

## PRIVATE MOTOR INSURANCE MARKET INVESTIGATION

### Summary of hearing with Aviva held on 19 July 2013

#### General

1. Aviva explained that its distribution reach across the private motor insurance (PMI) market was broad and included: aggregators; brands directly available to customers; partnership arrangements; and brokers. It estimated that it had about 11 per cent share of the private insurance market in the UK.

#### Post-accident repair services

2. Aviva suggested that the majority of referrals were made by brokers, accident management companies, and other third parties involved in motor accident claims and not only by insurance companies.
3. Aviva said that [REDACTED].
4. Aviva said that there have been technical advances which meant that it was possible to repair damage to a high quality rather than making the decision to replace parts where it is safe and cost effective. This was only considered where safety and structural integrity would not be compromised and carried out in line with its commitment to industry standards (PAS125). However, repairers were nevertheless encouraged to manage all repair costs effectively and to the highest standards.
5. The quality of repairers was monitored through regular checks by engineers on standard jobs and repair audits were also undertaken with garages. The networks of garages used were mainly PAS125 approved and customers were asked to rate the quality of service they received and the quality of the repair.
6. Aviva [REDACTED].
7. Whilst Aviva had agreed thresholds of damage which would mean that a vehicle was written off, it can be the case that vehicles which would, at a cost level, be considered total losses (but that were still structurally safe) did not need to be scrapped. Aviva and the car owner discussed options to salvage the car, possibly using second-hand parts. However, we were told that it was Aviva's standard practice to write off vehicles involved with a fatality or serious injury.
8. Aviva explained that [REDACTED].

#### Post-accident temporary replacement vehicle services

9. Temporary replacement vehicles (TRVs) were supplied based on several scenarios: whether the customer had a policy entitlement; whether they were at fault; and whether a customer was being charged by another company with which Aviva had an agreement. Depending on the circumstances, a courtesy car would be supplied through the repairing garage, through direct hire or a credit hire referral made with customer consent in the case of a non-fault claimant with no policy entitlement.
10. Aviva explained that the provision of like-for-like replacement vehicles was a contentious one. However, in the absence of any controls, legal cases had allowed a

non-fault party to recover a like-for-like car irrespective of the age of the car of the non-fault party. This was one of the difficulties for Aviva. We were told that car hire companies typically carried new models only which were attractive to customers, particularly where the damaged vehicle was an older model, and customers were given cars by other operators at which point it was too late for the at-fault insurer to intervene.

11. General Terms of Agreement (GTA) were also a 'least-worst' option in the absence of any market alternative despite the rates being higher than on a direct hire basis. Before the GTA credit hire costs were even greater and had to be challenged through expensive legal proceedings. Aviva said that there should be a better solution to providing TRVs but the overall operation of the legal system meant that there was no clear alternative and limited costs control.
12. The average duration of repair was longer for non-fault CMC claims because of front and back end delays that included a 48-hour window for an engineer's assessment, approval authorization and customer collection. We were told that timings were often influenced by the determination of where fault lay. An at-fault insurer was able to move the process along by contacting the third party and offering them an equivalent service or in chasing progress on the repair.
13. Aviva felt that referral fees were a significant component in the decision-making process for the provision of TRV services and that the majority of referrals were made through intermediaries including brokers, accident management companies and other third party companies involved in motor accident claims. Without such intermediaries, insurers would continue to pay the same amount but would not have costs offset by referral fees unless the referral fees and any over-provision were removed from the cost of the credit hire.

## **Northern Ireland**

14. Aviva said that it was difficult to tell exactly why the Northern Ireland market was dominated by brokers but said that factors such as less advertising by price comparison websites might have been a factor. Difficulties also existed in the pricing of postcode areas due to the lack of some data items that insurers would typically use to inform their postcode rating. This made it more difficult for Aviva to be confident in its pricing at an individual postcode level.
15. Aviva's QMH brand was not available in Northern Ireland and its main product in Northern Ireland composed [X] of Aviva's PMI portfolio.

## **Add-ons**

16. The core insurance products were supported by the profits from add-ons. It was common for insurers to use the profit from add-on products to contribute to the performance of the main insurance product and remain competitively priced.
17. All add-ons were offered to customers on the basis of need through a process of opting in rather than of opting out. Aviva told us that it did not award its staff for sales of add-ons, but awarded pay progression based on customer handling skills and technical knowledge of the products.
18. Aviva told us that the no-claims bonus was based on the no-claims bonus transferred from a previous insurer. In setting the price, both the transferred no-claims bonus and

the claims history were used in pricing, but the claims history did not affect no-claims bonus entitlement

19. We were told that [REDACTED]. There was no evidence of customers not understanding the difference between different types of add-ons because every effort was made to ensure that customers were sold products appropriate to their needs. For example, there was no evidence of the protection of a no-claims discount having an impact on switching rates.

## Price comparison websites

20. Aviva considers that the advent of price comparison websites had contributed to making the market less profitable, with high switching rates and less differentiation in product and service which had resulted in prices being driven down. Aviva understands that comparison site sales account for approximately 65 per cent of the market, [REDACTED].
21. [REDACTED].
22. Aviva would prefer not to have any form of most-favoured nations (MFNs) clauses which it said potentially restricted the ability of the market to evolve. MFNs that worked across the market were a concern because any new operators who could support lower prices were likely to be forced out of the market. Such clauses restricted the ability to differentiate on price. Without MFNs prices for consumers could be expected to be lower and there would likely be growth in the use of social media to acquire customers. [REDACTED].
23. Cashback websites offered an active and potentially credible competitive challenge to comparison sites in the distribution of insurance. This had resulted in comparison sites, using the cashback websites themselves by offering, in some instances, £1 or more for customers to click through to their website and get a quote.
24. [REDACTED].
25. [REDACTED].

## Supplier relationships

26. Whilst insurance companies could work with paint and parts suppliers to generate greater economies of scale, it was better to leave the repairers to source such products independently of insurers. Whilst prices were agreed based on the labour rate, parts and paint discount, there was no mandate to use certain suppliers. Aviva placed greater value on the better relationships with repairers achieved through output-based costs.
27. The repairers Aviva used had recently been through a bidding process based on postcode area, the quality of service provided, and the stability and sustainability of the business. Labour costs constituted a much larger percentage of the cost of the repair with paint only accounting for approximately 16 per cent of the cost.
28. Certain vehicle manufacturers stipulated the use of certain paint brands. These products had to be used by repairers if they were to maintain approval for undertaking the work.