

PRIVATE MOTOR INSURANCE MARKET INVESTIGATION

Theory of harm 3: Horizontal concentration in repair cost estimation systems

Introduction

1. As we have gathered evidence from repairers in relation to other theories of harm (ToH), many have raised concerns about the practice of many work providers (such as insurers) to require them to use the Audatex cost estimation system. These repairers have told us that Audatex is more expensive than alternative repair cost estimation systems and that, as a result of its relationships with work providers, Audatex has now become the industry standard for those repairers which conduct work under 'preferred status' relationships. The repairers told us that, as a result, Audatex' market share was very high.
2. Under ToH 5 (harm arising from vertical relationships) we have considered whether harm arises from the vertical relationships in the industry in relation to repair cost estimation systems—ie the contractual relationships between work providers, Audatex and repairers (see the working paper 'ToH 5: Analysis of potential foreclosure as a result of vertical relationships').
3. In this working paper we discuss whether we should investigate in more depth an additional horizontal theory of harm in relation to repair cost estimation systems given the indications we have received that Audatex has a large market share. This issue was not identified in our issues statement.
4. For the reasons set out in this paper, we believe that there are insufficient grounds for undertaking further detailed analysis in this area.

Evidence

5. There are two main repair cost estimation systems in the market: Audatex and Glassmatix. A third system, offered by Inter-est, is also available.
6. Insurers and other work providers generally recommend or require their preferred repairers to use a specific repair cost estimation system. This makes their processes easier, with one consistent feed of data into their systems and a consistent process for their engineer assessors. We found that, of the ten largest insurers, only Ageas does not recommend or require a specific system to be used and the other nine insurers all recommend or require the use of Audatex.
7. Audatex charges a fee for several elements of the estimation process, including a per-estimate fee and a per-photograph fee. Audatex estimates that its average cost per estimate, charged to the repairer, is £[redacted].
8. Glassmatix charges an annual subscription fee of £1,800 for a licence for up to five users. It does not charge a per-estimate fee but does charge a transmission fee if the estimate is sent to an insurer, which is between £[redacted] and £[redacted]. Glassmatix told us that its recent deals with repairers had been at the lower end of this range due to its weakened market position. Repairers told us that the Glassmatix price structure made Glassmatix the preferred option for repairers which undertook a substantial amount of work for retail customers (ie not through work providers), for whom estimates were required but where there was no transmission, as such estimates could be generated in the Glassmatix system at zero marginal cost.
9. Glassmatix told us that it could not determine how many estimates were produced by its system as many were created without transmission. However, it has estimated the number of estimates produced on the basis of the number of online registration

checks which are run through its system on the DVLA database (as almost all estimates will require such a check). On this basis, Glassmatix estimates that its system costs repairers about £[redacted] per estimate (including subscription revenue).

10. In the last five years, Glassmatix has lost several contracts with work providers, including with Zurich, AXA, CISGIL and RSA. It told us that Zurich switched away from Glassmatix because it was already having to use Audatex for its work with fleet managers (similar to claims management companies (CMCs) for commercial vehicles) which meant that it was having to input Audatex outputs manually into its system. RSA told us that [redacted].
11. Glassmatix told us that there were two principal reasons why it had lost contracts with work providers to Audatex. First, Glassmatix had [redacted]. Glassmatix said that [redacted]. Second, Glassmatix said that Audatex had offered work providers rebates for estimates submitted by their repair networks as a way of incentivizing work providers to mandate or to recommend strongly the adoption of Audatex by their repairers. Glassmatix said that the effect of these deals for work providers was to make the system approximately costless for them, with all the cost paid by repairers.
12. Glassmatix told us that it had lost market share to Audatex very quickly over a short period. In 2007, its revenue was £[redacted], whilst in 2014 its projected revenue will be £[redacted]. It said that Audatex had built its market share very quickly, almost entirely at the expense of Glassmatix.
13. Glassmatix told us that its market analysis suggested that there were 3,500 primary bodyshop outlets,¹ with around a further 2,500 businesses in the UK offering “car body repairs.”² These sites provide repairs to insurance, CMC, fleet and retail

¹ Source: Trendtracker.

² Source: Auto Industry Insider website and Bodyshop Magazine circulation numbers.

customers. Glassmatix is used in approximately 650 sites and Audatex is used in approximately 2,200 sites. Glassmatix said that some small repairers which focus on retail customers do not use a repair cost estimation system at all.

14. Glassmatix said that it was now focusing its business on large repairers which targeted the retail market and on small repairers for which purchasing the Audatex system was inefficient. Glassmatix said that it believed Inter-est was targeting this same customer base, also recognizing that, in the short term at least, Audatex had an insurmountable position with work providers.
15. Glassmatix told us that the costs for an insurer in switching its repair cost estimation system would depend on the degree to which the system was integrated into the insurer's back office systems, and these costs could be high. However, we noted that there was now effectively an industry standard for the form of the input into back office systems, which meant that the cost of switching had reduced, at least for some insurers. Glassmatix said that the other principal cost of switching was training engineer staff on to the new system, which would require approximately two days for each engineer. However, as Glassmatix (or another repair cost estimating system provider) would usually provide this training at no cost to the insurer, it did not believe that the insurer would consider this alone as a major impediment to switching.
16. Glassmatix told us that the products its group offers are broadly the same across Europe, though sometimes under different brands. Glassmatix said that Audatex offers systems across Europe under the same brand and is now the undisputed European market leader. Glassmatix said that there are other 'local' vendors in some countries (such as Inter-est which in the UK).

17. In our conversations with repairers, they told us consistently that Audatex was the best repair cost estimation system available, but that it was also the most expensive. Many told us that, if they were free to choose their repair cost estimation system (without the interference of work providers) they were likely still to choose Audatex.

Analysis

18. We noted that:
- Audatex has built its large market share recently and over a short period, through offering a product which is widely perceived to be better and through a differentiated marketing model.
 - Although the Audatex system is more expensive for repairers than its rivals' products, this reflects in part (a) its superior quality; and (b) the rebates Audatex pays to work providers.
 - Barriers to switching between repair cost estimation systems may be high, though common data standards are likely to have reduced these costs for some work providers.
 - The work providers which contract with Audatex are large firms with some degree of buying power.
19. We also noted that any harm arising from Audatex having market power may be offset by the network benefits from having a single consistent system in place for both insurers and repairers.
20. Nevertheless, it appeared to us that the business model of Audatex could cause:
- (a) a distortion between retail and insurance customers, with retail customers being disadvantaged through repairers paying more for their estimates on Audatex than they would pay on rival systems, due to their work providers gaining a benefit through a rebate; and

(b) a distortion between fault and non-fault customers, with the non-fault insurer gaining the rebate but passing on the higher cost to the fault insurer (ie the moral hazard problem which we are considering under ToH 1 – see the working paper ‘ToH 1: Overcosting and overprovision of repairs’).

However, both of these issues are not a result solely of a horizontal concern about Audatex but are due to its vertical arrangements which we consider under ToH 5. We note that the focus of Glassmatix and Inter-est on repairers which serve retail customers could mitigate the first distortion.

Conclusion

21. On the basis of the evidence and analysis set out above, we do not intend to investigate further the horizontal concentration in repair cost estimation systems.