of caution for you -
20 it's definition of referral fees. You've clearly come across
21 that. We've seen written submissions from you. Definition of
22 referral fees will be difficult, and we feel if it was within
23 the scope of the lead body to define, for the industry to
24 define, and an adjudicator to make a final decision on what
25 was a referral fee - we think that would probably be the most
26 fairest and transparent way forward. If you just ask the
27 industry to decide, we'd never decide, to be frank with you.

1 PROF SMITH: But of course, as Nigel said, it's - banning referral
2 fees is one thing. Stopping Person A who wants to pay a bit
3 of money to Person B in exchange for some sort of service could
4 be quite different.

5 MR OLIVER: In principle, on this side of the principle, we'd be
6 supportive. How you'd make it work in practice - good luck.

7 PROF SMITH: Well, if we're done, I'd like to thank you all very much
8 for participating in this meeting. I'm conscious that the
9 discussion has fallen into three parts and has moved up the
10 table and then back down the table in three rather discrete
11 discussions, but the three discussions have been very
12 interesting to us in helping us develop our understanding of -
13 further understanding of what problems might exist in the areas
14 we've been talking about, and also in developing our
15 understanding of how different kinds of suggested remedies
16 might work. As I said at the beginning, we've still got quite
17 a lot of work ahead of us, and we'd very much welcome any
18 further input that you feel it'd be useful for us to have as
19 our work proceeds, but I think we're done for today, so thank
20 you very much indeed.

21

22

(The hearing concluded at 3.59 p.m.)

23
