

## CMA PRIVATE MOTOR INSURANCE MARKET INVESTIGATION

## RESPONSE OF AA PLC TO THE FORMAL CONSULTATION ON THE DRAFT ORDER

## I. EXECUTIVE SUMMARY

- 1 AA PLC (the **AA**) would like to thank the CMA for giving it the opportunity to comment on the draft order (the **Draft Order**). The AA has kept its comments deliberately brief, in order to focus on its key concerns, which are summarised below.
- 2 Firstly, in relation to the NCB Protection Information which PMI Providers must provide under Schedule 2 of the Draft Order, the AA:
  - (a) considers that the proposed timescales for implementation are unrealistic; and
  - (b) is keen to clarify how certain provisions should operate in practice.
- 3 Secondly, the AA has observed that price comparison websites (**PCWs**) are already testing the limits of what is acceptable under the definition of Equivalent Behaviour. It would therefore like to encourage the CMA to ensure that the definition is as wide as possible and to clarify the action it proposes to take in the event of a breach.

## II. NCB PROTECTION INFORMATION

## Timescales

- 4 The Draft Order states that Article 3, which creates the obligation to provide information about NCB Protection, shall come into force on 1 September 2015. The AA is concerned that this does not provide the industry with sufficient time to implement the changes in technology and process which are necessary. Rushing through such implementation risks creating a system which is insufficiently consistent to be of any real benefit to the customer.
- 5 In the Appendix to this submission, the AA has set out what it considers to be a realistic implementation plan for Article 3. For the AA, as a broker, in order to comply with the Order, NCB Protection Information will need to be accommodated through both:
  - (a) Polaris products built by or on behalf of the relevant PMI Insurer; and
  - (b) where those insurers have moved to "insurer hosted pricing", the PMI Insurer calculating the NCB scales and step-back procedures itself.
- 6 The AA's timings are therefore based on changes to both its own in house system and, where product changes are to be made by the insurer, any bespoke software house systems. As set out in the Appendix, this suggests a realistic implementation date for the AA of Q1 2016. The AA's position is therefore broadly in line with that of the Electronic Trading Practices Group (**ETPG**), a forum of PMI Insurers, software houses, intermediaries and industry bodies. The ETPG anticipates:
  - (a) it will take 3-4 months for PMI Insurers to define all requirements and brief their software houses; and
  - (b) those software houses will then require a further 12 months to implement the changes and for PMI Insurers to complete testing, to ensure rules and rates are operating correctly.

- 7 The CMA should note, however, that in order to achieve this, a number of assumptions would need to hold. In particular:
- (a) at least one PMI Insurer is able to provide the AA with a new Protected NCB product by 1 September 2015 and the remainder of the AA's panel can provide their products no later than six weeks prior to the completion of its user experience testing period. The timescales set out on the Appendix are heavily reliant on this;
  - (b) the PMI Insurers on the AA's panel will provide information via either Polaris or insurer hosted pricing, as identified above. There is, however, a risk that PMI Insurers wish to provide the information through an alternative medium or in a different format. This could require significant additional internal system changes. (In paragraphs 10 and 11, below, the AA also considers the implications of this in terms of the day-to-day data requirements contained in the Draft Order).
- 8 Given the AA's reliance on its panel insurers for implementation, as identified above, the AA would appreciate some guidance on the legal position in the event that one or more of its panel PMI Insurers were to fail to meet the deadline for the implementation of Article 3 (currently 1 September 2015). Suppressing quotes or removing PMI Insurers from the panel is clearly not in the customer's interests. Without some comfort on their liability, however, there is a risk that PMI Brokers would favour this approach over assuming the risk of breaching the Draft Order.

### **Practicalities**

- 9 As a consumer brand, the AA is keen to ensure it complies with the Order to the fullest extent possible. It is also keen, however, not to be put at a competitive disadvantage as a result of such compliance. Accordingly, below, it has set out the areas where it considers the Draft Order would benefit from some clarifications, to ensure the industry interprets it consistently.

### *Information transfer between PMI Insurers and PMI Brokers*

- 10 The AA notes paragraph 43 of the Draft Explanatory Note, which specifies that PMI Insurers who distribute PMI Products through PMI Brokers will need to provide those PMI Brokers, in a timely and appropriate manner, with the Average NCB Discount to allow them to provide the NCB Protection Statement and NCB Protection Offer.
- 11 As drafted, this provision deals only with the Average NCB Discount. The AA would prefer to see some standardisation of the way in which PMI Insurers must provide PMI Brokers with the remainder of the information set out in Schedules 1a and 2. On its current drafting, for example, each PMI Insurer can provide the information in different formats (for example raw data or completed calculations, either inside or outside the Polaris system). This only serves to increase the risk that, once the AA has converted it into NCB Protection Information, that information may somehow not be directly comparable for different PMI Insurers, thereby reducing the ultimate benefit to consumers.

*Calculation of the Implied Price for PMI Brokers*

- 12 The Draft Order defines the Implied Price of NCB Protection as a price "...that demonstrates the difference in the retail price between the PMI Product which is the subject of the NCB Protection Offer ... with, and without, NCB." It does not, however, provide for the position where the cheapest protected and unprotected quotes are returned by different panel PMI Insurers.
- 13 Unlike on a PCW, assuming the customer has selected NCB Protection, they would see only the cheapest price returned by the PMI Broker for that protected product. In that scenario, should the Implied Price of NCB Protection be calculated by comparing:
- (a) the price of the cheapest protected PMI Product against the price of the same PMI Product without the NCB Protection; or
  - (b) the price of the cheapest protected PMI Product with the price of the cheapest unprotected PMI Product?

*The provision of NCB Protection Information, by PMI Brokers, at renewal*

- 14 The AA would appreciate clarity on the position at renewal, where the PMI Insurer offering the cheapest price on the panel of a PMI Broker is not the PMI Insurer which currently writes the business. In this situation, it is the AA's practice (as with most brokers) to offer the cheaper rate to the customer, along with the renewal quote for the incumbent. Paragraph 25 of the Draft Explanatory Note makes it clear that the NCB Protection Statement and NCB Protection Information must be provided clearly and prominently in any email or letter soliciting renewal.
- 15 It is unclear, however, whether this information must be provided for the incumbent, the cheaper option or both. The AA considers that providing the information for the cheaper quote only would be the more proportionate option, because:
- (a) providing two alternative datasets increases the potential for customer confusion;
  - (b) additional development time may be required to provide both, with a potential impact on the implementation timescales discussed above; and
  - (c) the vast majority of customers will choose the cheaper option in any event.

**III. EQUIVALENT BEHAVIOUR**

- 16 Notwithstanding the CMA's comments at the hearing on 21 January 2015 (the **Hearing**), the AA is concerned that PCW's are already actively seeking to circumvent the definition of Equivalent Behaviour. **[CONFIDENTIAL]**
- 17 The AA would favour a more explicit incorporation of the above scenario in the list of Equivalent Behaviour currently set out in paragraph 50 of the Draft Explanatory Note (i.e. where the behaviour is characterised by a PCW seeking introduce new incentive structures for different tiers of partner, rather than simply withdrawing existing incentives (as per paragraph 50(e) of the Draft Explanatory Note).
- 18 The AA also considers that the main driver for this kind of behaviour is the absence of any sanctions or other process (other than reporting obligations, which rely on a PCW's own interpretation of Equivalent Behaviour) to deal with breaches. It notes the suggestion, at the Hearing, that PMI Providers will be able to approach the CMA informally to discuss such

behaviour. It would, however, greatly assist PMI Providers in resisting such behaviour if the CMA could be more explicit about the action it intends to take in such a scenario.