

Competition and Markets Authority  
Victoria House  
Southampton Row  
LONDON  
WC1B 4AD

Our Ref: EFB/CMA.Motor.30.01.15

30<sup>th</sup> January 2015

Dear Sirs

### **Re: The Private Motor Insurance Market Investigation Order 2015**

I have just become aware of the Draft Order – Consultation paper (undated) and I would like to make comments to you as below.

#### **A. Comments:**

1. The proposals are excessive in the extreme.

- Surely such contravenes HM Government's diktat on reduction of "Red Tape" wherever possible.
- Has this Draft Order been submitted to, and considered, by other bodies (e.g. Department of Transport; FCA etc.)?
- Is the cost of such (seemingly needless) Administration justified and actually in the interest of the insuring public?

2. The proposals are flawed.

- No account of those Insurers who quote for Guaranteed No Claims Bonus has been taken into consideration.
- The reference to Claims alone is insufficient – you have not given any reference/clarification of Fault or Non-Fault Claim (see Point A4 below)

3. The outcome will only partially achieve your objective. Consumers will, in the main, fail to read yet MORE 'information pages' being submitted to them. *(Please note that presently we are submitting a two/three page Quote (covering) letter; two/three page Quotation (Proposal Form and/or Statement of Facts); two/three or four page KeyFacts (Summary of Cover – which normally INCLUDES reference to the NCB Scale and Protected NCB Extension); two/three page Demands & Needs Statement and our four page Terms of Business not to mention the Policy Wording Booklet when enclosed on cover being incepted. That is a minimum of 12 pages of information already being supplied).*

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4. A simpler notification of the Protected NCB option would be far more effective. (Note: that we currently advise our clients that the option applies to FAULT claims and we give guidance to what is a fault claim (see Point B2 below). **Your proposal merely refers to claims but does not point out that such (claim) would not be taken into consideration under the Protected NCB extension if the insurer makes a full recovery of its costs – i.e. a non-fault claim.**
5. The requirement that ALL PMI Providers (*which by your definition includes Insurance Brokers/Intermediaries*) make Annual Compliance Statements to the CMA is totally needless. It is Insurers who set NCB Scales (and the operation of the Protected NCB Scale). If Insurers are required to submit these Scales to you annually (rarely change over a number of years why them must we Brokers, also advise you the exact same information?

## **B. Considerations:**

### **1. Then and now.**

Protected NCB extension came about to alleviate the financial “pain” of the policyholder who would otherwise have seen a two stage step back on his/her NCB for each fault claim incurred.

Over the years the majority of the motor policyholders elected to go for this extension (which typically cost an additional 10 – 15% of the insurance premium).

Yes, it is fair to say that in turn the insurance providers (insurers and intermediaries) became complacent on this matter and “assumed” that this then would be the base level of cover that should be quoted to the enquirer without asking if a NOT Protected NCB premium was required.

I therefore totally understand the need to address this situation that has arisen within the industry.

### **2. Has the insuring public been asked for their opinions in a sufficient manner?**

Based upon the proposed outcome I can only assume the answer is NO.

On having asked some of our motor insurance clients how they would feel about being supplied with a further 3 paragraphs of explanation/reference and also two tables of percentages (all of which will invariably take up at least one page of the covering quotation) all, without exception, were appalled at the prospect of even more paperwork.

However, the clients did indicate that they would like to see a notification of the cost difference and a summary of the meaning of the Protected NCB.

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*It cannot be helped to note that in this day and age the consumer is “price driven” in his/her choice of products and want to know that he/she can ‘rely’ on the product provider (us the broker when using our services as opposed to websites) to chose the most cost effective product for them.*

Other than the need to provide:

- the cost between Not Protected NCB and Protected NCB (for the most cost effective product from the range of insurer providers selected), and
- a BRIEF explanation, e.g.

**”A Protected NCB Extension allows you to have up to two fault\*\* claims within a five year period without reduction of the current NCB level. It should be noted that with or without this Protection NCB Extension the premium can be increased due to any actual claim(s) incurred.**

**Details of the NCB Scale (with and without the Protected NCB extension) is detailed within KeyFacts (Summary of Cover) and the Policy Wording”**

or

**“A Guaranteed NCB Extension means that the current level of your NCB will not be reduced however many fault\*\* claims are incurred. It should be noted that with or without this Guaranteed NCB Extension the premium can be increased due to any actual claim(s) incurred.**

**Details of the Guaranteed NCB Extension is detailed within the KeyFacts (Summary of Cover) and the Policy Wording”**

***(\*\*Fault Claim – this is one where your insurer is obliged to make non recoverable payment(s) to other parties arising out of the incident concerned).***

why would the consumer need to be “bombarded” with more information – Tables, etc. – when reference can easily be made to the KeyFacts (Summary of Cover) and/or the Policy Wording itself.

### **3. Necessity of the Order:**

What steps have the CMA taken to avoid having to proceed with the making of this Order?

Have you consulted with the Insurance Industry?

(a) to see if it accepts the criticism generated in your “Adverse Effects on Competition (AEC)”s.

(b) to ascertain if there are steps the industry can take to ensure clarity (and explanation) on the cost and wording of the Protected NCB Extension. Such steps could be:

- quotes must be given without the Extension
- The Protected NCB Extension must only be quoted for as an OPTIONAL add in\* (as applies to such items as “like for like courtesy vehicle”); and other optional add ons\* such as Uninsured Loss Recovery (ULR).

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*(Add in – cover that can be extended within the scope of the actual policy.*

*Add on – a separate insurance policy entirely (e.g. ULR) which is often sold “with” the Motor Insurance Policy).*

- KeyFacts (Summary of Cover) being made more transparent in their explanation of the NCB Scale, the Protected NCB Scale, and, where applicable/offered, the Guaranteed NCB Extension.

#### **4. Why have you not asked that the Insurer KeyFacts (Summary of Cover) be amended to give clearer NCB Guidance?**

As you are no doubt aware we are required to submit a KeyFacts/Summary of Cover to the insured and to ask him/her to refer to this document when considering the purchase of the insurance. These KeyFacts, produced by the Insurer, is required, *inter alia*, to summarise the key features of the contract – including Protected NCB option.

In addition the KeyFacts also highlight the Insured’s right to a 14 Day “Cooling Off” Period to decline to pursue the policy contract if this is not in line with their demands and needs.

So, why are you not asking:

- Insurers to update/amend their KeyFacts to be more detailed (*as you are pushing for*) and
- insist that Brokers/Intermediaries specifically direct their clients to refer to this section of the KeyFacts for details/explanation of this particular extension? **(This can be made a requirement of compliance under the FCA Rules if deemed necessary).**

Your proposed Order is “negating” the use/value of these KeyFacts which is contrary to their whole purpose.

#### **5. Average NCB Discount:**

Insurers historically provided a simple NCB Scale of 25% (1<sup>st</sup> year); 40% (2<sup>nd</sup> year); 50% (3<sup>rd</sup> year) and 60% (4<sup>th</sup> year and onwards) with a two year step back for a fault claim.

Over the years the Scale, for commercial reasons (*primarily sales purposes – something like the “permanent” sofa/settee sales as currently seen on TV and in the High Street*), has been altered upwards of 80/90% NCB (and based on upwards of 15 years “earned” NCB) by many insurers. However, it must be borne in mind that such “NCB Discount” does not of course alter the final premium charge that the insurer is ultimately after. I call such “pricing” as a bit of trivialisation of the true meaning/merit of the No Claims Bonus Discount.

Thus, no matter how hard I try, I fail to see your “need” know the Average NCB Discounts from Insurers (and repeated again by us Brokers). It really is a futile (hopeless).

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## **6. Annual Reporting to the CMA:**

Insurers set their own NCB Scales and also the operation of their own Protected (or Guaranteed) NCB Scales. Insurance Brokers/Intermediaries have NO control over these Scales whatsoever.

Such Scales are rarely altered by the Insurer concerned and can remain in place over many years.

That being noted:

- Why should there be ANY need for Insurance Brokers to submit (to the CMA) annual Compliance Statements with details of EACH Insurer "average NCB Discount" when the Insurer will ALSO have submitted their NCB Scales etc.? Why is such "Duplication" necessary?
- What relevance can the "Average" NCB Discount provided by insurers have on the whole question of whether or not the Public is being given clear and precise guidance as to cost and relevant explanation of the Protected NCB Extension?
- In what way does this annual Compliance Statement (and Annex) remove/satisfy the Order's intention to remove the Adverse Effects on Competition (AEC)?
- Has the Cost (fiscal and time) of the collection, assessment, monitoring and policing of such an annual submission to the Insurance Industry; amendments required of the computer software systems; and CMA alike been fully assessed? Is this additional "tier of bureaucracy" (or dare I say "Quango") justified?
- On assessing such Cost has this been justified as being:
  - (a) Appropriate, or even relevant, to the "needs" of the insuring public - who will invariably have to pay for all of this via HIGHER premium costs, and
  - (b) actually achieve any VIABLE beneficial outcome(s) for the insuring public?

## **7. Implementation:**

Have the CMA made any enquiry of the Insurance Industry, and the Software Houses, as to the time scale needed to implement the changes as proposed within this Order?

My understanding is (*if previous amendments required, and the current changes to implement Driver Licence information etc. from the DVLA are anything to go by*) that the Software Houses who provide the Quote Engines for us Intermediaries will need at least a 12 month period for the systems to be suitably adapted to comply with the requirements laid down in this Order.

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## **Summary:**

1. The CMA is surely bound to pursue all avenues available to achieve its objectives without automatic recourse to implementing Orders? There is insufficient evidence that the CMA have pursued such avenues in this instance.
2. The Insurance Industry (and their regulator The Financial Conduct Authority) can be approached to address this issue\*\* without the need for any Order being implemented by the CMA.

**\*\* For your information we ourselves have now addressed this issue.**

***From here on we will advise all private motor insurer clients of both the Non Protected NCB and the Protected NCB Extension final premiums.***

***Our covering letter will also give clear guidance on the Extension – and also refer him/her to the enclosed KeyFacts (Summary of Cover) and/or Policy Wording for precise details.***

***For Renewal Invitation cases, currently with the Protected NCB Extension, we will also advise him/her of the final premium WIHTOUT this Extension should he/she now wish to delete this (extension) from cover going forward.***

***(I will happily submit a specimen of the letter to you for your attention if required).***

**There – JOB DONE – no need for an Order to be imposed.**

3. Should the Industry fail to rectify the situation within a given period then the Order may need to be implemented.
4. If the CMA do still proceed with the Order it still need to re-consider
  - Further amendments to give due regard to
    - (a) The “sale” of Guaranteed No Claims Bonus and
    - (b) differentiation between Fault and Non Fault Claims.
  - the proposed Implementation Period – the necessity for Software Systems to be appropriately modified etc. cannot be achieved in the current proposed timescale.
  - Necessity for Average NCB Scales (NCB Discounts themselves do NOT predetermine the net premiums that Insurers wish to apply).
  - Necessity for anyone, other than the Insurers themselves, in submitting such Average NCB Scales as Intermediaries do not have any control whatsoever on the level, or indeed the application, of such scales.

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- If such submissions are still deemed necessary then they must be shown to have value for purpose (noting that it is the insuring public who will ultimately have to bear the additional costs involved).
- If the Order is proceeded with can the Information Requirement be simplified by either:
  - (a) A shorter “message” to the Insured who should be directed to the KeyFacts to view the details (and tables) as necessary.
  - (b) Requirement that the Quote must be for the normal NCB Scale with a separate costing to include Protected/Guaranteed NCB that is shown as
    - i. OPTIONAL and
    - ii. with a note to refer to the KeyFacts for precise details of the such cover.

I thank you in advance for affording me the time to read my submission on this matter which I hope you find to be constructive.

Yours faithfully,

**E F Browne ACII (Director)**  
Chartered Insurance Practitioner