COMPETITION COMMISSION

PRIVATE MOTOR INSURANCE MARKET INVESTIGATION

Theory of harm 2: Underprovision of repairs

Summary

1. In this paper we assess whether there is underprovision of post-accident vehicle repair services provided to fault and non-fault claimants due to the beneficiary of these services (ie the fault or non-fault claimant) being different from and possibly less well informed than the procurer of the services (ie the fault insurer, non-fault insurer or claims management company (CMC)).

2. From the evidence we have seen so far, it appears to us unlikely that customers are systematically put at a disadvantage by insurers or CMCs procuring repair services on their behalf. This is because:

   (a) Survey evidence shows that customers are generally satisfied with the quality of vehicle repairs:

      (i) Our survey of non-fault claimants showed that 94 per cent of respondents felt that all of their accident damage was repaired; 88 per cent felt that the vehicle was in the same or a better condition after the accident repair compared with the condition prior to the accident; and 89 per cent were satisfied with the repair service overall (only 7 per cent said that they were dissatisfied with the repair service overall).

      (ii) A December 2012 survey by GIMRA showed that [✂] per cent of customers felt that the repair to their vehicle put it back at least to its condition before the accident and [✂] per cent of respondents said they were extremely or very satisfied with the repair service they received overall (only [✂] per cent of respondents were dissatisfied with the repair service overall).[1]

[1] On a quarterly basis, GIMRA contacts around 2,500 PMI claimants whose claims have settled in the last three months. Claimants must have comprehensive cover and have claimed off their own insurance. Also, the claim must have been settled

(b) Customer complaints about the quality of repairs are low:

(i) Four independent repairers[2] provided data which showed that repair-related complaints arose in only [✂] to [✂] per cent of repair cases (and not all of these complaints were about the quality of repair).

(ii) Two insurer-owned repairers said that they received complaints about the quality of repair in about [✂] to [✂] per cent of repair cases.

(iii) Three CMCs said that they received complaints in [✂] to [✂] per cent of the repair cases they managed.

(iv) [✂],[✂] and [✂] provided data which showed that they received customer complaints[3] in 1 to 4 per cent of all the PMI claims they managed. Of these complaints, between 9 and 27 per cent related to repair quality, with the result that repair complaints arose in 0.25 to 0.7 per cent of all PMI claims (although we note that not all PMI claims involve repairs).

(v) The GIMRA survey showed that fewer than [✂] per cent of repairs resulted in a complaint about the quality of the repair.

(c) [✂] out of the ten largest insurers require their approved repairers to have PAS 125 accreditation or manufacturer approval.

(d) Insurers and CMCs usually provide a guarantee for the repairs they manage, typically of three to five years.

(e) All of the ten largest insurers and five[4] out of the seven CMCs from which we gathered evidence said that they monitored the performance of their approved repairers. [✂] of the ten largest insurers told us that they performed repair quality audits, including physical checks of vehicle repairs performed by their approved repairers, without being prompted by customer complaints.

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within six months of it being lodged, and no serious personal injury must have been involved. We reviewed GIMRA's survey from December 2012, covering claims settled in the period April to September 2012.

[2] We refer to repairers which are not subsidiaries of PMI providers as 'independent repairers'. In many cases these repairers have repair contracts with PMI providers.

[3] 'Customer complaints' refers to reportable complaints, which are complaints that have not been resolved by close of business on the business day following receipt of the complaint.

[4] [✂],[✂],[✂],[✂]and [✂], but not [✂]and [✂] which rely solely on independent engineers.

3. Notwithstanding this evidence, we also received a number of submissions (mainly from repairers, CMCs and other industry participants) suggesting that the repair quality of insurer-managed repairs is often poor. These submissions suggested that insurers' incentives are to keep their costs as low as possible which can lead to 'corner cutting' in the repairs they approve. As examples, one repairer told us how there was constant pressure to repair rather than to replace parts, even where replacement would provide a better repair; and another repairer said that insurers sometimes asked for savings which could worsen the cosmetic appearance of a vehicle, eg by stipulating the use of non-OEM parts which might not fit very well. We also found that the main purpose of repair audits was to control costs rather than to ensure high-quality repair standards and noted that a number of repairers suggested that there was limited monitoring of actual repair quality.

4. We also noted that many consumers might not be able to assess whether a repair to their vehicle is adequately performed. Whilst our survey of non-fault claimants found that 84 per cent of respondents were at least 'fairly confident' that they could spot if their vehicle was returned to its pre-accident condition (see working paper 'Survey report'), we interpreted this evidence with caution as it seemed to us likely that this confidence would relate mainly to assessing cosmetic aspects of the repair and not aspects relating to parts of the vehicle which are technical or not easily visible.

5. Overall, notwithstanding the allegations of some repairers and the potential for some customers to be unaware of poor repairs, we have to date found no evidence of systematic underprovision of repairs. Nevertheless, in order to investigate this issue further we have commissioned MSXI to perform audits of vehicles that have been repaired after an accident and this study is ongoing. We will publish the results of this study once it has been completed.

Introduction

6. Under ToH 2, we are investigating the various ways in which consumers may be put at a disadvantage due to information asymmetries leading to a lack of alignment between their interests and those of the parties which procure post-accident services on their behalf. [5] This involves analysing whether fault and/or non-fault drivers receive a service from insurers or CMCs which is less than that to which they are entitled, either under contract or under tort law (respectively).

7. The key services which fault and non-fault claimants receive from insurers and CMCs in relation to PMI are vehicle repair and the provision of a temporary replacement vehicle (TRV). In this paper we consider whether claimants are receiving sub-standard vehicle repair services. We discuss the possible underprovision of TRVs in a separate working paper, 'ToH 2: Underprovision of TRVs'.

8. In this paper we have conducted our assessment on underprovision by considering the quality of repairs generally rather than against a specific contractual or tort law entitlement. In relation to core elements of the quality of a repair we would not, in any event, expect any difference between the contractual and tort law entitlement, eg relating to the safety of the repaired vehicle. We recognize that there may be scope for difference between a non-fault driver's entitlement under tort law and a fault driver's entitlement under contract because of certain restrictions in the insurance contract (eg provisions relating to the type of parts which can be used); however, we have not differentiated according to a tort and contract standard and have rather considered more generally the implications for consumers (eg relating to the use of non-OEM parts). This is because *(a)* the contractual entitlement of an individual claimant will be determined by the specific provisions of their contract and *(b)* the

[5] Updated issues statement, paragraph 5.

assessment of what the tort law entitlement requires in a given case will be informed by the specific facts of that case.

9. In this paper we first consider some of the differences in how repairs are handled and performed depending on whether they are fault or non-fault and depending on the party managing the repair. We then consider:

(a) the incentives of insurers, CMCs and repairers in relation to the quality of vehicle repairs;

(b) quality standards and the monitoring to those standards; and

(c) levels of customer satisfaction with regard to PMI-related vehicle repairs.

Differences in how repairs are handled and performed

Differences between fault and non-fault repairs

10. All of the ten largest insurers told us that their fault and non-fault repairs (including captured non-fault repairs) were managed in the same way and, if handled by the insurers' approved repair network, were performed in the same way. The only difference we found was that some insurers stipulated the use of non-OEM parts for some fault repairs and some own-insurer non-fault repairs (eg for certain parts in fault repairs of vehicles more than three years old), whilst on equivalent captured non-fault repairs, OEM parts were used. [✂],[✂] and [✂] each told us that they differentiated their handling of repair claims in this way. However, we found that the use of non-OEM parts in insurer-managed repairs is small (between 2 and 15 per cent of all parts used, by value) so the effect from this difference is unlikely to be significant.

11. All three of the large insurer-owned repairers confirmed that they repaired fault and non-fault vehicles in the same way.

12. Most of the largest insurers told us that they did not pay repairers differently for fault and non-fault repairs (eg in terms of the labour rate) and evidence from both insurer-owned and independent repairers confirmed this. The only exceptions we found were that one insurer uses two different CMCs to handle separately some of its fault and non-fault claims and one insurer pays its repairers a higher labour rate for non-fault repairs.

13. Repairers told us that the time allowed for a repair was the same regardless of whether it was a fault or non-fault repair, as this was determined by the repair cost estimation system (usually Audatex); and that, although work providers might stipulate the use of a certain paint, the same paint would be used in that work providers' fault and non-fault repairs.

14. Overall, it appears to us that, for insurer-managed repairs, whether a repair is fault or non-fault makes little difference in how it is performed.

Differences between insurer-managed repairs and credit repairs

15. We considered whether there were any systematic differences between insurer-managed repairs and credit repairs. We asked both CMCs and insurers about the parts they used and the time they allowed for repairs.

16. We found that credit repairs were more likely than insurer-managed repairs to receive OEM parts and more parts were likely to be replaced rather than repaired.[6] However, the use of non-OEM parts in insurer-managed repairs is small (see paragraph 10) so the effect from this difference is unlikely to be significant, and we did not receive evidence of a significant difference of replacement or repair depending on the work provider. We were also unable to assess whether the greater

[6] This difference is also discussed in the working paper 'ToH 1: Overcosting and overprovision of repairs'.

use by CMCs of OEM parts and replacement instead of repair was due to the repair being managed by a CMC rather than an insurer (as suggested to us by some repairers) or due to differences in the mix of repairs they handled (eg CMCs might handle on average more complex repairs).

17. We did not find evidence of any difference in the time allowed for repairs as both insurers and CMCs told us that the time was determined by the repair cost estimation system (usually Audatex).

18. Kindertons, a CMC, told us that there was little difference between how it performed its credit repairs and how insurers performed their repairs, as both its repair network and those of insurers adhered to either PAS 125 (see paragraph 32) or manufacturer-approved guidelines.

19. Overall, it appears to us that there are no significant differences between credit repairs and insurer-managed repairs.

Incentives of insurers, CMCs and repairers in relation to repair quality

20. Fault insurers are liable for the cost of both fault and non-fault repairs so, where they manage the repair, they are incentivized to keep costs as low as possible.

21. Non-fault insurers and CMCs are not liable for repair costs so the incentive to keep costs as low as possible is weaker. However, in practice this does not appear to affect the repair service non-fault customers receive (see paragraphs 10 to 19). We have found that non-fault insurers and CMCs often charge fault insurers higher costs than the costs they incur, after taking account of all rebates, commissions and referral fees (see the working paper ‘ToH 1: Overcosting and overprovision of

repairs') but it appears that their incentive is still to manage the repair as efficiently as possible.

22. Therefore, we considered how fault and non-fault insurers and CMCs (together referred to as 'work providers') might lower repair quality. We identified the following two possibilities:

(a) Work providers could require their approved repairers to conduct low-quality repairs. For example, one independent repairer told us that there was constant pressure from insurers to repair rather than to replace parts, even where replacement would provide a better repair; and another independent repairer told us that fault insurers often asked for cosmetic corners to be cut.

(b) Work providers could lower the prices they pay to repairers to a level which incentivizes these repairers to perform substandard repairs. One party told us that the cost pressures on repairers could potentially lead to repairers taking risks on repairs and to poor repairs.

23. In considering these possibilities we examined the relative bargaining positions of work providers and repairers. We found that repairers compete aggressively to become part of an insurers' network of approved repairers, which results in insurers and CMCs having a strong bargaining position relative to them. The National Association of Bodyshops (NAB) told us that repairers received most (about 80 per cent) of their work from insurers, with the remainder made up of consumer retail work (which was increasing due to higher excesses in PMI policies), self-insured fleet work and credit repair work (for CMCs). NAB said that insurers typically tendered for repairers to become their preferred repairer in a defined geographic area (by post-code), thus establishing their approved network. It told us that contracts were typically for five years but could be cancelled by the insurer at any time for many reasons. NAB said that tenders were usually awarded by reverse auction, focusing

particularly on the labour rate. The result was that insurers, through their immense buying power, had squeezed labour rates to just £23 to £25 per hour, compared with £18 per hour in 1991 and compared with £45 to £50 per hour which garages could earn for mechanical repair work. NAB said that the labour rate on credit hire repair work was generally higher (at £32 to £35 per hour), which meant that, even after paying a referral fee to a CMC to gain the work, credit repairs were usually more profitable than insurer work. NAB noted, though, that any repairer which took on more than a small amount of credit repair work was likely to be ostracized by insurers. NAB also told us that the body repair sector had been in decline for 20 years due to fewer accidents, safer cars and, more recently, reduced car usage.

24. One CMC (WNS) told us that there was some overcapacity in accident repairers, which had driven labour costs down; and another CMC (Helphire) said that it believed that the labour rates which insurers agreed with their network repairers were often so low as to be almost uneconomic for repairers.

25. In our view, the effect of such strong price competition between repairers is likely to be a strong incentive for repairers to reduce their costs, with the implication of a financial pressure to cut corners in repair work (see paragraph 22*(b)*). However, this incentive is clearly limited by repairers having to satisfy the repair requirements stipulated by work providers and being monitored by both work providers and customers. Therefore, it appears to us that any cost cutting is most likely to occur in areas which are least likely to be identified in audits by insurers, CMCs and standard monitors (eg in respect of PAS 125 accreditation) or by consumers (eg to unseen parts of the vehicle).

26. We found also that some insurers had moved to agree repair bills with repairers on a fixed price average repair basis, whereby the repairer receives the same income

regardless of its costs in performing the repair. In our view, the incentives for repairers under these contracts were likely to be even more to cut corners where possible, particularly in relation to more expensive repairs. One repairer ([✂]) told us that fixed average price contracts (and also average repair cost penalty contracts) between insurers and repairers encouraged repairers to perform minimal repairs, which could compromise safety, quality and post-repair vehicle values. We also noted that *Post* (an insurance industry magazine), quoting an industry source, said that insurers were unlikely to mandate an unsafe repair but unsafe repairs could happen if an approved repairer had to work to an average repair cost contract.[7]

27. On the other hand, both work providers and repairers told us that their incentives were to conduct good-quality repairs. Work providers told us that they were keen to keep customer complaints low in order to retain customers and to build a good industry reputation for claims management; and repairers told us that they were keen to remain an approved repairer for work providers, not to have to carry out expensive post-repair remedial work, to sustain their reputations and not to lose any accreditations they may have (eg PAS 125 or manufacturer accreditations).

Quality standards in vehicle repair

28. In this section, we consider the quality of vehicle repairs, the standards applied by work providers and the monitoring of repairs to those standards. We summarize in turn the evidence relating to insurers, brokers, CMCs and repairers. We then consider evidence on the quality of materials used and the time taken for repairs.

Insurers

29. Insurers usually require repairers to perform vehicle repairs to certain quality standards, using one or more of the following measures:

[7] *Post Magazine*, 28 February 2013.

(a) requiring repairers to have PAS 125 accreditation, or at least requiring them to aspire to this accreditation (in order to receive this accreditation, repairers need to demonstrate that they carry out vehicle repairs using certain processes and procedures);

(b) specifying the repair methods to be followed (eg manufacturer methods or Thatcham methods);

(c) monitoring repairers through audits (eg by the insurer's engineers), and setting performance targets (eg low levels of customer complaints, adherence to time-lines for repairs, etc);

(d) monitoring customer complaints and gathering evidence through customer surveys; and

(e) requiring repairers to provide a warranty for their repairs, putting the financial burden on repairers for any post-repair remedial work.

30. We consider each of these measures in turn.

PAS 125 and manufacturer approvals

31. [✂] out of the ten insurers in our sample said that they required repairers to have PAS 125 accreditation (or at least to be working towards this accreditation). [✂] insurers ([✂],[✂] and [✂]) said that they did not require its approved repairers to have PAS 125 accreditation.

32. The PAS 125 standard is owned and maintained by the British Standards Institution (BSI) as the National Standards Body of the UK.[8] BSI told us that PAS 125 was a technical specification, which provided repairers with the requirements for processes

[8] www.bsigroup.com/en-GB/our-services/product-certification/industry-sector-schemes/automotive-product-certification-and-kitemark-schemes/vehicle-damage-repair-kitemark-pas-125/pas-125-faqs/.

and procedures related to the safe repair of accident-damaged vehicles. PAS 125 details minimum requirements for:

(a) competent personnel;

(b) appropriate and well-maintained equipment;

(c) suitable repair methods; and

(d) the quality of repair materials.

33. In order to gain and retain PAS 125 accreditation, repairers must adhere to the PAS 125 repair standards and have this adherence certified by a provider of accreditation services. BSI is the largest provider of PAS 125 accreditation, in the form of a Kitemark (a mark owned by BSI), but other providers also offer accreditation. Where BSI certifies a provider, it will undertake two unannounced audits per year (or one for repairers with fewer than seven employees). Appendix 1 provides more details on the PAS 125 standard and PAS 125 accreditation.

34. Some repairers have manufacturer approvals (either in addition to or instead of being PAS 125 accredited). Where repairers have such approvals, they are required to adhere to the repair methods and standards set out in their agreements with the manufacturers (eg to use OEM parts and the manufacturer's recommended paint brand, and to comply with the manufacturer's warranty requirements). Aviva said that it required some repairers to have manufacturer approval in order to handle prestige vehicle repairs (eg Mercedes, BMW and Porsche). AXA GB said that its approved repairers must have either PAS 125 accreditation (or be working towards it) or equivalent manufacturer approvals. It said that manufacturer approvals would over-ride PAS 125. However, the Institute of Automotive Engineer Assessors (IAEA) told us that, in practice, the requirements of PAS 125 and manufacturer approvals were quite similar.

Specifying repair methods

35. Both PAS 125 and manufacturer approvals require repairers to adhere to certain vehicle repair methods. These methods are usually either Thatcham methods or manufacturer methods.

36. Thatcham is a not-for-profit organization, established in 1969. It is independently operated with a board of directors drawn from around 30 insurer members which fund its work. We were told that its main purpose was to carry out research targeted at containing or reducing the cost of motor insurance claims, whilst maintaining safety and quality standards. Thatcham methods are specific to each make and model of vehicle and set out the process by which each part of those vehicles should be repaired.

37. Manufacturer methods are similar to Thatcham methods in that they also prescribe the way in which each damaged part of a vehicle should be repaired.

38. Although some insurers do not stipulate that repairers need to have PAS 125 accreditation (see paragraph 31) or manufacturer approvals, they may specify in their repair contracts that repairers must adhere to Thatcham or manufacturer methods (eg Admiral requires adherence to manufacturer methods by its approved repairers).

Monitoring the quality of repairs

39. All of the ten large insurers in our sample told us that they monitored the performance of their approved repairers. For example, [✂] told us that it audited the compliance of its approved repairers with PAS 125. It said that in 2012 it performed more than [✂] audits and found that [✂] per cent of repairs were PAS 125 compliant. We found that most of the insurers carried out checks on a sample of vehicles at their repairers' premises (in addition to investigating specific customer complaints).

40. We asked the insurers and some independent repairers what the repair quality checks of insurers involved and we found that these checks were typically part of repair audits, the main purpose of which was to control costs rather than to ensure a high quality of vehicle repairs. Appendix 2 sets out the extent of monitoring by each of the ten insurers in our sample.

41. We found that where insurers refer non-fault repairs to CMCs, these insurers monitor the performance of their preferred CMC, and in some cases also monitor the quality of some of the repairs their CMC handles ([✂]).

Monitoring customer complaints and customer surveys

42. Eight out of the ten large insurers in our sample told us that they monitored the level of customer complaints in order to identify any systematic problems in repair quality. Six of the ten insurers told us that they conducted customer surveys.

Requiring repairers to provide warranties

43. Insurers usually provide claimants with a warranty for vehicle repairs undertaken by their approved repairers. However, insurers usually require their approved repairers to carry out any rectification work in relation to repairs they performed at their own expense. Warranties are typically for five years, though some insurers provide a warranty for three years and some provide a lifetime warranty (as long as the vehicle is not sold).

Brokers

44. All of the brokers in our sample told us that they either passed claimants to the underwriting insurer or to a CMC for their repair to be managed. None of the brokers which provided us with information had its own approved repairer network.

45. The brokers told us that they monitored the performance of the CMCs to which they referred claimants (eg in terms of call answer times, complaints, customer survey data, etc) but they did not monitor the quality of repair services.

CMCs

46. Four of the seven CMCs in our sample told us that the majority or all of the repairers in their networks were PAS 125 accredited and/or had manufacturer approvals.

47. All seven of the CMCs told us that they monitored the quality of vehicle repairs. Four CMCs told us that they carried out audits of repairers, one saying that it did this solely through the appointment of independent engineers. Five CMCs told us that they reviewed or investigated complaints received; and two CMCs told us that they solicited customer feedback on repairs.

48. Three CMCs told us that they provided a five-year warranty on the repairs they managed and another CMC said that it provided a three-year warranty.

Repairers

Insurer-owned repairers

49. Two of the three insurer-owned repairers in our sample either had PAS 125 accreditation or were working towards it, and one of them told us that it also had manufacturer approvals. Two of these repairers told us that they had service level agreements with their related insurers, against which each insurer monitored the repairer's performance, including through audits and inspections. Two of the three repairers told us that their related insurer also conducted customer surveys. All three of the repairers said that they were required to use Thatcham or manufacturers' methods. One of the repairers said that it was required to comply with manufacturers' warranty requirements.

50. UKAARC told us that its related insurer (DLG) was keen to ensure that costs were kept to a minimum, but not at the expense of repair quality or the safety of the customer. Solus (owned by Aviva) told us that it had never been asked by a work provider to carry out a repair in a way which would compromise vehicle safety and it would not allow this to occur.

Independent repairers

51. Nine independent repairers told us about the standards to which they conducted repairs and how they were monitored ([✂],[✂],[✂],[✂],[✂],[✂],[✂],[✂]and [✂]). Six of these repairers ([✂],[✂],[✂],[✂],[✂] and [✂]) told us that they performed repairs to PAS 125 or manufacturer standards, while two of the remaining three repairers ([✂]and [✂]) told us that all repairs were carried out in accordance with Thatcham methods.

52. Evidence from these nine repairers indicates that the quality of their repairs is monitored mostly through PAS 125 audits (for PAS 125 accredited repairers), internal checks and/or checks by work providers. They told us the following:

(a) [✂] said that the quality of its work was checked through PAS 125 biannual unannounced audits, manufacturer annual audits at approved sites, an internal audit performed quarterly, and work provider audits on an ad-hoc basis.

(b) [✂] said that its repairs were all subject to internal quality control checks before the vehicle was released to the customer, and all its sites were subject to periodic audits by BSI to maintain their PAS 125 accreditation.

(c) [✂] said that it was audited by some insurers, but mainly for cost control purposes. [✂] said that insurers did very little monitoring of repairers' repair quality, giving, as an example, [✂].[9] However, [✂] added that the BSI PAS 125 Kitemark was a rigorous standard, with twice-yearly unannounced audits which

[9] [✂] told us that it did not agree with this view.

drilled down into the repair process. [✂] said that credit repair work providers (CMCs) did not do any quality control checks.

(d) [✂] said that the quality of all the repairs it performed was checked internally, regardless of the source of work, through stage checks and final checks by a quality control manager. In addition, insurance repairs were subject to external audits by the insurers. [✂] said that BSI also audited its repair sites.

(e) [✂] said that the primary methods used by work providers to ensure repair quality were insisting on PAS 125 accreditation and analysing customer feedback.

(f) [✂] said that the quality of repair was self-monitored by repairers and CMCs/insurers only became involved if there was a customer complaint.

(g) [✂] said that an insurer only found out about a repairer cutting corners if a customer complained. It said that the audits conducted by insurers were primarily desktop exercises which went through a repairer's files rather than involving any physical inspections looking at quality. [✂] said that [✂] did some inspections, but these were announced in advance and focused on analysis of paperwork.[10] [✂] said that inspections by work providers did not focus on the quality of the vehicle repair and sometimes the inspectors were not even engineers.

(h) [✂] said that the majority of insurers rarely came out to check on repair quality. It said that insurer audits were more about whether the assessment and invoice reflected the work carried out rather than the quality of the repair.

(i) National Accident Repair Group, a marketing association for repairers, said that larger insurers (eg [✂]and [✂]) had teams of engineers which audited repairs, though these audits were mainly either in relation to customer complaints or to check that a repair was done in line with the repair estimate.

[10] [✂] told us that it did not agree with this view.

53. [✂],[✂] and [✂] said that there was no difference in the monitoring of repairs between fault and non-fault repairs.

54. Five repairers ([✂],[✂],[✂],[✂] and [✂]) told us categorically that they would not compromise vehicle safety in any of their repairs. [✂] explained that it would not perform repairs which compromised vehicle safety, even if the alternative involved additional costs, as this would impact on its brand and reputation. Nevertheless, some repairers told us about poor-quality repairs, as follows:

(a) [✂] said that there was corner cutting by repairers and that this was increasing, as insurers wanted cars repaired as cheaply as possible. [✂] said that corner cutting included using lots of filler in a damaged part rather than replacing it, painting without taking off detachable parts (eg a door handle), not blending the paint on newly-fitted parts with the rest of the car (in particular on metallic cars and older cars where the colour had faded), and patching up (gluing) rather than replacing parts (eg a broken headlamp). [✂] said that some insurance repairs could compromise vehicle safety, but that the evidence on this was inconclusive.

(b) [✂] said that fault insurers sometimes asked for cosmetic corners to be cut.

(c) [✂] said that repairers could cut corners by using non-OEM parts and that this was particularly possible with credit repair companies, due to these work providers not checking repair quality.

(d) [✂] said that insurers accepted repair proposals by repairers despite them failing to address properly all accident-related damage.

Summary of standards (insurers, brokers, CMCs and repairers)

55. The information provided by insurers, CMCs and repairers indicates that insurers often require repairers to adhere to an independently-audited PAS 125 quality standard and/or to manufacturer standards. [✂] of the ten largest insurers told us that they performed repair quality audits, including physical checks of vehicle repairs

performed by their approved repairers, without being prompted by customer complaints.

56. Nevertheless, it appears that there is the possibility for repairers sometimes to cut corners in repairs. Submissions from some parties suggest that insurers' incentives are to keep their costs as low as possible which can lead to 'corner cutting' in the repairs they approve. We also found that the main purpose of repair audits was to control costs rather than to ensure high-quality repair standards and noted that a number of repairers suggested that there was limited monitoring of actual repair quality.

Quality of materials used and time taken for repair

57. The principal inputs in vehicle repairs are labour, parts and paint. We considered whether the choice of parts and paint used in vehicle repairs and the time allowed for a repair gave rise to quality concerns.

Quality of parts

58. There are four types of parts used in vehicle repairs: OEM parts, original equipment supplier (OES) parts, non-OEM parts and recycled parts. OEM parts are manufactured and branded by the original vehicle manufacturer; OES parts are the same as OEM parts (ie produced by the same parts manufacturer), but are not branded by the original vehicle manufacturer; non-OEM parts are copies of the OEM part; and recycled parts are parts taken from other vehicles (eg written-off vehicles).

59. We have received no evidence of quality concerns in relation to OEM and OES parts. We were also told that recycled parts were rarely used in insurer-funded post-accident vehicle repairs.

Non-OEM parts

60. Several repairers raised concerns about non-OEM parts, which mainly related to difficulties in fitting the part. For example:

(a) [✂] said that the labour time required to fit non-OEM parts in order to achieve an acceptable fit and finish was typically longer than for OEM parts and hence resulted in a higher labour cost.

(b) [✂] said that non-OEM parts were cheaper than OEM parts but were often of poorer quality. [✂] said that this meant that additional time was required to make them fit, though insurers did not pay for this additional time.

(c) Solus (owned by Aviva) said that using non-OEM parts could reduce the cost of the repair, but could cause fitting difficulties.

61. Some repairers also told us that the use of non-OEM parts could impact on the look and value of the repaired vehicle. For example:

(a) [✂] said that using non-OEM parts often made achieving a good fit very difficult, which could affect repair quality. This was because repairers were not given extra time by insurers to correct misshapen or badly moulded parts, which incentivized them to undertake 'rushed' work and potentially resulted in poor-quality repairs. For example, shut lines and fit lines could be affected, which impacted on the vehicle's appearance and could affect its value.

(b) [✂] said that panels which fitted poorly could reduce a car's value by 5 per cent.

(c) [✂] also said that the use of non-OEM parts could impact the resale price of a repaired vehicle.

62. We were also told that the use of non-OEM parts invalidated manufacturer warranties for repaired vehicles, though no party provided any evidence to indicate that this was a material issue in practice.

63. Both insurers and repairers told us that non-OEM parts were mainly used for the standardized, non-safety critical parts of a vehicle. For example:

(a) Aviva said that safety-related parts were often not available from non-OEM suppliers, due to the high development cost of these parts.

(b) QRC (owned by RSA) said that non-OEM parts accounted for [✂] per cent of the total number of parts it purchased, and were generally used only for non-structural elements of repair work.

(c) [✂].

64. It appears to us that if the use of non-OEM parts results in any detriment to consumers it is likely to be due to a poorer cosmetic appearance of the vehicle with possible implications for the value of the vehicle. However, evidence from repairers indicates that in most cases they would look to overcome this detriment by working to make the part fit, even though it might take longer than to fit the equivalent OEM part.

65. Moreover, whilst we have some concerns that many consumers might not be able to assess whether a repair to a hidden or technical part of their vehicle was adequately performed, we are less concerned in relation to cosmetic aspects of the repair. Our survey of non-fault claimants found that 84 per cent of respondents were at least 'fairly confident' that they could spot if their vehicle was returned to its pre-accident condition. This would suggest that the potential for work providers and repairers to cut corners through using ill-fitting non-OEM parts is limited.

66. We also note that insurers usually provide warranties of at least three years on vehicle repairs, enabling customers to challenge any issues which emerge over time from poor-quality parts; and we note that insurers do not typically use non-OEM parts in repairs of vehicles less than three years old.

Repair or replace

67. Several repairers told us that there was often a tension between them and insurers in how a repair should be conducted and, in particular, whether a damaged part should be repaired or replaced. Repairers said that, due to low labour rates, insurers sometimes sought repair work to be performed when, in the repairer's opinion, the part needed to be replaced.

Summary on quality of parts

68. Overall, it did not appear to us that consumers were likely to suffer a systematic underprovision in general repair quality from the mix of parts currently used in post-accident repairs. However, we recognized that, in specific cases, the use of non-OEM parts or the choice to repair rather than to replace a part could be relevant to whether an individual has received his/her tort law entitlement, if as a result of the repair the non-fault claimant is not put into as good a position as he/she would have been in if no accident had occurred.

Quality of paint

69. We received no evidence to indicate that there is systematic use of poor-quality paint in vehicle repairs. We found that several insurers and some CMCs require repairers to use specific premium paint brands but we found no evidence to suggest that the use of non-premium paint brands has any detrimental effect on the quality of vehicle repairs. For example, [✂] told us that the quality of repair was more influenced by the preparation and application of the paint than by the paint itself.

Time taken for repairs

70. We found no evidence to suggest any difference in the time taken for repairs between fault and non-fault repairs or between insurer-managed and CMC-managed

repairs. In all such repairs, we found that the allocated time was usually determined by the repair cost estimation system (ie usually Audatex).

Summary

71. Overall, it does not appear to us that the paint and parts used in insurer-funded vehicle repairs are typically of a substandard quality. We have also found no evidence that there is a difference in the labour hours used in fault and non-fault vehicle repairs or that insurers systematically make inappropriate decisions to repair rather than to replace parts.

Customer complaints and satisfaction with vehicle repairs

72. We reviewed survey evidence relating to customers' satisfaction with the quality of vehicle repairs. We looked at the results of our survey of non-fault claimants and the GIMRA motor claims satisfaction survey, which was informative particularly with regard to fault claims. We also considered customer complaint evidence provided by some insurers, CMCs and repairers.

Our non-fault survey

73. The results of our survey of non-fault claimants are in the working paper 'Survey report'. Some analysis of these results in relation to the possible underprovision of post-accident services to consumers is in the working paper 'ToH 2: Analysis of the results of the non-fault survey in relation to underprovision'.

74. The vast majority of respondents to our survey (around 94 per cent) felt that all of their accident damage was repaired. Of the remaining 6 per cent, 29 per cent said that repairs were not carried out properly, and 14 per cent said that minor or cosmetic issues were not fixed.

75. Around 88 per cent of respondents felt that their vehicle was in the same or a better condition after the accident repair compared with its pre-accident condition. 10 per cent said that it was in a slightly worse condition, and 1 per cent said that it was in a much worse condition.

76. Overall, 89 per cent of respondents said that they were satisfied with the repair service, and only 7 per cent said that they were dissatisfied.

GIMRA survey

77. On behalf of a significant number of GIMRA members (about 14 insurers), research firm Harris Interactive contacts on a quarterly basis around 2,500 PMI claimants whose claims have settled in the last three months. Claimants must have comprehensive cover and have claimed off their own insurance. Also, the claim must have been settled within six months of it being lodged, and no serious personal injury must have been involved.

78. We reviewed GIMRA's survey from December 2012, covering claims settled in the period of April to September 2012.

79. The results of the GIMRA survey indicated that the quality of repair is the second most important aspect of the claims-handling experience for claimants (with communication throughout the claim being the most important). The third most important aspect is the time taken from FNOL to the car being returned post-repair (or a cheque being received if a write-off).

80. [✂] per cent of respondents to the GIMRA survey said that the quality of the repair they received was at least of 'good' quality, ie it restored the vehicle to at least its

pre-accident condition. [✂] per cent of respondents said that the repair left their vehicle in a better condition than prior to the accident.[11]

81. The GIMRA survey also found that only [✂] per cent of respondents were dissatisfied with the overall repair experience, compared with [✂] per cent who were either very satisfied or extremely satisfied.

82. [✂] per cent of respondents to the GIMRA survey made a complaint about their claim and, of these complaints, [✂] per cent were because of poor-quality repairs. This means that complaints in relation to the quality of repairs were made in less than [✂] per cent of claims.[12]

Customer complaint evidence from insurers, CMCs and repairers

83. The CMCs in our sample all told us that they received low levels of complaints in relation to vehicle repairs. For example, Quindell told us that it only received complaints in 1 per cent of its repair claims; and WNS said that it received justified complaints in relation to the quality of repairs performed by its approved repairer network in less than 1 per cent of cases. Claimfast said that it received complaints in less than 1 per cent of the claims it managed. Helphire, Enterprise and Accident Exchange all told us that they received complaints in less than 1 per cent of the claims they managed. [✂] said that it received complaints in 4 per cent of the claims it managed; and [✂] indicated that it received complaints in 6 per cent of the repairs it managed in 2012.

[11] It appears to us that the number of respondents stating that the repair left their vehicle in a better condition is high in comparison with both our survey results (see paragraphs 73 to 76) and the results of surveys carried out by insurers and repairers (see paragraphs 83 to 87). We note that the GIMRA survey appears to be mainly focused on the quality of customer communication and the customer service experience and it might be that responses to this question have to some extent reflected the overall customer service experience in relation to the repair.
[12] Not all claims had an associated vehicle repair (the base for the total percentage of complaints was 2,512 claims, of which 1,708 claims involved a vehicle repair).

84. Repairers also told us that complaint rates were low and generally in a range of between 1 and 5 per cent of repairs. For example:

(a) QRC (owned by RSA) said that it received complaints in 0.6 per cent of its repairs; and RSA told us that it received FSA-reportable complaints in 0.2 per cent of repairs carried out by QRC.

(b) Solus (owned by Aviva) said that it received complaints via Aviva in less than 1 per cent of its repairs (though we note that such complaints might only arise if earlier attempts to resolve issues have failed).

(c) UKAARC (owned by DLG) said that DLG received complaints in [✂] per cent of its repairs in 2012 and, of these complaints, around half were in relation to [✂]. UKAARC said that, in addition, some customers complained directly to UKAARC.

(d) Independent repairers (eg [✂]) also told us that complaint rates were low. [✂] said that it received complaints in 3 per cent of its repairs; [✂] said 5 per cent of repairs, [✂] said 1 to 2 per cent of repairs and [✂] said in less than 1 per cent of repairs.

85. [✂],[✂] and [✂] provided data which showed that they received reportable customer complaints (ie complaints which have not been resolved by close of business on the business day following receipt of the complaint) with respect to between 1 and 4 per cent of total motor claims managed. Of these complaints, between 9 and 27 per cent related to repair quality, with the result that repair complaints arose in 0.25 to 0.7 per cent of all PMI claims (although we note that not all motor claims involve repairs, eg vehicle write-offs).

86. We note that a 2 per cent complaint rate relating to repairs would equate to approximately 40,000 complaints a year (assuming a basis of around 2 million accident repairs paid for by insurers a year).

87. Repairers told us that customer complaints related mostly to:

(a) [✂];

(b) the scope of the service received (eg the exclusion of damage caused by wear and tear, additional work not being authorized, the courtesy car being insufficient, or the excess being higher than expected);

(c) delays in booking the repairs; and

(d) a lack of communication with the customer.

Other considerations

88. In this paper we have focussed on whether claimants receive substandard vehicle repair services and we consider separately the possible underprovision of TRVs in a separate working paper (see 'ToH 2: Underprovision of TRVs'). However, we note that there are other ways in which there could be underprovision to claimants due to the claimant being different from and possibly less well informed than the party procuring post-accident services (ie the fault insurer, non-fault insurer or CMC) on their behalf.

89. We note that non-fault drivers may be entitled to recover other losses (other than personal injury), for example the diminution in value of their car or a loss of earnings. There would appear to be scope for consumer harm if consumers were not aware of their wider entitlements or faced obstacles in pursuing those entitlements. In the working paper 'ToH 1: Overcosting and overprovision of repairs', we note, for example, that certain CMCs provide assistance with such claims while most insurers do not.

90. We have identified some potential disadvantages for non-fault claimants in claiming under their own insurance. For example, in some cases they may need to pay an excess (at least in the short term), their no-claims bonus may be (temporarily)

affected, or their access to a TRV might be shorter than needed in the case of a write-off (see the working paper ‘ToH 1/2: Vehicle write-offs’). Consumer harm could result from the non-fault claimant not appreciating the implications of claiming under their own insurance or their alternative options at the time of making a non-fault claim (ie not to claim under their insurance).

91. At this stage, we have not reached a view on these issues and we would invite submissions from parties on them.

PAS 125 and the BSI Kitemark

1. In order to become part of an insurer's approved repair network, repairers are often required either to be PAS 125 accredited (eg through achieving the Kitemark) or to be working towards achieving this accreditation.

2. BSI owns both PAS 125 and the Kitemark. However, these are two different products, which we discuss in turn.[13]

PAS 125

3. BSI told us that, about six years ago, it was commissioned by Thatcham, insurers and insurance-related parties to set up PAS 125 as a publicly available standard. This was undertaken by BSI's standard-setting division, being the National Standards Body of the UK, which also maintains and updates this standard. QRC told us that the PAS 125 scheme was UKAS-accredited.[14]

4. BSI told us that the PAS 125 standard prescribed the process by which a vehicle was repaired, including requiring competent personnel, quality repair materials, appropriate and well-maintained equipment, and appropriate repair methods.

5. Aviva told us that the materials requirements in the original PAS 125 2009 standard were that parts, components and fasteners should be either:

   (a) OEM branded, with the vehicle manufacturer's trademark;

   (b) OEM branded, with the component manufacturer's trademark and independently certified under a recognized conformity certification scheme;

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[13] www.bsigroup.com/en-GB/our-services/product-certification/industry-sector-schemes/automotive-product-certification-and-kitemark-schemes/vehicle-damage-repair-kitemark-pas-125/pas-125-faqs/.

[14] The United Kingdom Accreditation Service (UKAS) is the sole national accreditation body recognized by the Government to assess, against internationally agreed standards, organizations that provide certification, testing, inspection and calibration services: www.ukas.com/about-accreditation/about-ukas/.

(c) of matching quality independently certified under a recognized conformity certification scheme; or

(d) an alternative part (including recycled parts) of a non-safety-related status, supplied under a work provider agreement.

The BSI (PAS 125) Kitemark

6. BSI told us that, separate to setting the PAS 125 standard, it also provided certification of the PAS 125 standard in the form of a Kitemark pursuant to BSI's PAS 125 Kitemark scheme. The scheme was owned and operated by a separate company falling within the BSI group. BSI operated a strict observance of separation of business function between the National Standards Body and the company that promoted the Kitemark, enforced through law by agreement with HM Government. The Kitemark service was provided through BSI's certification division. BSI said that it competed for this work against other certifying organizations. It said that around 860 repairers currently had the BSI (PAS 125) Kitemark and this level had remained stable for the last three years.

7. BSI said that the difference between PAS 125 and the associated Kitemark was that the Kitemark was awarded to those repairers who were PAS 125 certified by BSI. BSI said that, to achieve this certification, PAS 125 had to be followed according to a scheme set down by BSI. BSI told us that other certifiers had their own schemes, but it believed that its scheme and its audit process were among the most robust.[15] For example, PAS 125 would set out that a repair needed to be done using appropriate methods but BSI would check what those appropriate methods were, eg to follow either manufacturer methods or Thatcham methods. BSI said that a repairer could follow PAS 125 without being certified by anyone.

[15] BSI said that its certification was the strongest, in part because, unlike the other certifiers, BSI did unannounced audits of repairers.

8. BSI said that, to be certified by BSI (and awarded the Kitemark), repairers were audited twice yearly through unannounced audits. In a typical audit, BSI would work back through a sample of repair records to check that the appropriate processes had been followed, and look at some vehicles (which included vehicles in various stages in the repair and finished vehicles). BSI said that quality was not audited directly (as the auditors were not usually engineers) but if the processes were being followed properly, repair quality should be maintained. BSI also said it checked that finished vehicles had been repaired as per the work instructions to identify whether vehicles had been repaired to the pre-damaged condition. BSI added that, during an audit, it would look at the complaints register of the repairer. It said that it would also consider any complaints it received directly from customers relating to vehicle repairs conducted by a BSI-certified repairer, though the number of such complaints was very low.

9. BSI said that, in addition, it performed in-depth audits of repairers, in particular where the initial audit indicated possible weaknesses. BSI said that non-compliance with the Kitemark requirements was usually higher when a repairer was seeking to gain the Kitemark for the first time rather than when it had become accustomed to the required processes.

10. We were told that if BSI found non-compliance through its audit processes, an agreed action plan was put in place, which was managed within certain service level agreement time frames. If the repairer did not respond with an acceptable action plan or keep to it, non-conformities could result in the repairer being suspended or, in more serious cases, removed from the Kitemark.

Insurer PAS 125 accreditation requirements and monitoring

The table below sets out, for each of the ten insurers in our sample, their requirements for PAS 125 accreditation and the extent of their monitoring of repair quality.

TABLE 1 **PAS 125 accreditation requirements and monitoring of repair quality**

Insurer	*PAS 125 accreditation requirements*	*Monitoring of repair quality through physical vehicle inspection*
Admiral	None	Yes ([✂])
Ageas Insurance	[✂]	[✂]
Aviva	Requires BSI PAS 125 Kitemark	Repairer audits have an element of repair quality checks of vehicles
AXA GB	Requires PAS 125 accreditation (or to be working towards it) or manufacturer approval	Carries out audits on the repairers' quality assurance processes (repairer audits are limited to cost control and adherence to PAS125 standards)
AXA NI	None	Repair quality audits on vehicles since 2013. Prior to 2013, repair quality checks only done in response to customer complaints
CISGIL	Requires PAS 125 accreditation	Repairer audits have an element of repair quality checks on vehicles
DLG	Requires BSI PAS 125 Kitemark	Repairer audits include repair quality checks on vehicles
esure	Requires BSI PAS 125 Kitemark	Repairer audits include repair quality checks on vehicles
LV	None	To a limited extent: quality checks on vehicles only in response to customer complaints
RSA	Required PAS 125 accreditation (or be working towards it)	Repair quality checks on vehicles included in repairer audits, but quality is not an audit focus (but rather cost and process control)
Zurich	Requires BSI PAS 125 Kitemark	Repair quality checks on vehicles included in repairer audits, but quality is not an audit focus (cost control is focus)