

## Private Motor Insurance Market Investigation

### Sabre Insurance Company Limited response to the Competition Commission Statement of Issues

Sabre Insurance Company Limited (Sabre) is a small UK based motor insurer that has written predominately private motor insurance in the UK since 1991, and prior to that as a managing general agent since 1982. While Sabre does not specialise in any particular sector of private motor business, its portfolio has a heavier weighting of younger drivers than most.

Sabre supports the Competition Commission investigation into Private Motor Insurance and sees this as an opportunity to correct some behaviours that may lead to increased prices for consumers.

One factor that has not been highlighted by the Statement of Issues is that customers of insurance companies are consumers whereas people compensated for loss by a fault insurer are not consumers in the usual sense of the word: they are protected by civil law, but do not have the same status as consumers under competition law. Insurers will always seek to minimise payments to third party claimants within the constraints of civil law: this does not mean that, for example, their cars will be repaired poorly as, if this occurs, the claimant will have redress in civil law. Consequently Sabre considers that this investigation should focus only upon possible harm to consumers and not to third party claimants.

Sabre considers that the principle focus of the investigation is correct; namely the fact that fault insurers have no control over the cost of indemnifying the non-fault party and that this raises the cost of motor insurance. With regard to the other Theories of Harm, while there may be some consumer detriment at the margin, we do not feel there is any substantial harm, but have commented more specifically below. We do feel that the remarks in the report relating to drip-in pricing are contradictory and confused as the basic motor insurance policy is always adequate in that it allows the customer to drive within the law. We also consider that the current method of facilitating the purchase of add-on products is the most efficient way of offering these products to consumers and does not cause harm relative to other ways of achieving the same ends. There is one conclusion that we find surprising; namely that Most Favoured Nation clauses in the contracts between insurers and Price Comparison Websites do not merit investigation; we consider these clauses highly prejudicial to competition and a significant cause of harm to consumers.

With regard to specific issues contained within the Statement of Issues:

Paragraph 9 (a) Most private motor insurance policies also cover fire, theft and malicious damage.

Paragraph 15 While policy documents are indeed lengthy and complex, this is necessary because of the nature of the liabilities covered and the fact that these are required to be covered by statute (Road Traffic Act 1988). However, the documentation that insurers are required to provide by the FSA includes a policy summary that must set out any unusual terms and conditions. Furthermore, if the documentation is unclear the customer has recourse to the Financial Ombudsman Service, who, under those circumstances, is likely to find in the customers favour.

Paragraph 16 It is not clear what you mean by 'the reliability of the product'. All products should be reliable, firstly, in the sense that the insurer is regulated by the FSA (or similar in the case of a foreign based insurer) so that financial failure is highly unlikely and, secondly, in the sense that if the

service falls short of what is promised contractually then there is redress through the Financial Ombudsman Service.

Paragraph 20 While in theory mitigation applies the courts do not apply this strictly viz. the decision in *Copley v Lawn*.

Paragraph 27 (a) It is well known, and has been the subject of legal proceedings, that RSA Insurance operate a scheme that works through a subsidiary company designed to add a load to the actual repair cost so that the RSA group recover more than the cost of the repair from the fault insurer.

Paragraph 27 (b) Over-provision of credit hire also includes hire at rates far higher than open market rates and hires being provided for longer than necessary.

Paragraph 28 While some repair of non-fault vehicles is undertaken on a credit basis, the additional cost of this to the CMC will be negligible given that the CMC will typically have credit terms with the repairer anyway. As stated above there is likely to be little difference in the standard of repairer whether the claim is fault or non-fault; the only circumstances where this may not be the case is where a vehicle is a constructive total loss (the cost of the repair exceeds the value of the vehicle). In such a case a lower standard of repair might be agreed with the customer to keep the vehicle on the road. However, it is possible that a fault customer will be offered a replacement car that is not like-for-like whereas a non-fault claimant is entitled to like-for-like, subject to need.

Paragraph 32 Your analysis is correct in that costs and fees that stay with insurers are globally neutral, but that fees that are earned by other players such as CMCs push premiums upwards. However, insurers that work through brokers do not benefit directly from referral fees as they typically do not have control of their non-fault customers – their brokers do.

Paragraph 33 While the measures you outlined work to some extent they distort the market and are not a panacea. In particular the GTA has provided some stability and predictability, but at daily hire rates and hire durations above what would be achieved by the fault insurer or in the open market.

Paragraph 34 It seems highly unlikely that customers would be incurring significant disadvantage because of these arrangements other than generally higher prices and possibly some confusion as to who is providing the service; there is no reason why quality of service should be a problem.

Paragraph 38 It is Sabre's view that the separation of cost liability and cost control in the supply of services (excluding PI) to non-fault parties involved in motor accidents does increase the cost of the services supplied mainly through the fees that go to entities external to insurance such as CMCs, credit hire companies and the like. Furthermore the current system distributes the profit made from these activities differently from the way they would be distributed in a situation in which these activities did not exist; this is non-optimal from a competition standpoint.

Paragraph 40 With regard to first party repairs, your comments regarding the potential for lower quality repairs are misplaced. The customer has redress, initially, through a complaints procedure to the insurer set out by the FSA and, subsequently, to the FOS if the customer is still unsatisfied. With regard to costs incurred following a non-fault claim you are correct in outlining the perverse incentives that apply; the maximising of referral fees and not the quality of service. Naturally

insurers will seek to reasonably minimise the cost of claims, but given the competitive nature of the market this is in order to stay competitive and does not raise the global cost to consumers.

Paragraph 41/42 Generally the insurer may wish to direct the fault claimant into an approved repairer network in order to be able to exercise control over repair costs and quality, but in the vast majority of cases this will not prejudice the customer, indeed, it should give assurance about the quality of the service provided as the repairer will need to maintain the goodwill of the insurer. By keeping the costs down the insurer will also be keeping premiums down.

Paragraph 43 Notwithstanding the foregoing, when the repair follows a non-fault accident it is likely that the referrer will choose the service provider promising the highest fee who provides an adequate level of service.

Paragraph 44 As stated previously, there is no reason to suspect on fault claims that the insured will receive anything other than that promised by the policy and the regulatory structure (the FSA's treating customers fairly regime and the back-stop of the FOS) should assure this.

Paragraph 47/48 While the number of insurers operating in some sectors are fewer than for mainstream business, the number is still high when compared with other non-insurance sectors (retail supermarkets, for example). It would be interesting to know how many providers the CC deems appropriate for a sector to be adequately competitive.

Paragraph 49 Very few insurers are large enough or have a powerful enough brand to enable them to source business directly rather than from a Price Comparison Website (PCW), in fact Direct Line Group, that does, is the largest motor insurer and, in any case, has multiple brands some of which are on PCWs. There are no completely stand-alone brands that are direct and do not use PCW, thus giving the PCWs significant market power.

Paragraph 50 While this is true, the PCWs do have significant market power and the level of fees to each is very similar; there seems to be little if any competition between them on fee.

Paragraph 51 If there were more PCWs it is likely there would be more competition on CPA.

Paragraph 55-58 You refer to the product differentiation in PMI products; in fact this is simply not true. Any product differentiation occurs only at the margin and is worth very little. The main benefit of a PMI product is the legal right to drive on the road and all products must include this by law. The next two levels of cover, fire and theft and comprehensive, are almost identical for all insurers. Any other cover given is, frankly, trimmings and would be likely to cost the insurer very little in claims. The only significant areas where differentiation may occur is in the size of the excess, which may be seen very plainly on the PCWs and is therefore transparent, and on what is bundled, which, similarly, should be shown on the PCWs.

Paragraph 59 The CC appear to use the term 'Drip-in pricing' pejoratively, however, firstly, the prices for the more common add-on products are competitive when compared with the price these are generally available for on a stand-alone basis and, secondly, for the most part, additional products are add-on rather than opt-out and give consumers choice. The current method of facilitating add-on products appears to be the most efficient and effective way of making these products assessable to consumers. Specifically offering, for example, breakdown insurance at the same time as motor

insurance obviates the need to incur advertising costs in respect of the breakdown product, thus allowing the pricing to be more competitive.

Paragraph 60 Typically no claims bonus protection is a choice during the quote process rather than as an add-on at a later stage.

Paragraph 61 This paragraph appears critical of the way in which optional extras are sold, but doesn't offer any alternative method. The current method is administratively efficient and provides add-on products at competitive terms.

Paragraph 62 There are few products sold on an opt-out basis. This is because insurers want their products to appear competitive on the PCW and so would be loath to include opt-out products in the initial quote.

Paragraph 63 It is true that the current method may lead to under-consumption, but not of any legally required aspect. Again the paragraph does not offer a more effective method of selling these products.

Paragraph 64 This paragraph does not state which types of product were covered in these empirical studies, but these may not have been related to or relevant to private motor insurance. It is unclear what is meant by 'total price' in this paragraph and, it seems, confusion about how drip-in pricing might relate to private motor insurance; it is not the same as, for example, purchasing airline flights where the ticket purchase does not include the cost of taking luggage. It is highly unlikely that a consumer going to a PCW, having received a quote, will purchase a policy that will require drip-in extras to enable them to legally drive on the road, the prime purpose of motor insurance.

Paragraph 66/68 As stated above, the FSA mandate that product information be given to consumers at point of sale and the FOS provides a backstop should the product cover be unclear. Also, it is unlikely that insurers are making products more complex than they need to be.

Paragraph 70/71 Switching at renewal is cost free to the customer. Automatic renewals are valuable for customers as they ensure that they have continuous cover, which is a legal requirement. Customers have the option of shopping around at renewal, but some are naturally less concerned about cost and continue with their existing supplier. Switching mid-term is usually not free and will reflect the loss to the insurer or broker of having generated business that they expected to retain for a year, but was cancelled part way through; the FSA mandate that cancellation terms be included in documentation sent to the customer.

Paragraph 80/84 These paragraphs appears to underestimate the power of the PCWs. Firstly, a PCW-integrated insurer can have access to the data described without any non-integrated insurer knowing this, so while a PMI quoting through a PCW owned by an insurer might be 'highly sensitive' to such analysis, it would simply not know that it was occurring. Secondly, the PMI would be very reluctant to withdraw from any PCW except in extreme circumstances as there are only 4 meaningful PCWs. Thirdly, there is nothing to stop a PCW-integrated insurer manipulating prices individually and on a real-time basis so that if it were cheaper for any risk it would increase that price to just beat a competitor, thus denying customers of a cheaper price should the consumers not go to an alternative PCW.

Paragraph 93 We are not aware that PCW invest anything in encouraging insurers or brokers to sign up; indeed the contrary is true.

Paragraph 95 The conclusion in paragraph 95 is simply astonishing. There is no doubt that MFN clauses distort competition and increase prices to consumers. A fundamental tenant of insurance is pricing for risk; the MFN clauses prohibit insurers from using distribution source as a rating factor (other than offline, which is today a relatively small share of the business and is relatively less efficient). Sabre would certainly like the ability to use different pricing for different online distribution sources. How the CC could possibly believe this aspect is not worth investigating is beyond belief.

Paragraph 105 This is incorrect. The non-fault insurer has virtually no influence on the repair cost and cannot contest it unless it is completely unreasonable.

Sabre would be very happy to discuss any of these issues with the CC.

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Note: Keith Morris is currently chairman of the Motor Insurers' Bureau, the organisation that provides compensation for victims of uninsured drivers, is chairman of the Association of British Insurers' (ABI) motor committee and sits on the ABI General Insurance Council. He also sat on the FSA Smaller Businesses Practitioner Panel for six years. All views expressed are Sabre views and are independent of these organisations.