PRIVATE MOTOR INSURANCE MARKET INVESTIGATION

Summary of hearing with Acromas Group held on Monday 22 July 2013

Background

1. The Acromas Group (Acromas) was formed in 2007 and the Saga and AA brands were parts of the group. Acromas was largely owned by three private equity firms: Charterhouse, CVC and Permira; and staff and management owned around 20 per cent of the group. Each brand within the group was run separately as stand-alone businesses and there were very few functions overlapping between the Saga and AA companies: each had its own marketing, product, operational and pricing teams.

2. Saga specialized in providing services for people aged over 50 in the UK. Its principal offerings were insurance and financial services, having started in the holiday market. More recently it had become involved in the provision of domiciliary care and health-care services. Saga offered motor insurance through Saga Services Limited.

3. The AA was responsible for providing a wide range of motoring and home-related services. Its main business was roadside emergency assistance but it also had a significant insurance business. Motor insurance was offered through Automobile Association Insurance Services Limited.

4. Another company within the group—Acromas Insurance Company Limited (AICL)—was an insurance business and supplied services to both The AA and Saga. Specifically, AICL provided Saga's underwriting capacity on an exclusive basis and provided underwriting capacity to The AA on a competitive basis as a member of its panel of insurers [✂]. AICL had also joined the home insurance panels of both The AA and Saga.

5. Other companies in the group were Claims Handling Management Company Limited (CHMC), which provided claim handling and credit hire and repair services to Acromas Group customers, and AA AutoWindshields.

6. The CEOs of The AA, Saga and AICL each reported directly to the Acromas group CEO.

7. According to Acromas's calculations, credit hire and credit repair accounted for around [✂] per cent of total claims costs, in contrast to PI claims, which accounted for [✂] per cent. The introduction of credit hire and credit repair had improved the level of service offered to customers.

Post-accident repair services

8. At the time of a first notification of loss (FNOL), The AA would try to establish whether or not the customer was at fault. If it appeared that the customer was not at fault, they were offered the choice of either making a claim through their own insurance policy, being put in touch with CHMC or approaching the at-fault driver's insurance company directly.

9. Where a claimant was clearly at fault or where it was unclear at the FNOL stage, The AA would put these customers straight through to the at-fault insurer (the panel

insurer with which it placed the business). Saga would deal with the claim directly as it, effectively, had an in-house insurer.

10. Acromas used the WNS network for its repair services. [✂]. It did not believe that WNS was informed as to whether a repair was a non-fault or a fault job. In any case, the service offered and the invoice value charged by WNS was the same.

11. AICL sought to capture third parties for repair and hire, explaining to customers that repairs were guaranteed, that the individual would not need to claim under their own policy and that their no-claims bonus would be unaffected. The AA did not capture third parties for repair and hire service.

12. In AICL’s experience, repair costs managed by non-fault insurers were higher than cost for captured repairs. It said that it was very difficult for the fault insurer to control repair costs for the non-fault driver’s repair. AICL did not have any bilateral agreements with other insurers covering repair costs and was not aware of any such agreements within the industry.

13. AICL did not make recommendations to repairers regarding how a repair should be conducted. It noted that repairers were subject to independent scrutiny. [✂].

14. When dealing with a claim that was economically marginal between write-off and repair, AICL had a preference for handling the case in accordance with the wishes of the customer. AICL would not repair a vehicle where it was uneconomic to do so but would, at the margin, use non-original equipment parts to facilitate a repair when requested by the customer.

Post-accident TRV services

15. CHMC paid referral fees to AICL and AA Insurance Services. Acromas chose to establish an in-house claims handling company as it wanted to have control over the ‘customer journey’ and because it had concerns over the financial viability of its previous supplier of credit hire services.

16. CHMC did not manage its own fleet of vehicles. The credit hire cars were supplied by Enterprise. AICL used a combination of Enterprise and the garages in the WNS network to provide courtesy cars. Acromas did not have a credit hire arrangement with WNS.

17. AICL had some bilateral agreements with other motor insurers. The negotiation of these agreements was a complicated process that took a long time.

18. [✂].

19. Captured claims were treated in exactly the same way as AICL’s own policyholders. For example, like-for-like replacement vehicles were provided in both circumstances. At-fault customers might not be entitled to a like-for-like replacement car.

Northern Ireland

20. Saga was active in Northern Ireland, but it did not represent a significant proportion of its book. Customers in Northern Ireland were treated consistently with customers elsewhere in the UK. The premiums charged reflected the claims costs in Northern Ireland. Five of The AA’s panel of 14 insurers offered cover in Northern Ireland.

21. Acromas said that insurers may have withdrawn from the Northern Irish market as a result of poor profitability in the territory. A high level of personal injury claims in the 1990s may have been the cause for these withdrawals, with companies unwilling re-enter on account of the relatively small size of the market.

Add-ons

22. Acromas noted that the Financial Conduct Authority was undertaking work looking at add-on sales and considered that it would be difficult for the industry to respond effectively to two separate reviews.

23. Claims ratios for add-on products tended to be quite low. Acromas highlighted two possible reasons for this: first, sales costs tended to be higher for add-ons when taken separately from the main cover and, secondly, some of the add-on products provided catastrophic cover, where claims ratios could be volatile.

24. Acromas offered add-ons on an opt-in basis only. [✄]. Acromas made assumptions around the take-up rate of the add-on products and took account of this in its pricing of the core product.

25. Acromas believed that customers had a good understanding of what was covered by the add-on products it offered. Motor legal expenses cover was, perhaps, the most complicated of the add-on products that insurers tended to offer. Other add-ons were thought to be more straightforward.

26. Where a customer was involved in an accident, that customer's premium would increase at the time of renewal, even if they had taken out no-claims bonus protection insurance. This could happen regardless of whether the customer was at fault.

27. Acromas would, at the time a customer switched their insurance to Acromas, honour no-claims bonus protection that had been taken out with the customer's previous insurer.

Price comparison websites

28. Acromas explained that there were four large price comparison websites (PCW): Confused, GoCompare, Moneysupermarket and Compare the Market. The first of these (Confused) launched in the early 2000s.

[✄]

29. Acromas said that there was still a place for the traditional insurance broker in the private motor insurance market, as brokers played an important role in matching the specific needs of customers with the most appropriate products. [✄]

30. Acromas considered that the PCWs had made it quicker for customers to get an idea of the price of insurance from a variety of companies.

[✄]

Supplier relationships

31. [✄]

Other

32. Acromas had a detailed process for contesting potentially fraudulent personal injury claims, for example comparing information that it held about alleged injuries with information on the type of accident involved.

33. [✂]