

BGL Group Limited

Private Motor Insurance Market Investigation: Response to Modified Draft Order

- 1 This document sets out BGL Group Limited's (**BGL's**) response to the CMA's Modified Draft Order (the **Order**) published for consultation on 27 February 2015. BGL notes that the CMA is also intending to modify the Explanatory Notes accompanying the Order, but that it is not proposing to publish its revisions until the Order is finalised.
- 2 BGL agrees with the CMA's proposal to extend the deadline for the implementation of Article 3 of the Order. BGL would nevertheless urge the CMA to take further time to revisit other aspects of the Order and Explanatory Notes (if necessary by extending its deadline for finalising the Order) for the reasons set out in BGL's last CMA response.
- 3 If not addressed, these aspects (some of which appear drafted so as to accommodate direct insurers only) will either render part of the Order impracticable for certain PMI Providers or, at best, result in confusion and inconsistent application. As it stands, the Order is disjointed. The remedy will, as a result, be neither effective nor proportionate.
- 4 Without prejudice to BGL's previous comments in respect of the Order (which should be dealt with in the drafting of the Order itself), this submission suggests, where practicable, potential amendments to the Explanatory Notes to address some of the concerns already identified by BGL (specifically as regards NCD).
- 5 Comments as regards No Claims Bonus/Discount (**NCD**) and NCD Protection:
 - 5.1 In the Order, 'NCB Discount' and 'Average NCB Discount' (as calculated under paragraph 4 of Schedule 2 of the Order) are defined by reference to 'PMI Insurer' data.

PMI Providers, whether PMI Insurers or PMI Brokers, are obliged to provide this data to customers. This obligation is straightforward in circumstances where the relevant PMI brand is always underwritten by the same PMI Insurer at inception and renewal (either where the policy is offered directly by the PMI Insurer or via a PMI Broker).

However, some PMI Brokers have their own PMI brands (eg 'Budget') or market PMI insurance under a third party's brand (eg 'Post Office') which may be underwritten by one of a selected panel of PMI Insurers, and where the identity of the PMI Insurer underwriting the relevant PMI brand will often vary.

For example, a PMI Insurer may withdraw from the panel, decline to underwrite a particular customer at the outset, decline an existing customer at renewal or present a price which is less competitive by reference to another panel member PMI Insurer. The customer will still select the relevant brand, but the identity of the underlying PMI Insurer will vary.

It follows that, in this panel scenario, to ensure that the customer is presented with the most representative 'NCB Discount' and 'Average NCB Discount' information, the Explanatory Notes should confirm that the PMI Broker is entitled to supply blended PMI Insurer data based on data from all PMI Insurers underwriting the relevant brand.

A suggested clarification to the relevant paragraphs of the Explanatory Notes is set out in **Item 1** of the table in the attached Annex.

- 5.2 A similar issue arises in respect of the definition of 'Implied Price of NCB Protection'.

For example, a PMI Broker will seek to provide its customer with the most competitive quote for brand 'X' insurance (both with and without NCDP protection) which is underwritten by one of a panel of PMI Insurers. PMI Insurer 'A' may provide the most competitive quote for the core product with NCDP, but it may not provide the most competitive quote without NCDP (indeed, it may not provide any quote for a policy without NCDP); PMI Insurer 'B' may provide the most competitive quote for brand X without NCDP protection.

To avoid customer confusion, it is important that information relevant to the 'brand' is given, rather than to one particular PMI Insurer (as information on this PMI insurer only may distort the implied price of NCDP for the brand).

For example, the difference between the cost of A's policy under brand X with and without NCDP may be £10; however, B (on the same panel) may be willing to offer cover without NCDP for brand X at £50 less than A's price without NCDP; hence, the implied price of NCDP should be £60, rather than £10.

Further, A may be willing to provide cover with NCDP at a particular price, but will only provide it without NCDP subject to other adjustments to the package, for example, a higher compulsory excess fee (eg £150 compulsory excess with NCDP; £100 compulsory excess without NCDP).

In these scenarios, comparisons are complex and may be confusing, particularly where, in the case of a panel scenario, the brand is at different times and for different customers underwritten by various different PMI Insurers applying varying levels of 'compulsory excess' depending on whether the customer opts for NCDP or not.

While amendments to the Order would be preferable, BGL has suggested certain clarifications to the relevant paragraph of the Explanatory Notes (please see item 2 of the table in the attached Annex).

- 5.3 The Step-back formula is, for the purposes of the Order, calculated in accordance with '*a formula applied by a PMI Insurer*'. However, if the relevant brand (and any terms concerning how the number of no claims years that will be offered on renewal is reduced as a result of a number of claims) is controlled by a PMI Broker, then the step-back formula should be defined by reference to the PMI Broker's (as opposed to the PMI Insurer's) terms. A new paragraph should be inserted in the Explanatory Notes to this effect.
- 5.4 Table 2 of the Explanatory Notes, which prescribes the structure/content of each PMI Provider's illustration of their Step-back Formula, is too rigid and risks misleading customers as to their entitlement to a certain level of NCDP. As drafted, the table only works (and then only partly) if it is personalised to the specific situation of the customer.
- 5.5 For example, Table 2 currently focuses on certain numbers of claims over the 'next 12 months'. This does not take account of any historic claims made by the customer at the point of sale/renewal that might eat into their allowance; nor does it address longer reference periods set out by certain PMI Providers. Providing customers with Table 2, in its current form, could mislead them as regards their entitlement to NCDP based on historic and forward-looking claims potentially affecting them.
- 5.6 ✂ While each PMI Provider could choose to provide this by way of additional information, the separate provision of any generic table mandated by the Explanatory Notes (with potentially conflicting information) would create confusion.

Provided each PMI Provider complies with the overarching requirements of the Order as regards the illustration of their Step-back Formula, the Explanatory Notes should permit some flexibility in terms of the precise format of the table. BGL has suggested certain clarifications to the relevant paragraph of the Explanatory Notes as set out in item 3 of the table in the attached Annex.

- 5.7 With respect to the statements (warnings) reproduced in Schedules 1a, 1b and 2 of the Order, BGL considers that these statements are inaccurate and will mislead or confuse customers. BGL would urge the CMA to offer further clarification in the Explanatory Notes along the lines of BGL's comments (and suggested drafting) in its previous response.
- 6 BGL would be pleased to respond to any further questions the CMA might have in respect of any of BGL's suggested adjustments to the Explanatory Notes or Order.

Annex – Suggested amendments to Explanatory Notes

1	<p>Paragraph 4 of Schedule 2 describes how the Average NCB Discount is to be calculated. <u>Generally speaking, it is the discount to the price of the PMI Product that the PMI Insurer typically makes to customers (directly or indirectly via a PMI Broker) holding the same number of NCB Years as the prospective customer holds. However, where a PMI brand (which might be managed by a PMI Broker) is underwritten by more than one PMI Insurer, the relevant information may be calculated and supplied by the PMI Broker based on aggregated data from those PMI Insurers in respect of the relevant brand.</u></p> <p><u>#The Average NCB Discount</u> may be calculated in the following two ways, <u>at the PMI Insurer's option</u>:</p> <p>(a) calculated across all PMI Products supplied by the PMI Insurer (including those supplied directly or indirectly via a PMI Broker); or</p> <p>(b) calculated across a smaller <u>or more representative</u> subset of PMI Products, for instance, across different types of PMI Product; across different brands; across different sales channels; or some other sub-set.</p> <p>It is calculated as the average (mean) percentage of all historic actual NCB Discounts awarded in the relevant calculation period by the PMI Insurer for all the PMI Products or the relevant sub-set of PMI Products for that level of NCB Years.</p> <p>40. For the avoidance of doubt, the Average NCB Discount is <u>typically</u> calculated based on the amount the PMI Insurer has discounted the PMI Products or relevant subset of PMI Products. The Average NCB Discount is not always based on the final price paid for the PMI Product since, in the case of sales made through a PMI Broker, the PMI Insurer may not know the final price paid for the PMI Product. The intention of the Report is for the Average NCB Discount to be an illustrative historical figure, rather than the actual NCB Discount the consumer will individually receive. It is not based on notional figures held on the PMI Insurer's internal systems, nor on a sample or basket of products <u>(except where a PMI brand is underwritten by more than one PMI Insurer and thus aggregated data relevant to that PMI brand provided by the PMI Broker managing it may be more illustrative)</u>. As identified in paragraph 17 above the Order does not prevent PMI Providers from providing further information, such as the actual NCB Discount a prospective purchaser will receive.</p> <p>41. In order to comply with Schedule 2, the <u>PMI Insurer must calculate by 1 February each year the</u> Average NCB Discount (in relation to <u>all its</u> the relevant PMI Products or <u>to a</u> subset of PMI Products for any given number of NCB Years) <u>that it and PMI Brokers who sell its products, will use</u> to make NCB Protection Offers from 1 February of that year to 31 January of the following</p>
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	<p>year <u>must be calculated by 1 February each year</u>. In practice, this will allow PMI Insurers one month to calculate the average NCB Discount applicable from the end of the previous calendar year. For NCB Protection Offers made between [1 September] 2015 and 1 February 2016, PMI Insurers must use the Average NCB discount calculated on the basis of PMI Products supplied in the calendar year 2014 <u>must be used</u>.</p> <p>42. Pursuant to paragraph 5 of Schedule 2, if the <u>relevant PMI Insurer to which the</u> PMI Product relates<u>is</u> supplied PMI Products in the previous calculation period for less than six months, the Average NCB Discount must be a reasonable estimate of the NCB Discount to be applied to that PMI Product, for the applicable number of NCB Years. For instance, if a new PMI Insurer entered the market on or after 1 July 2015, when determining the Average NCB Discount that it must include in the NCB Protection Information for offers made as from 1 February 2016, the PMI Insurer must use a reasonable estimate of the average NCB Discount which it will apply from 1 February 2016 to 31 January 2017 to that number of NCB Years PMI Products. If the PMI Insurer supplied PMI Products for more than six months in the previous calculation period the Average NCB Discount must be determined from the actual PMI Products supplied during that period.</p>
2	<p>32. Paragraph 1 of Schedule 2 sets out the NCB Protection Information that must be provided in writing pursuant to Articles 3.1 and 3.3, which included the Implied Price of NCB Protection <u>in respect of the relevant PMI brand</u> and two generic tables that will need to be prepared by PMI Providers<u>Insurers</u> and provided to prospective purchasers of the PMI Product and, <u>if relevant</u>, to PMI Brokers supplying, arranging or administering the PMI Product (together with the other terms and conditions relating to the PMI Product).</p>
3	<p>36. Paragraph 1(c) of Schedule 2 prescribes the information that must be included in a second table concerning an NCB Protection Offer. Again, although the exact format (eg font type, colour schemes, spacing, <u>degree of personalisation</u>) is a matter for PMI Providers, we expect the table to be <u>clearly</u> structured <u>along the lines of that suggested as for</u> Table 2 below.</p>

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