Aviva Response to the Competition & Markets Authority Investigation into Private Motor Insurance Consultation on the Private Motor Insurance Market Investigation Order 2015

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1. Contact Details

This response relates to the Competition and Market Authority's (CMA) investigation into private motor insurance (PMI) and the consultation of the draft Private Motor Insurance Market Investigation Order 2015 ("order") issued on the 7th January 2015.

If, at any stage, Aviva can assist the CMA further please feel free to contact either:

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2 Executive Summary

Aviva welcomes the opportunity to comment on the order.

Part 1 – Interpretation

Aviva welcomes the changes the CMA has made to improve clarity on various definitions.

Aviva believes that some of the definitions in the order require reviewing and amending, notably that of 'PMI Product', 'PMI Broker' and 'Step-back Formula', to ensure that the scope of the order is clearly and universally understood (to support a single industry view on requirements), and to fully reflect the role of the PMI Broker and PMI Insurer to ensure that the roles and requirements upon each are clear in the order.

Part 2, Schedules 1 & 2 - Obligation to provide information about NCB Protection

Aviva believes that concerns raised previously over certain areas of the PNCD remedy still remain and have not been addressed:

Level and nature of information

- In respect of the proposal to display average/typical NCB discounts, we believe that although PMI providers could implement this, displaying average NCD discounts could be materially misleading for customers, rather than aiding the decision making process as, for example,

  i) the range around the average percentage figure is large for any given customer; the calculation of the actual level of the discount available for certain NCD entitlement is completed on an individual basis. ✂

  ii) claims without PNCD will affect premiums for up to 5 years, not just in the following year.

- We are concerned that the customer may find the overall level of detail being introduced confusing. Simply disclosing more information to the consumer in the hope that they understand it, does not mean they will actively engage with this. It may not result in any better customer outcomes than simply having clearer information on what the enhanced cover provides.

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Scope of the order

- Aviva acknowledges the additional clarity provided by the CMA around the PNCD information requirements both at renewal, and following PNCD purchases made over the telephone (although we re-iterate our previous view that the CMA's proposed wordings should be for guidance purposes and not mandatory). However, we still believe that now having to extend requirements to provide PNCD information beyond the point of sale and at renewal, would add additional costs and complexity to the delivery, without a clear indication that this would benefit customers. It creates a real risk that the order is not proportionate and is adding in considerable cost and expense which we do not consider that the CMA have taken into account in the final decision and implementation of the remedy.

- Disclosing PNCD information at renewal is not an area that the CMA have identified as needing to be remedied in the final decision and the CMA should set out why the remedy is going beyond the decision reached.

- As noted above within our response above to 'Part 1 Interpretation', the definition of PMI Product needs to be clarified to enable a consistent approach to delivery across the market place.

Part 4, Article 6 - Monitoring of PMI Provider

Aviva requires additional clarity on the monitoring process for the PNCB proposals as there are a considerable number of practical issues to address to ensure a consistent basis for customer comparison.

Aviva believes it is not practical or proportional to exactly calculate the mean NCB discount applied in the previous calendar year for all business across all brands, platforms and rating basis. No automated approach exists to do this and would require a huge amount of work and IT cost to retrospectively calculate this. The increased cost may need to be passed on to customers.

Having a fixed scale based on a previous year data also inhibits pricing, innovation and competition. A revised view of claims risk, an update to the PNCB product or NCB pricing approach would all lead to a change in the NCB scale. Changing these going forward will lead to the historic discounts shown misleading customers further as they would still be based on the previous year's averages. To not mislead customers, prices would have to be fixed or not significantly changed. PMI providers would have to make a conscious decision whether to mislead customers through the published NCB scales or not update rates. Not updating rates would impact PMI provider's ability to price an individual core insurance risk.

An indicative approach based on a sample of risks would be more appropriate and proportionate as a solution. A standard batch of sample risks could be used by all providers to calculate indicative % discounts. This would allow updated averages to be recalculated when significant changes are made.

Timescales for implementation

Aviva is concerned over the proposed 6 month delivery timescale for the obligation to provide information about NCB Protection remedy. This change will require alignment across third party IT Software House and Broker systems.

The timescale for implementation of the proposed Monitoring of PMI Provider remedy is also too short in view of the time required to ensure the changes are implemented correctly due to IT and systems upgrades and the relevant specification changes.

For both of these remedies work can not be fully started until the Investigation Order is fully settled. Lead in times for Brokers through Software Houses will be particularly challenging given their shared usage across insurers and IT systems.

Combined with the additional points we have made upon the scope of the order Aviva believes that a 12-18 month implementation period is more realistic.

Aviva also believes that the complexity and associated costs of implementing the draft order in its present format may force insurers to reconsider their stance on offering PNCD as an additional cover option, which in turn could reduce customer choice and negatively affect customer outcomes.

3 Part 1 – Interpretation

PMI Provider

Aviva notes that the word 'brand' has been changed to 'product' in statement 7.3 ii.). Aviva is unclear as to why the CMA has made this change and would welcome clarity. There is already a definition of "PMI Product" and Aviva considers this phrase should be inserted here, with the additional requirement that the brand name be listed to avoid confusion where the PMI Provider has multiple brands (e.g. QuoteMeHappy.com / General Accident are both underwritten by Aviva).

Aviva would like to re-iterate that in circumstances where the PMI Provider is a PMI Broker it would be the PMI Broker's brand that would be delisted and not the underwriter of the relevant brand as in most instances the PMI Broker rather than the PMI Insurer controls the price paid by the customer.

PMI Product

We note that part of the definition 'PMI Product' has been amended from 'private motor vehicle' to 'privately-owned motor car (excluding motorcycles)'. Aviva is concerned that the scope of the actual order has not yet been sufficiently clarified to enable us to make a true analysis of the cost and complexity of the implementation. Aviva believes that a clear definition of what constitutes a 'privately-owned motor car (excluding motorcycles) is required. For example, if the new definition excludes 'vans' and vehicles used for business purposes then this will create additional complexity to deliver under certain products such as our Aviva Multi-vehicle policy because:

- Both cars and vans (up to 3.5tonnes) can be written on the same policy
- Vehicles used for personal and business use can both be written on the same policy

Potentially having to display different PNCD information by type of vehicle insured, or the use that the vehicle is intended for, will add cost and complexity to the implementation and could create confusion for customers.

Taking on board the CMA's primary intention of providing better information for customers to enable them to make a more informed choice for PNCD, we would recommend that the order should apply to any Personal Motor product where PNCD is offered as an optional cover extension (including van products which are traded in a personal lines environment). We would assume that where PNCD is offered as an optional cover extension under a 'Motorcycle' policy, that the PNCD remedy and information would be equally as applicable to these customers.

Aviva is concerned that without the CMA providing absolute clarity on this point, there is a significant risk that a single industry view on requirements will not be achieved, resulting in different interpretations and confusion for customers.

PMI Broker and Step-back Formula

Aviva acknowledges the CMA clarifying the scope of the remedies through the introduction of the new 'PMI Broker' and 'PMI Insurer' definitions. However, Aviva still have concerns that the CMA has not totally understood the role and position of brokers, especially in scenarios where the product being offered is a panel wording arrangement where the broker builds and delivers the policy documentation. In these scenarios we believe that in general the PMI Broker should be responsible for setting and providing the information required in regards of the step-back formula. As such Aviva believes that the CMA will need to revisit the definition 'Step-back Formula' and point 32 of the Draft Explanation Note which both presently imply that this will always be prepared and applied by PMI Insurers to ensure there is a consistency of approach and clear allocation of roles and responsibilities.

4 Part 2, Schedules 1 & 2 - Obligation to provide information about NCB Protection

Aviva has previously raised the following concerns over certain areas of the PNCD remedy:

Level and nature of information

In respect of the proposal to display average/typical NCB discounts, we believe that although PMI Providers could implement this, displaying average NCD discounts could be materially misleading for customers, rather than aiding the customer to make an informed decision as, for example,

i) the range around the average percentage figure is large for any given customer (as we have confirmed in previous submissions, the calculation of the actual level of the discount available for certain NCD entitlement is completed on an individual basis. ✂ and

ii) claims without PNCD will affect premiums for up to 5 years, not just in the following year.

We are concerned that the customer may find the overall level of detail being introduced confusing. Simply disclosing more information to the consumer, in the hope that they understand it does not mean they will actively engage with this. We believe this will be compounded if there is no consistency of approach.

In relation to the NCB Protection Statement referenced under Schedule 1a, Aviva has the following observations;

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- ***No Claims Bonus Protection does not protect the overall price of your Insurance policy.***
  We have no objections to the principle of providing this statement.

- ***The price of your Insurance policy may increase following an accident even if you were not at fault.'***

  As previously confirmed within point 4.2.2 of our response to the CMA`s Provisional Decision on Remedies (PDR), issued 4th July 2014, we would be unable to use this blanket statement in our existing PNCD sales process because at present we offer a Guaranteed No Claims Discount optional cover on our Aviva Direct Motor policy (alongside our existing PNCD option). Under this option we guarantee that the customer's premium will not increase as a direct result of a claim (fault or non fault). As the proposed blanket statement would not accurately reflect the cover and would be misleading for customers, we cannot use the wording proposed ✂

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  We welcome the additional clarity which the CMA has provided around the circumstances in which an alternative statement could be used and the information which the CMA would require to agree such an approach. ✂

  In relation to the NCB Protection Statement referenced under Schedule 1b, Aviva has the following observations:

  - On certain Aviva Motor policies, claims made solely under certain cover sections will not result in any loss of NCD. Examples of this include a claim made solely for damage to glass, or a claim under the 'Replacement Locks' section following the loss or theft of the insured vehicle's ignition keys.
  - As such, Aviva believes that it may to prudent to extend the information provided under Step-back Table 2 (as detailed within paragraph 1(c) of Schedule 2 and also under point 36 of the Draft Explanation Note) to make reference to the fact that claims under certain sections of the policy may not impact NCD as otherwise the statement will be misleading to customers.

<u>Scope of the order</u>

Aviva notes that that within our response of 10th December 2014 to the CMA's previous Informal consultation on the Private Motor Insurance Market Investigation Order 2015, we included responses to the statement the CMA specifically asked for comments on within their email 26th November 2014 - '*The draft Order requires, amongst other things, that (i) information on NCB Protection that is given orally is followed by written information, and (ii) information on NCB Protection is given for all new business. This includes a customer renewing their policy by phone, email or letter, i.e. the renewal quote will need to contain the information required by the draft Order. We would welcome your comments on this approach*.

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Further to the points previously raised, Aviva now has the following observations:

In relation to point (ii) of the email referred to above Aviva notes the additional clarity provided (within point 15 of the Draft Explanation Note) by the CMA which confirms that the PNCD remedy applies to renewing customers who already have PNCD in force on their policy, as they interpret this as a new 'NCB Protection Offer', and as such we would need to reconfirm the *'Implied price of PNCB'* and the updated *'Average NCB Discount associated with each number of NCB years for which the PMI Provider offers an NCB Discount.'*

Aviva's observations at this stage on the requirement to provide additional PNCB information within renewals include:

- Requirements to disclose PNCD information at renewal were not specifically mentioned in the CMA's final response paper, which focused more upon disclosing the info 'at point of sale of PNCB' – see points 11.28, 11.30, 11.35, 11. 55.

- Potentially disclosing PNCD info at renewal does not provide a clear customer benefit and is not an area that the CMA have identified as needing to be remedied, i.e. If the customer already has PNCD in force then they have already made a conscious decision to select this cover.

- Any 'new' requirement to populate renewal documentation with the additional PNCD information will add cost and complexity to the delivery and timescales required without a clear indication that this will benefit customers and the cost of this has not been taken into account by the CMA in terms of the scope and operation of the order.

In relation to point (i) of the CMA's email referenced above Aviva notes that The Draft Consultation order now confirms (within part 3.3 and schedule 1&2), that at the time of an oral NCB Protection offer the following information should be disclosed during the call:

- the PNCB Protection statement.
- the PNCB Protection information, covering:
  a) Implied price of PNCB Protection;
  b) the number of NCB years offered by the PMI provider in the NCB Protection Offer;
  c) the Average NCB discount for that number of years;
  d) The step-back formula containing the number of claims a customer can make before NCB is impacted (with and without PNCD).

However Point 3 of schedule 2 (and point 20 of the Draft Explanatory Note) confirms that certain elements of the PNCB Protection information must also then be subsequently provided in writing including:

- The Average NCB years discount table in full.
- Step back formula in full.

Aviva notes the additional context provided by the CMA on this (within point 20 of the Draft Explanation Note) citing section 8(1) of The Financial Services (Distance Marketing) Regulations 2004 as part of the consideration behind this requirement, but have following observations:

- When commenting upon oral NCB Protection offers the CMA's report focused upon providing the customer with summarised information but that Insurers *'would also be required to direct consumers to where they can find the table of information so that they can consider it in the cooling off period'* - see points 11.30, 11. 41.
- AVIVA believes that now having to extend requirements to provide PNCB information beyond the point of sale would add additional cost and complexity to the delivery without a clear indication that this will benefit customers and creates a real risk that the order is not proportionate.
  Under the CMA's present remedy, a customer who has purchased PNCD over the telephone would receive additional information within their documentation above and beyond what would need to be provided if the customer purchased PNCB online. Aviva is concerned that this could cause confusion for customers, requires additional cost and complexity to implement, and may lead to different insurers taking different approaches for online purchases.
- Aviva believes that Insurers obligations under section 8(1) of The Financial Services (Distance Marketing) Regulations 2004 can still be met under the CMA's original remedy of providing specific PNCB information at point of sale only when sold via telephony route (and without the requirements detailed under point 3 of Schedule 2) because;
  - The implied price of PNCB Protection will have been disclosed at point of sale.
  - The average NCB discount relating to the specific customer would be shared at point of sale. Aviva envisages that customers could still access the full NCD Averages table online or alternatively request a copy of the table in writing upon request. As previously confirmed, Aviva still believes that the CMA's approach to publishing NCB averages could be materially misleading to customers, rather than aiding the decision making process and as such does not believe that this element of information is a 'contractual term or condition', nor 'A description of the main characteristics of the financial service.'
  - The full step back formula could be communicated within the policy wording, providing customers with this information in full, post purchase.

When taking into account points raised above on Part 1 Interpretation, and Part 2, Schedules 1 & 2 - Obligation to provide information about NCB Protection, Aviva believes that the CMA should:

a) Provide a wider definition of PMI Product to cover all Private Motor products which offer PNCD as an optional cover extension so it is linked to where the offer of enhanced cover is made and not the product: and
b) Focus the information requirements upon Point of sale requirements only (and not renewals, or customer documentation packs when PNCD has been selected over the telephone).

as this would result in a better customer outcome and provide a consistent customer approach across the whole PMI motor market, and less risk of customer confusion and differing approaches.

However, Aviva re-iterates its previous view that the outcome of the remedy as a whole should be a clear and better explanation of the cover and the benefit it provides and this should be led by the FCA.

Timescales for implementation

As previously notified, Aviva is concerned over the proposed 6 month delivery timescale as this change will require alignment across third party IT Software House and Broker systems. Combined with the additional points we have made around the definition of PMI Product and the additional complexity added through the inclusion of renewals and post point of sale information on inbound PNCD sales, Aviva does not believe that the existing 6 month delivery timescale is sufficient to allow the successful implementation of the remedy. We believe a 12 - 18 month implementation period is more realistic.

Aviva has also been made aware of some concerns arising out of the Intermediary personal lines ETPG (The Electronic Trading Practices Group). This Group direct personal lines standards and issues. It is chaired by Polaris, with a vice chair coming from the InStep membership (InStep is an electronic trading community of insurers, software house, insurance intermediaries and other related parties operating in the motor and household arena). It is not part of the ABI. They believe that a single industry view on requirements is required. This means a single interpretation of the CMA order, across all insurers, so that we are agreed as an industry how the needs of the order can be met from a system and electronic trading perspective. We would like IT changes and broker processes to be as uniform as possible to avoid confusion for customers and brokers and make a systems deployment more straightforward.

Aviva also believes that the complexity and associated costs of implementing the draft order in its present format may force Insurers to reconsider their stance on offering PNCD as an additional cover option, which in turn could reduce customer choice and negatively effect customer outcomes.

5 Part 4, Article 6 – Monitoring of PMI Providers

Aviva would like to reiterate its concerns raised in the previous response around the practicality and proportionality of the proposals.

Aviva operates across a number of Aviva owned brands (Aviva/QMH/GA) and through a number of Broker/Partner brands (20+ on PCWs). These are priced on various Aviva and third party systems (10+). Premium rates are also frequently updated. Due to the multi-peril & multivariate nature of our rates each of these updates will impact on the overall % of NCB discount offered for each risk. To be able to calculate the % NCB discount for all policies would be a huge piece of work incurring a large amount of cost for Aviva. No automated approach exists to do this. Aviva does not believe this to be practicable and the level of accuracy requested is not proportional to the information benefit for the customer.

The timescale for implementation of the proposed remedy is also too short in view of the time required to ensure the changes are implemented correctly due to IT and systems upgrades and the relevant specification changes. Work can not be fully started until the Investigation Order is fully settled. Lead in times for Brokers through Software Houses will be particularly challenging given their shared usage across insurers and IT systems.

It is not clear if the requirement is for quotes or policies. If required for quotes the requirement becomes even more disproportionate. It would also become impossible to do retrospectively as Aviva does not store all quote data for the previous 12 months ✂

Aviva would like clarification on how this would work in the Broker market and reiterates its point that once again the CMA has not understood the role and position of brokers. Would Brokers show average discounts for each PMI provider or a combined view?

Time delays in getting policy information and then calculating revised figures for February based on the previous year would be problematic. This is particularly true where data is provided on a bordereau basis. A longer time period (or excluding November & December) may be more appropriate.

Having a fixed scale based on a previous year data also inhibits pricing, innovation and competition. A revised view of claims risk, an update to the PNCB product or NCB pricing approach would all lead to a change in the NCB scale. Changing these going forward will lead to the historic discounts shown misleading customers further as they would still be based on the previous year's averages. To not mislead customers, prices would have to be fixed or not significantly changed. PMI providers would have to make a conscious decision whether to mislead customers through the published NCB scales or not update rates. Not updating rates would impact PMI provider's ability to price an individual core insurance risk.

An indicative approach based on a sample of risks would be more appropriate and proportionate as a solution. A standard batch of sample risks could be used by all

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providers to calculate indicative % discounts. This would allow updated averages to be recalculated when significant changes are made.