

PRIVATE MOTOR INSURANCE MARKET INVESTIGATION

Summary of response hearing with the British Vehicle Salvage Federation and the Motor Vehicle Dismantlers' Association of Great Britain held on 4 March 2014

1. The British Vehicle Salvage Federation (BVSF) said that the way the insurance industry was working with the salvage market today had changed over time, for financial reasons, and for the worse. The insurance companies were now run by actuaries and accountants, who were looking at ways of recouping their claims losses.
2. The BVSF said that since 2002 the number of vehicles categorised¹ as A and B and, to a degree, C had been reducing, while Category D vehicles had been increasing. This was because the insurance companies were manipulating the categories. For instance, they would see Category C and D vehicles as a far more valuable asset, and therefore it was in their interest to try and move vehicles to progressively more valuable categories. This could have an effect on premiums, because more extensively damaged vehicles were being allowed on to the open market and in the absence of any repair check if repaired badly, then that vehicle could become a danger, and raise insurance premiums. If an insurer could put a car that was a Category B into Category C, or Category C into a Category D, then they would recoup a much greater amount of money, and both the BVSF and the Motor Vehicle Dismantlers' Association (MVDA) were concerned that insurers were miscategorising vehicles deliberately. The BVSF and MVDA believed, therefore, that the insurance industry should be held accountable for its methods of categorisation to ensure a level playing field for all the insurance companies and salvage dealers within the country.
3. Categorisation of salvage vehicles was dealt with by a Code of Practice, which at the moment was a gentleman's (voluntary) agreement. The Salvage Code of Practice was produced and supported by a stakeholder group including the Association of British Insurers (ABI). With the Category C and D

¹ Category A meant scrap only (ie with few or no economically salvageable parts and which was of value only for scrap metal), eg total burnouts. Category B meant break for spare parts if economically viable (excluding any residual scrap value). Category C meant repairable total loss vehicles where retail repair costs including VAT exceeded the vehicle's pre-accident value (PAV). Category D meant repairable total loss vehicles where retail repair costs including VAT did not exceed the vehicle's PAV and under normal circumstances these vehicles would be repaired by the insurance industry. Vehicles should not be considered a 'write-off' but a constructive total loss.

vehicles one was actually purchasing a vehicle, but with the Category B one was actually just purchasing the value of the parts on the vehicle (as the insurer had stipulated that the vehicle itself must be destroyed). Category A, the most severely damaged salvage, was basically scrap with no salvageable parts of value. The BVSF and MVDA said that the code of practice on salvage applied only to the insurance companies which adopted it (although this was not a requirement by the ABI as it was a voluntary arrangement). Because of this, a significant proportion of insurance companies (particularly lease and fleet self-insurers) that did not adopt the code generated uncategorised salvage, which led to further concerns about repair standards and consumer protection but also created an 'unlevel' playing field.

4. With respect to the way salvage companies operated in relation to insurers, the BVSF and MVDA noted that there were generally three business models, based on contracts. The first one was where a salvage company paid a set rate for all vehicles based on a matrix, depending on the pre-accident value and the amount of damage and allocated salvage category. The second business model was where the salvage company still paid a percentage based on the matrix, but also had a profit-share arrangement with the insurer. The third business model was where the insurer retained ownership of the vehicle and the salvage company acted as an agent, and just collected, stored and sold the vehicle on its behalf for a fee. The BVSF and MVDA also noted that ownership of the vehicle passed to the salvage company only with respect to the first two models, and competition for salvage contracts with insurers was intense and had been for many years.
5. Regarding the matrix, the BVSF and MVDA believed it would be very easy for an agreement between a salvage company and an insurer to have an artificially low matrix, in order to achieve a very large rebate that could be kept by the insurer in its entirety, and the only way to remove this problem was to outlaw things such as rebates or commissions.
6. The BVSF said that there were different issues (from the insurers) in relation to the way salvage companies worked with the CMCs. It was not aware of the payment of referral fees but there was often a profit-share arrangement where the salvage company would buy the car on the matrix, and then once sold would share the profit.
7. Category D vehicles did not have to have a vehicle identity check carried out on them, which was a significant advantage (to the seller and buyer) in addition to the fact that the repair costs were less (than Category C). This was quite an important point, because any Category A, B or C vehicle that went back on the road had to pass a Vehicle Identity Check (VIC) (a process confirming the true identity of the vehicle and that the vehicle has been

involved in an insurance write-off). The VIC also involved a substantial cost and devalued the repaired vehicle due to marking of the registration document. This was viewed as a significant factor in arriving at the salvage category.

8. The BVSF and MVDA believed that Category A and B vehicles should always be scrapped. However, provided that a vehicle had been repaired and submitted for a VIC, DVLA would issue a vehicle registration document on that vehicle, which the BVSF and MVDA thought was wrong.
9. Regarding the write-off process, the BVSF and MVDA said that from a salvage agent perspective, it did not matter whether it was a fault or a non-fault claim. The insurance company would make the decision, at the First Notification of Loss, whether the car was going to be repaired, or whether it was going to be written off. If written off, the salvage company was then instructed to collect it and hold it in storage until the insurer cleared it for sale, and that clearance period could be anything up to two or three years but was generally about 45 days (this was the time taken for the insurer to manage the claims process). The insurance company would then authorise the vehicle for disposal, and at that point the salvage company would sell it.
10. The MVDA noted that many salvage companies were also dismantlers.
11. Damage assessments used to be carried out by highly-trained engineers physically inspecting the vehicle, but now most were done by using images. There was a deep concern as to whether or not there would be a high error rate when using images.
12. With regard to remedies, the BVSF and the MVDA agreed with the proposal that non-fault insurers should use the actual salvage proceeds that they received from the salvage companies in their dealings with the at-fault insurer.