



Competition and Markets Authority Investigation into the Motor Insurance Industry – Modified draft order – consultation

Response of the Association of British Insurers

1. The ABI

1.1. The ABI is the voice of insurance, representing the general insurance, investment and long term savings industry. It was formed in 1985 to represent the whole of the industry and today has over 300 members accounting for some 90% of premiums in the UK.

1.2. The ABI's role is to:

- be the voice of the UK insurance industry, leading debate and speaking up for insurers;
- represent the UK insurance industry to government, regulators and policy makers in the UK, EU and internationally, driving effective public policy regulation;
- advocate high standards of customer service within the industry and provide useful information to the public about insurance;
- promote the benefits of insurance to the government, regulators, policy makers and the public.

2. Executive Summary

2.1. Whilst the ABI welcomes the decision of the Competition and Markets Authority (CMA) to extend the deadline for the provision of the first Annual PMI Compliance Statement, we must emphasise that 1 August 2016 remains a challenging deadline for certain PMI Providers (particularly the broker channel) and there remains continued risk that a proportion of firms will not be fully compliant within this timeframe. We remain of the view that a deadline of 1 March 2017 would be more appropriate, as suggested in our response to the CMA's Draft Order Consultation dated 7 January 2015 and for the reasons set out therein.

2.2. We note that there remains very limited circumstances in which PMI Providers may use alternative wording for the NCB Protection Statement; namely (and only), where

use of the prescribed wording in Schedule 2 of the Modified Draft Order would be prohibited by a regulatory rule or enactment. We have previously highlighted the risks that by providing consumers with rigid, generic wording, they are less likely to take in the information presented to them and that the prescribed manner in which the NCB Information must be presented may not best fit the customer's journey or enhance their experience.

- 2.3. If the CMA is not minded to allow greater flexibility in the wording at this stage, then further research should be commissioned to test the effectiveness of the prescribed NCB Information for consumers and the CMA should be willing to revisit the wording if it is deemed not to be working effectively.
- 2.4. Insurers remain of the view that the Financial Conduct Authority (FCA) should have regulatory oversight of the proposed NCB protection remedy due to the level of regulation already undertaken by the FCA in relation to NCBs
- 2.5. The ABI is supportive of the MFN proposals and implementation timetable as set out in the Modified Draft Order.

3. Implementation Deadline for the NCB provisions

- 3.1. Although we welcome the decision to extend the implementation deadline for the provision of the first Annual PMI Compliance Statement we must emphasise that 1 August 2016 remains a challenging deadline for certain PMI Providers (particularly the broker channel) and there is a continued risk that a proportion of firms will not be fully compliant within this timeframe. A deadline of 1 March 2017 would be more appropriate and would in turn mitigate the risk that certain PMI Providers may be forced to withdraw from the market if they are not able to comply within the timeframe, to the detriment of consumers.

4. Flexibility of PMI Protection Statement Wording and NCB Protection Information/Presentation of additional information

- 4.1. We note that the CMA has not made any concessions regarding the flexibility of the wording of the NCB Protection statements, despite repeated reasoned requests by the ABI and other stakeholders for greater flexibility.
- 4.2. The ABI remains of the view that by allowing PMI Providers flexibility, the consumer will be provided with a better experience as the wording will be tailored to the specific product being sold. In addition, allowing PMI Providers the flexibility to deliver tailored wording in line with the customer's journey is more aligned with the FCA's outcomes-based approach to regulation.
- 4.3. Some of the wording in the Modified Draft Order remains unclear in its meaning. In particular, Schedule 1a, paragraph 1(a), states "*the price of your insurance policy may increase following an accident even if you were not at fault.*" This seems to imply that without an accident (whether fault or non-fault) the cost of premiums would remain the same. This is misleading as insurance policy premiums may increase in any event.
- 4.4. In addition, the requirement to provide a customer-specific Step-back Formula is likely to add significant cost and complexity to the process, whilst adding no material benefit for the consumer. We consider that a flat, non-dynamic table would provide consumers with sufficient information.

4.5. Further, as the Modified Draft Order does not allow greater flexibility in the way the NCB Information is presented and displayed (the only time a link is permitted is when PMI Insurers display the step-back information), there remains a risk that the limited options of presenting the information may have a negative impact on the customer journey.

4.6. Accordingly, we request clarification within the order/explanatory note on whether the order allows insurers to display the NCB Protection Statement (as required by Schedule 1a of the order) and the NCB Protection Information (as required by Schedule 2 of the order) in a way which is in keeping with their current customer journey.

5. Compliance and Monitoring of NCBs

5.1. As we have stated in our previous responses, it would be more appropriate for the FCA to oversee the compliance for the Annual PMI Compliance Statement. We agree that the CMA should oversee the reporting regarding MFN clauses.

6. Areas for Clarification

6.1. The ABI identified a number of areas or clarification in our initial response which do not appear to have been addressed. For ease of reference, we have set them out below.

6.2. Under the definition of 'PMI Product' the CMA further define 'privately owned motor cars' as vehicles which are subject to the Road Traffic Act (RTA) but then specifically exclude Motorcycles, which are also within scope of the RTA. Could the CMA confirm that 'privately owned motor cars' should be any privately owned vehicle which is subject to the RTA specifically excluding motorcycles?

6.3. Paragraph 1.2 of the order states that the order will apply to "the supply or acquisition of PMI and related goods and services in the UK." There is no mention elsewhere of "related goods and services", only "PMI" and therefore the ABI believes that this may lead to confusion. The CMA is required to clarify this point.

- 6.4. We have previously requested clarification regarding the NCB Protection Statement (as required by Schedule 1a of the order) and the NCB Protection Information (as required by Schedule 2 of the order) and when this needs to be supplied to the consumer. The ABI notes that the CMA have provided further clarification in this area, however it is still not clear as to whether a pop-up window or 'link' can be interchanged. It now appears that the CMA would prefer the NCB Protection Statement and the NCB Protection Information to be provided via a 'link' which the customer must click to view. Clarification is required as to whether a pop-up window (opened by the customer) would comply with the order.
- 6.5. In addition to the above paragraph, we request clarification regarding the process when a product is being sold orally. The wording contained within the explanatory note at paragraph 24 states *"When the PMI Product is being purchased orally (e.g. by telesales or in a branch), the NCB Protection Offer is made by the PMI Provider asking whether the prospective purchaser wishes to include NCB Protection in the PMI Product for an additional premium. The NCB Protection Statement and NCB Protection Information must be given clearly and prominently at the time NCB Protection Offer is made."* It should be made clear within the order/explanatory note at which point in the customer journey the NCB Protection Information should be provided, and whether it needs to be at the same point for both oral and online sales.
- 6.6. We also note that there is no clarification regarding how the order and explanatory note will apply in a situation whereby a PMI Broker has created its own terms and conditions which are underwritten by one or more PMI Insurer.
- 6.7. The information which PMI Providers are required to send to the insured person are all based on the assumption that the insured person is only insuring one vehicle. Some insurers offer multi car policies and therefore the information currently required to be sent regarding NCB may not be sufficient.
- 6.8. An example of the possible wording which could be used for a multi-car policy is as follows:
- "You have purchased NCD protection on the following vehicles. This has increased your premium as shown: "

Vehicle	Premium for NCB Protection	Number of NCB Years
XX14YYY	£23.12	5
AA14BBB	£15.99	6
RR14SSS	£25.44	8

6.9. The CMA should clarify whether further research has been commissioned to test the effectiveness of the prescribed NCB Information for consumers. For example, the CMA's final report referenced GfK research; specifically, that consumers did not understand the meaning of 'typical' NCB when challenged - CMA subsequently changed to 'average' NCB, but it is still not clear if GfK have revisited this.

6.10. Given the added cost presented by providing this table in a consumer specific format, we feel it is important that there is a clear case for providing it in this way instead of a table showing generic information.

Association of British Insurers
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