COMPETITION COMMISSION

PRIVATE MOTOR INSURANCE MARKET INVESTIGATION

Theories of harm 1 and 2: Vehicle write-offs

Introduction

1. This paper examines theories of harm (ToHs) 1 and 2 in situations where a vehicle is deemed uneconomical to repair following a road traffic accident, ie where the vehicle is a write-off (total loss). First, with relevance to ToH 1, it discusses whether there is overcosting and/or overprovision in the services provided to non-fault claimants when their vehicle is a write-off.[1] Second, with relevance to ToH 2, it discusses whether there is underprovision of services to fault and/or non-fault claimants when their vehicle is a write-off due to a lack of alignment between their interests and those of the parties which procure services on their behalf.

Summary

The write-off process

2. In general terms, a vehicle is deemed to be beyond economic repair (and hence a write-off) when:

   (a) the estimated cost to repair the vehicle exceeds the estimated pre-accident value (PAV) of the vehicle less any costs that could be recovered for its salvage (the estimated salvage value); or

   (b) where the vehicle is so significantly damaged to render the vehicle unable to be repaired (eg flood damage or in some cases where a vehicle has rolled over).

3. If a vehicle is being written off, a customer can elect to retain the vehicle or to give it up to the insurer or claims management company (CMC) managing the claim (which

[1] By 'overcosting' we refer to the overall difference to the fault insurer in the cost of a non-fault write-off between when the party paying for the service procures it and when another party procures it. We recognize that the overall difference in cost may be in part the result of underlying differences in the business models of different providers. We do not use the term 'overcosting' pejoratively as any differences in costs may arise for legitimate reasons. The term refers to the costs of a write-off procured by a non-fault insurer or CMC/credit hire company (CHC) being 'over and above' the costs of a write-off procured by a fault insurer (ie where there is no separation of cost liability and cost control). The term should be distinguished from 'overcharging'.

will then arrange for it to be taken away by a salvage company). The payment made to the customer by the insurer differs according to whether or not the customer retains the written-off vehicle, as follows:

(a) If the customer gives up the vehicle, they will receive a payment of the agreed PAV of the vehicle (ie the PAV agreed between the claimant and the party managing the claim).

(b) If the customer chooses to retain the vehicle, they will receive a payment of the agreed PAV of the vehicle less the estimated salvage value.

(c) In a fault claim (and in some own insurer non-fault claims), they will receive either of the payments above, as appropriate, less the amount of the excess in their private motor insurance (PMI) policy.

4. Non-fault insurers and CMCs will seek to recover from the fault insurer the agreed PAV and any other charges they incur (eg vehicle storage and collection costs), less the estimated salvage value. Practices vary as to what the insurer or CMC receives from the salvage company responsible for disposing of the vehicle, but typically it will be the estimated salvage value plus any commission or referral fee.

5. A salvage company will receive the actual salvage proceeds, less the estimated salvage value paid to the insurer or CMC, less any costs of disposal and less any referral fees or rebates paid to the insurer or CMC which provided the work.

ToH 1: overcosting and overprovision

Overcosting

6. It appears to us that the separation of cost liability and cost control results in the overcosting of non-fault vehicle write-offs. This is achieved by estimated salvage values for non-fault vehicles being set artificially low by some non-fault insurers and CMCs, increasing payouts by fault insurers. We found that most CMCs receive a

referral fee payment of between £[✄] to £[✄] per salvage vehicle from salvage companies and that some non-fault insurers earn between £[✄] and £[✄] per salvage vehicle. The level of the commission payments and referral fees received by some non-fault insurers and CMCs from salvage companies indicates that the extent of the overcosting is likely to be up to around £200 per non-fault written-off vehicle.

7. We note that the claimant neither gains nor loses out from a low estimated salvage value as they still receive the PAV. However, it does result in a transfer of value from the fault insurer to the non-fault insurer/CMC. We also note that, in the event that the customer chooses to retain the vehicle, a lower estimated salvage value would benefit the claimant rather than the non-fault insurer or CMC because the claimant would receive a higher payout (PAV less the estimated salvage value).

8. We did not find similar concerns in relation to the PAV. The insurer or CMC managing a write-off passes the PAV of the written-off vehicle to the claimant. Therefore the insurer or CMC does not gain directly from setting a higher or lower PAV. Given that the PAV of a vehicle is determined by reference to publicly available data, such as used-car price guides and adverts for used cars (such as Autotrader), it appears to us highly likely that the fault insurer would be able successfully to challenge any inflated valuations of the PAV of a vehicle.

Overprovision

9. We did not find any evidence of overprovision of services to non-fault customers who had a vehicle write-off. (We discuss the overprovision of temporary replacement vehicles (TRVs) associated with vehicle write-offs in our paper 'ToH 1: Overcosting and overprovision of TRVs'.)

ToH 2: underprovision

10. We considered five ways in which underprovision might occur but in all cases it appeared to us that it was unlikely to arise, as follows:

    (a) Due to the ready accessibility of used-vehicle valuations, it appeared to us that underprovision in relation to a low PAV is unlikely.

    (b) We identified what appears to be a gap between the duration of TRV services which claimants in the event of a vehicle write-off might want (both fault and non-fault claimants) and those services which some claimants receive when they claim under their own insurance. We found that fault claimants or non-fault claimants who claimed under their own PMI policy usually received the TRV to which they were entitled under their policy, while other non-fault claimants who were provided with a TRV on, for example, the basis of credit hire, received the TRV for the entire period of the claim, and often for up to 7 days after they had received the settlement payment. However, it appears to us that any customer harm which arises from this gap would be due to (i) consumers not understanding and/or appropriately valuing the terms of their PMI policy or guaranteed courtesy car add-on policy at the point of purchase, or (ii) in the case of the non-fault claimant, not appreciating the implications of claiming under their own insurance or their alternative options at the time of their claim. With regard to (i) and the main PMI policy, we said in our statement of issues that we would not consider more generally the issue of the complexity of PMI and the transparency of information supplied at the point of sale; and, with regard to (i) and the guaranteed courtesy car add-on, we consider the transparency and complexity of this product, and its profitability, in the working paper 'ToH 4: Analysis of add-ons'. With regard to (ii) and claimants' awareness of their options at the point of claim, we consider this issue in both the working papers 'ToH 2: Underprovision of repairs' and 'ToH 2: Underprovision of TRVs'.

(c) We have not seen evidence that there is any preference by insurers or CMCs to write off rather than repair a vehicle. Rather, the evidence we have seen on the underestimation of salvage values would suggest that repairs are more likely (ie low salvage values would increase the likelihood of the repair cost being less than the PAV minus the salvage value).

(d) We have not seen any evidence of estimated salvage values being set too high when a customer chooses to retain the vehicle.

(e) Although some insurers cancel insurance policies following a write-off (even sometimes for non-fault customers claiming under their own insurance), this does not seem to be common practice. Moreover, where such cancellation does occur it is pursuant to a term in the PMI policy so any customer harm would again be due to either (i) consumers not understanding and/or appropriately valuing the terms of their PMI policy at the point of purchase or (ii) not appreciating the implications of claiming under their own insurance or their alternative options at the time of their claim (see point *(b)* above).

Background

11. Under ToH 1, we are investigating 'whether the separation of cost liability and cost control in the supply of services to non-fault parties involved in motor accidents increases the costs of the services supplied (due to a lack of price competition or an unwarranted increase in quality)'.[2]

12. Under this ToH, we are analysing whether fault insurers, which pay for the post-accident services received by non-fault claimants, pay higher prices when these services are managed by another party than when they manage them (overcosting), which might be in part because non-fault claimants receive better services than those to which they are entitled (overprovision). In this paper we discuss the services

[2] Update to statement of issues, paragraph 5.

provided to non-fault claimants in relation to vehicle write-offs and the costs of these services.

13. 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.'[3]

14. Under this ToH we are 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). In this paper we consider this issue in respect of services received in relation to vehicle write-offs.

15. A vehicle write-off occurs in a PMI claim where it is (or appears to be) uneconomical to repair the vehicle. In this paper we first set out the process for a vehicle write-off before considering whether customers receive:

(a) compensation payments for vehicle write-offs which are lower (ToH 2) or higher (ToH 1) than the PAV of the vehicle; and

(b) services which are more (ToH 1) or less (ToH 2) than appropriate in relation to vehicle write-offs.

Vehicle write-offs

16. According to Trend Tracker,[4] around 600,000 cars were written off in 2012 (out of a total of around 4 million repair claims for private and fleet cars).

17. We gathered data in relation to vehicle write-offs from seven of the ten largest insurers, which together were responsible for around half of the total gross written

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[3] Update to statement of issues, paragraph 5.
[4] The Future of the Car Body Repair Market in the UK 2012–2017.

premium (GWP) for PMI in 2012.[5] These insurers, in aggregate, managed in 2012 around 183,000 PMI-related write-offs, made up of 106,000 write-offs for fault claimants, 56,000 for non-fault claimants managed by the non-fault insurer and 21,000 for captured non-fault claimants. This data would suggest that there were around 365,000 PMI-related write-offs in 2012 managed by insurers.[6]

The write-off process

18. In general terms, a vehicle is deemed to be beyond economic repair (and hence a write-off) when:

    (a) the estimated cost to repair the vehicle exceeds the PAV of the vehicle less any costs that could be recovered for its salvage (the estimated salvage value); or

    (b) where the vehicle is so significantly damaged to render the vehicle unable to be repaired (eg flood damage or in some cases where a vehicle has rolled over).

19. However, some insurers use slightly different criteria. For example:

    (a) Aviva told us that a vehicle was usually deemed a total loss if repair costs would exceed 80 per cent of the PAV of the vehicle; and

    (b) [✄].

20. Eight out of the ten largest insurers (Zurich, RSA, LV, esure, Direct Line Group (DLG), Co-op (CISGIL), AXA and Aviva) told us that they did not differentiate between fault and non-fault claims in how they determined whether a vehicle was a write-off.

21. Vehicle write-offs are classified into various categories. Categories A and B cannot be repaired or resold at all (and must be scrapped), whereas categories, C, D, F and

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[5] See working paper 'Background to PMI: insurers, brokers and PCWs', Appendix 1.
[6] We understand from data provided to us by CMCs that the number of write-offs managed by CMCs is small relative to the number managed by insurers.

X are usually resold in car auctions and may subsequently be repaired or used for spare parts.

22. If a vehicle is being written off, a customer can elect to retain the vehicle or to give it up to the insurer or CMC managing the claim (which will then arrange for it to be taken away by a salvage company). The payment made to the customer by the insurer or CMC differs according to whether or not the customer retains the written-off vehicle, as follows:

    (a) If the customer gives up the vehicle, they will receive a payment of the agreed PAV of the vehicle.

    (b) If the customer chooses to retain the vehicle, they will receive a payment of the agreed PAV of the vehicle less the estimated salvage value.

    (c) In a fault claim (and in some own insurer non-fault claims), they will receive either of the payments above, as appropriate, less the amount of the excess in their PMI policy.[7]

23. Non-fault insurers and CMCs will seek to recover from the fault insurer the PAV and any other charges they incur (eg vehicle storage and collection costs), less the estimated salvage value. Practices vary as to what the insurer or CMC receives from the salvage company responsible for disposing of the vehicle, but typically it will be the estimated salvage value plus any commission or referral fee.

24. A salvage company will receive the actual salvage proceeds, less the estimated salvage value paid to the insurer or CMC, less any costs of disposal and less any referral fees or rebates paid to the insurer or CMC which provided the work.

[7] Where a non-fault claimant claims under their own PMI policy, the non-fault insurer may handle the claim in various ways: (i) it may indemnify the non-fault claimant for the insured losses only and seek to recover the costs of the these losses from the fault insurer; (ii) it may also indemnify the non-fault customer for some uninsured losses (eg by waiving the excess) and seek to recover these losses from the fault insurer as well; or (iii) the non-fault insurer may choose to indemnify only the insured losses (not uninsured losses) but nevertheless seek to recover uninsured losses as well (eg any excess that had been previously charged), either by virtue of the claimant having motor legal expenses insurance or as a service to its customer.

Possible concerns of overcosting, overprovision or underprovision

25. Table 1 shows the possible ways in which overcosting, overprovision or underprovision may arise when a vehicle is written off.

TABLE 1 **Overcosting, overprovision or underprovision in vehicle write-offs**

	Ways in which concern might arise
Overcosting	• PAV is set too high • Estimated salvage value is set too low when the vehicle is scrapped
Overprovision (also giving rise to overcosting)	• PAV is set too high • Estimated salvage value is set too low when the customer retains the vehicle • TRV is provided for too long during the write-off process
Underprovision	• PAV is set too low • TRV is provided for insufficient time • Bias in the write-off decision towards write-off rather than repair • Estimated salvage value is set too high • Policy cancellations

Source: CC.

26. The remainder of the paper is structured as follows. We first consider overcosting, then overprovision and, lastly, underprovision. We note that the PAV and salvage value concerns for overcosting and overprovision are very similar.

ToH 1: Overcosting

27. In considering overcosting, we first compare the average payments for vehicle write-offs for fault customers and non-fault customers. We then discuss the incentives for insurers or CMCs to overstate the PAV or to understate the estimated salvage value and we consider the evidence on whether or not this occurs in practice. We also consider the payment and receipt of referral fees in relation to the salvage process.

Payments for vehicle write-offs

28. We received cost data from seven of the ten largest insurers in relation to vehicle write-offs, as summarised in Table 2.

TABLE 2 **Average payments for vehicle write-offs by insurers**

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	*Unweighted average**	*Weighted average†*	*Low‡*	*High‡*	*Insurers providing estimates*
Fault write-offs	3,211	2,853	[✂]	[✂]	[✂]
Captured non-fault write-offs	1,859	1,988	[✂]	[✂]	[✂]
Non-fault insurer managed write-offs	2,240	2,292	[✂]	[✂]	[✂]
Write-offs received from other parties	2,104	2,122	[✂]	[✂]	[✂]

Source: CC.

*This is the average of the average write-off payouts provided to us by insurers (ie insurers which payout for few write-offs will be over-represented as each insurer's data is given equal weight).
†This is the average payout for all write-offs in the data, calculated as the total value of all write-offs (ie from all insurers in our sample) divided by the total number of write-offs in each category. These figures are more reliable than the unweighted figures as they give equal weight to each payout cost in the total sample.
‡This is the highest and lowest average write-off payment provided to us by insurers.

29. Only one insurer ([✂]) provided us with average write-off values where a claim was managed by a CMC. The average cost was £[✂], which was slightly higher than that insurer's average write-off value for captured non-fault claimants.

30. Comparing non-fault write-offs in Table 2, we find that, using weighted averages, non-fault insurer-managed write-offs are 15 per cent (or around £300) more expensive than captured non-fault write-offs (ie where there is no separation of cost control and liability). However, eight out of ten of the large insurers told us that, in their write-off decision-making, they did not distinguish between fault, non-fault or captured non-fault customers (see paragraph 20).

31. Esure told us that captured third party write-off payments were typically lower in value than other non-fault write-offs because a claimant was more likely to deal with a third party insurer (rather than their own insurer) where the claim involved a less valuable car (ie an older or smaller car).

32. Table 2 also shows that average write-off costs are significantly higher for fault write-offs. It is not clear to us why this is the case.

PAVs

33. Insurers told us that they usually used valuation guides (eg Glass's Guide) to establish a damaged vehicle's PAV, though they also said that they might make adjustments to guide prices, eg to reflect local market variations[8] or the condition of the damaged vehicle before the accident (eg its mileage, service history, pre-existing damage, etc). LV said that it would take into account where the customer would normally buy the vehicle (eg a main dealer or auction) when making a write-off decision.

34. Nine of the ten largest insurers told us that they gave their customers the opportunity to provide additional evidence in relation to the appropriate vehicle value (pre-accident) if they were not happy with the initial vehicle valuation and, from the evidence we have seen, it appears that customers frequently make use of this opportunity. For example:

    (a) Admiral said that its initial estimate of the write-off value was disputed in [✂] per cent of cases where it managed the write-off for its own customer, and in [✂] per cent of cases where it was a captured non-fault claim.

    (b) [✂] said that [✂].

    (c) [✂] said that [✂] per cent of its initial write-off estimates were rejected by the customer.

    (d) DLG said that [✂] per cent of its write-off decisions were disputed and [✂] per cent of its valuation disputes were unresolved.

35. Customers who are not happy with their insurer's final decision on the write-off value can complain to the Financial Ombudsman Service (FOS), except for captured non-

[8] Insurers told us, for example, that they sometimes checked vehicle values in Autotrader.

fault drivers and non-fault drivers who claim through a CMC.[9] Esure said it had had [✄] valuation disputes with the FOS in 2012. [✄] said that [✄].

36. [✄] told us that, where it was acting as the fault insurer, the PAV estimate of a written-off vehicle from the non-fault insurer was rarely contested. Esure said that, where it was the fault insurer and it received a claim for a vehicle write-off from a non-fault insurer or CMC, its internal engineers would review the estimate to ascertain that the costs reflected a fair market value. However, LV told us that CMCs would often make it very difficult for LV to inspect the vehicle which they proposed to write off as the longer the CMCs could make the process last, the longer the credit hire would last. LV said that it therefore had to balance how much time it spent validating the cost of a claim.

Our assessment

37. Given that the insurer or CMC managing a write-off pays the PAV of the written-off vehicle to the claimant, it does not gain directly from setting a higher or lower PAV. Even if the PAV were to be mis-stated, it is determined by reference to publicly available data such as used-car price guides and adverts for used cars. For this reason, it appears to us highly likely that the fault insurer would be able to challenge successfully any inflated valuation of the PAV presented by a non-fault insurer or CMC managing a non-fault write-off claim.

Estimated salvage value

38. We examined the amount of revenue earned by CMCs and insurers from salvage. We found that most CMCs received a referral fee payment from salvage companies. [✄] and [✄] both received £[✄] a year from salvage companies and [✄] received

[9] Captured non-fault claimants are not claiming under an insurance policy; CMCs are regulated by the Claims Management Regulator (within the Ministry of Justice) rather than by the Financial Conduct Authority (FCA). For these reasons, captured non-fault claimants and customers of CMCs do not have access to the FOS.

£[✂]. This equates to on average between £[✂] and £[✂] per written-off vehicle. [✂]. However, the overall numbers of written-off vehicles managed by most CMCs is small (eg [✂] told us that it managed around 3,000 salvage cases in 2012). In aggregate, the seven CMCs in our sample received [✂] £[✂] from salvage companies in 2012.

39. Three out of eight of the largest insurers ([✂][10][✂]) told us that they earned income from salvage and, on the basis of the data they provided, we estimated this to be on average between £[✂] and £[✂] per written-off vehicle. The aggregate of this income for these three insurers was around £[✂] million in 2012 (though this may include some income related to fault claims). [✂].[✂] told us that the amount obtained for salvage and the fees paid were frequently a cause of dispute. [✂] noted that some insurers received a fixed amount or a fixed percentage of PAV for the sale of salvage. In non-fault claims, this value then became the estimated salvage value, which was deducted from the PAV to give the settlement value to be paid by the fault insurer. However, when the salvaged vehicle was later sold at auction and if the amount realized was in excess of the fixed sum, a rebate was paid to the non-fault insurer.

40. The other five insurers in our sample ([✂])[11] told us that they did not receive any commission or referral fee payments in relation to salvage.

41. We also considered whether there were any payments made by salvage companies to non-fault insurers or CMCs with regard to vehicle recovery and storage. [✂] in relation to vehicle storage. [✂] in 2012.

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[10] [✂] told us that, [✂].

[11] [✂] told us that, prior to May 2013 it obtained an average income per salvage of £[✂] in non-fault cases. However, as from May 2013, [✂] has changed its model so that it now does not receive any income from non-fault write-off claims. The proceeds of sale from salvage which [✂] receives are now the same as those credited in its non-fault recovery claims.

Our assessment

42. Overall, it appears to us that salvage companies often pay large commissions or referral fees in order to gain work from insurers and CMCs, which indicates that they are able to sell a salvage vehicle for considerably more than its estimated salvage value. The following arbitrary and unrepresentative numbers illustrate the flow of funds in an example:

Assume:

- PAV = £30.
- Estimated salvage value = £10.
- Salvage proceeds = £17.

Flow of funds:

- The claimant receives £30 from the non-fault insurer or CMC.
- The fault insurer pays the non-fault insurer or CMC £20.
- The salvage company pays the non-fault insurer or CMC £10 for the vehicle.
- The salvage company makes a profit of £7 on its salvage, of which say £3 covers its costs and £4 is paid to the non-fault insurer or CMC (as a rebate, referral fee or commission payment).
- Overall, the non-fault insurer or CMC makes a profit of £4.

43. We note that the claimant neither gains nor loses out from a low estimated salvage value as they still receive the PAV. However, it does result in a transfer of value from the fault insurer to the non-fault insurer/CMC.

44. We also note that, in the event that the customer chooses to retain the vehicle, a lower estimated salvage value would benefit the claimant rather than the non-fault insurer or CMC because the claimant would receive a higher payout (PAV less the estimated salvage value).

45. Overall, it appears to us that the estimated salvage value of the vehicle may be systematically understated by some insurers and CMCs, as a result of which the fault insurer will pay more for the claim than if it were to manage it.

Our assessment of overcosting

46. It appears to us that the separation of cost liability and cost control results in the overcosting of non-fault vehicle write-offs. This is achieved by estimated salvage values being set artificially low by some insurers and CMCs, increasing payouts by fault insurers. The level of the commission payments and referral fees received by some non-fault insurers and CMCs from salvage companies indicates that the extent of this overcosting is likely to be up to around £200 per non-fault written-off vehicle.

ToH 1: Overprovision

47. On the basis of the evidence presented above in relation to overcosting, it appears to us highly unlikely that PAVs would be systematically overstated (see paragraph 37).

48. We did not find any other evidence of overprovision of services to non-fault customers that had a vehicle write-off. (We discuss the overprovision of TRVs associated with vehicle write-offs in our working paper 'ToH 1: Overcosting and overprovision of TRVs').

ToH 2: Underprovision

49. We have considered the following ways in which underprovision might occur in relation to vehicle write-offs:

   (a) the PAV being set too low;

   (b) a TRV being provided for an insufficient time;

   (c) a bias towards write-off rather than repair;

(d) the estimated salvage value being set too high when a customer chooses to retain the vehicle; and

(e) policy cancellation.

50. Some repairers told us that many of the vehicles which were written off and sold as salvage were then cheaply and badly repaired before re-entering the used car market. Although we have received some anecdotal evidence indicating that consumers of used cars are often unable to detect when a vehicle has been in an accident, or to assess the quality of the repairs which have been conducted, we judged that this was an issue relating to the supply of used cars and was not related to the provision of PMI and related goods and services. Therefore we did not consider it further.

PAV

51. We found that information on the value of used vehicles is readily accessible to consumers, meaning that claimants were easily able to challenge a low offer for the PAV of a vehicle. We noted also that, in the event of any disagreement on the PAV, some claimants had recourse to the FOS (see paragraph 37).

52. We recognized that:

(a) there was a limited period in which claimants could dispute the PAV estimate;

(b) some claimants might not want to delay the receipt of funds while a PAV estimate is being disputed;

(c) some customers may not be aware of the FOS; and

(d) captured non-fault customers and customers of CMCs do not have access to the FOS.

53. However, it appeared to us that these limitations for some consumers were unlikely to affect significantly the extent of underprovision in relation to a low PAV offer. Overall, due to the ready accessibility of used vehicle valuations, it appeared to us that underprovision in relation to a low PAV was unlikely.

TRVs for insufficient time

54. The provision of a TRV to fault customers when they have a vehicle write-off (as opposed to requiring a repair) is often very limited. Zurich told us that it provided a TRV for up to five days; RSA said for up to three days; and esure, Admiral and Ageas Insurance said that no TRV was provided unless the customer had bought cover for a guaranteed courtesy car. RSA said that there was no contractual entitlement to a TRV on claims where the vehicle was a write-off, although, in practice, a courtesy vehicle was provided until the decision on write-off was finalized.

55. We found that that this was also generally the case for non-fault customers who claimed on their own insurance. However, some insurers told us that they were less restrictive: AXA GB told us that its customers were allowed to retain the TRV until such time as an offer was made for the PAV of the written-off vehicle; while Aviva and LV told us that its customers could keep the TRV for up to 14 days.

56. In contrast, we found that captured non-fault claimants and non-fault claimants managed by a CMC/credit hire company (CHC) typically received a TRV for the entire period of the claim and for up to 7 days after the funds were received from the insurer or CMC managing the claim.[12]

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[12] The duration of the TRV hire to which a claimant is entitled under tort law is assessed on the facts in the light of the circumstances of each case. However, the practice by some CMCs/CHCs of extending the period of TRV hire for up to 7 days beyond the claim being settled appears to be intended to meet a customer's entitlement under tort law.

57. We asked insurers how long it typically took when they were managing the claim between agreeing the PAV with the claimant and the claimant receiving the payment. RSA told us that, once settlement had been agreed with a claimant, the funds should be released within five days (in accordance with ABI requirements). LV said that on average it took ten days, AXA GB said eight days, and DLG said ten to 14 days. DLG said that the time frame could be influenced by factors such as delays by the customer in sending the required vehicle documentation or by outstanding settlement figures that needed to be provided by finance companies.

58. We also asked insurers how long it typically took between the first notification of loss (FNOL) and a write-off claimant receiving payment. Zurich told us that, in 2012, it took on average 37 days from FNOL to send out the payment for a total loss; esure said that in 70 per cent of cases its customer (whether fault or non-fault) would receive compensation within 21 days from FNOL when their vehicle was a write-off; and Admiral told us that the average length of time between the report of the accident and payment in a vehicle write-off case was 20 days for fault claims and 19 days for non-fault claims.

Our assessment

59. We found that, for both fault claimants and non-fault claimants who claimed under their own insurance, many insurers would not provide a courtesy car in the case of a vehicle write-off (though most of these insurers would provide a TRV if the vehicle was being repaired). We also found that, for those customers who bought guaranteed courtesy car cover, this add-on usually guaranteed the provision of a TRV in the event of a vehicle write-off but for a limited period, usually around 21 days. Given that, from the evidence we have seen, the average time from FNOL to receiving payment in vehicle write-offs cases is at least 20 days, this would suggest

that many write-off claimants with guaranteed courtesy car cover would not have a TRV for all of the time until the claim is settled.

60. Where a non-fault claimant is provided with a write-off service by a fault insurer, or a CMC, without claiming on their own insurance, the limits of the service are as determined by tort law. We found no evidence that services provided to claimants in this scenario are less than those to which claimants are entitled and no party told us that these limits were insufficient to meet claimants' needs.

61. We noted that there could be some difference between the TRV service a non-fault claimant receives under their own policy and that to which they are entitled under tort law and, therefore, we considered whether non-fault claimants might be suffering an underprovision in relation to the provision of a TRV as a result of non-fault claimants claiming for a write-off under their own insurance.

62. We noted that non-fault insurers might prefer claimants to claim under their own insurance as there is a potential profit opportunity in managing a vehicle write-off. However, we found that the decision for a non-fault claimant of whether to claim under his/her own insurance or not was usually made at the point of first notification of loss (FNOL), at which time neither the insurer nor the claimant would usually know whether the vehicle was likely to be a write off.

63. We identified what appears to be a gap between the duration of TRV services which claimants in the event of a vehicle write-off might want (both fault and non-fault claimants) and those services which some claimants receive when they claim under their own insurance. We found that fault claimants or non-fault claimants who claimed under their own PMI policy usually received the TRV to which they were

entitled under their policy,[13] while other non-fault claimants who were provided with a TRV on, for example, the basis of credit hire, received the TRV for the entire period of the claim, and often for up to 7 days after they had received the settlement payment. However, it appears to us that any customer harm which arises from this gap would be due to (i) consumers not understanding and/or appropriately valuing the terms of their PMI policy or guaranteed courtesy car add-on policy at the point of purchase, or (ii) in the case of the non-fault claimant, not appreciating the implications of claiming under their own insurance or their alternative options at the time of their claim.

64. With regard to (i) and the main PMI policy, we said in our statement of issues that we would not consider more generally the issue of the complexity of PMI and the transparency of information supplied at the point of sale. With regard to (i) and the guaranteed courtesy car add-on, we consider the transparency and complexity of this product, and its profitability, in the working paper 'ToH 4: Analysis of add-ons'.

65. With regard to (ii) and claimants' awareness of their options at the point of claim, we consider this issue in both the working papers 'ToH 2: Underprovision of repairs' and 'ToH 2: Underprovision of TRVs'.

Bias towards write-offs rather than repairs

66. If insurers and CMCs have a general preference to do a write-off rather than a repair, in particular in relation to non-fault claims because of the value which they are able to generate from such claims (see paragraph 46), there could be an underprovision of

[13] Where a non-fault claimant claims under their own PMI policy, the non-fault insurer may handle the claim in various ways: (i) it may indemnify the non-fault claimant for the insured losses only and seek to recover the costs of the these losses from the fault insurer; (ii) it may also indemnify the non-fault customer for some uninsured losses (eg by waiving the excess) and seek to recover these losses from the fault insurer as well; or (iii) the non-fault insurer may choose to indemnify only the insured losses (not uninsured losses) but nevertheless seek to recover uninsured losses as well (eg any excess that had been previously charged), either by virtue of the claimant having motor legal expenses insurance or as a service to its customer.

repair services. Therefore, we considered if insurers (or CMCs) had incentives to favour write-offs over repairs (or vice versa).

67. We noted that non-fault insurers or CMCs might also prefer a write-off to a repair in order to generate a longer hire duration and a higher CHC referral fee.

68. However, we found no evidence to suggest that there is any actual preference by insurers or CMCs to write-off rather than to repair a vehicle.

69. Rather, the evidence we found on the underestimation of salvage values (see paragraphs 42 to 45) suggested that repairs were more likely than write-offs (ie a low salvage value would increase the likelihood of the repair cost being less than the PAV minus the salvage value).

70. We also found that customers (on average) appear to prefer repairs over write-offs. LV told us that customer satisfaction scores for repair claims were much higher than for write-offs and we noted that many repairers (in conjunction with insurers) offered their customers cheaper repair alternatives (eg by using recycled parts) in order to avoid a write-off. This would suggest that insurers with excessive write-offs would be more likely to lose customers following a claim.

71. Moreover, although we have found that there is a revenue opportunity for non-fault insurers and CMCs from a write-off, the amounts which these parties might be able to achieve from it do not appear any better than they would appear able to achieve through a repair (see working paper 'ToH 1: Overcosting and overprovision of repairs'). Esure told us that the process of managing a non-fault write-off takes only slightly longer than the process of managing a non-fault repair, which we thought was

likely to be due to write-offs attracting more scrutiny from insurers due to their higher average value.

72. In the case of a captured claim, we noted that the fault insurer was much less likely to prefer a write-off over a repair as the TRV hire length is usually longer for write-offs than repairs.

73. Overall, it appears to us highly unlikely that there is any underprovision of services in relation to vehicle write-offs by service providers preferring to write off rather than to repair a vehicle.

Estimated salvage value

74. We have not found any evidence that estimated salvage values are set too high. Indeed, the evidence we have seen raises the opposite concern (see paragraphs 42 to 45).

Policy cancellations

75. Some fault insurers cancel their fault driver's PMI policy in cases of a write-off. In certain circumstances, some also, when the non-fault insurer, cancel their non-fault driver's policy (if the claim was made under the customer's own policy). They do not do this when a vehicle is repaired.

76. However, most insurers told us either that they did not cancel policies or said that the policy could continue if the customer replaced the vehicle within a reasonable period.

77. Overall, it appears to us that, although some insurers cancel insurance policies following a write-off (even sometimes for non-fault customers claiming under their own insurance), this does not seem to be common practice. Moreover, where such

cancellation does occur it is pursuant to a term in the PMI policy so any customer harm would again be due to either (i) consumers not understanding and/or appropriately valuing the terms of their PMI policy at the point of purchase or (ii) not appreciating the implications of claiming under their own insurance or their alternative options at the time of their claim (see paragraph 63).

Assessment on underprovision

78. Overall, it did not appear to us that underprovision was likely to arise in relation to the supply of services to claimants in a vehicle write-off situation.