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5 **COMPETITION COMMISSION**  
6 **PRIVATE MOTOR INSURANCE MARKET INVESTIGATION**  
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9 **Notes of a joint hearing with BIBA, BGL Group, Endsleigh, Hastings Insurance Group**  
10 **and Swinton Insurance**  
11 **held at Competition Commission, Southampton Row, London**  
12 **on Monday 15 July 2013**  
13

14 *PRESENT:*

15  
16 **FOR THE COMPETITION COMMISSION**

17 Alasdair Smith - Chairman  
18 Robin Aaronson - Member  
19 Stephen Oram - Member  
20 Anthony Stern - Member  
21

22 **FOR THE STAFF**

23 Andrew Wright - Inquiry Director  
24 Graeme Reynolds - Director of Remedies and Business Analysis  
25 Tony Curzon-Price - Economist  
26 Kirsty Miller - Legal Adviser  
27 Pietro Menis - Legal Adviser  
28 Philip Dixon - Business Advisor  
29

30 **FOR THE BROKERS**

31 Graeme Trudgill - Executive Director, BIBA  
32 Steve White - Chief Executive, BIBA  
33 Ron Simms - Corporate Services Director, BGL Group  
34 Peter Thompson - Group Director, BGL Group  
35 Darren Pardon - Associate Director Supplier Management, BGL Group  
36 Ian Passmore - Managing Director, Endsleigh  
37 Mark Wainwright - Business Delivery Manager, Endsleigh  
38 Jennifer Day - Head of Direct Markets, Endsleigh  
39 Jacquie Ward - Compliance and Assurance Manager, Endsleigh  
40 George Nicol - Claims Manager, Gallagher Group  
41 Michael Lee - Managing Director Insurer Services, Hastings  
42 Lucy Johnson - Commercial Director, Hastings  
43 Jonathan Sutcliffe - Claims Director, Hastings  
44 Sally Tennant - Compliance Director, Hastings  
45 Gerald McLarnon - Marketing Director, Swinton  
46 Chris Collings - Insurer Development Director, Swinton  
47 Christian Plumer - Chief Financial Officer, Swinton  
48 Mark Hallam - Head of Products, Swinton  
49 Martin McElwee - Senior Associate, Freshfields Bruckhaus Deringer  
50 Miles Trower - Partner, TLT Solicitors  
51

1 THE CHAIRMAN: Thank you all very much for coming to see us. I would like to  
2 start with introductions. I am Alasdair Smith. I am a deputy chair of the  
3 Competition Commission and I am Chair of the group conducting this market  
4 investigation. We have got a mixture here of members of the group and  
5 members of our staff team and I will ask them to introduce themselves,  
6 starting down at that end.

7 Q. (Mr Curzon-Price) I am Tony Curzon-Price. I am a Staff Economist at the  
8 Competition Commission.

9 Q. (Mr Oram) Steve Oram, Panel Member.

10 Q. (Mr Aaronson) Robin Aaronson, Panel Member.

11 Q. (Mr Wright) Andrew Wright, the Inquiry Director.

12 Q. (Mr Stern) I am Anthony Stern. I am a Member.

13 Q. (Mr Reynolds) I am Graeme Reynolds. I am Director of Remedies and  
14 Business Analysis.

15 Q. (Mr Menis) I am Pietro Menis. I am a lawyer.

16 THE CHAIRMAN: Can I ask you to introduce your representatives? Just, for the  
17 sake of economy of time, the ones on the front row but I will ask for the sake  
18 of the transcript writer, if we have interventions from your representatives in  
19 the back row, if you could introduce yourselves clearly when you make an  
20 intervention. That seems the best way to organise things.

21 A. (Mr Passmore) Ian Passmore. I am the Managing Director of Endsleigh.

22 A. (Mr Wainwright) I am Mark Wainwright. I am Business Delivery Manager of  
23 Motor Claims for Endsleigh.

24 A. (Mr Simms) Ron Simms, I am Corporate Services Director of BGL Group.

25 A. (Mr Thompson) Peter Thompson, I am Group Director for Intermediated  
26 Businesses, BGL Group.

1 A. (Mr Lee) Michael Lee, the Managing Director of Insurer Services at Hastings  
2 Insurance Services.

3 A. (Ms Johnson) Lucy Johnson, Commercial Director at Hastings.

4 A. (Mr Trudgill) Graeme Trudgill, Executive Director at the British Insurance  
5 Brokers' Association, BIBA.

6 A. (Mr Nicol) George Nicol. I am Claims Manager on the claims arm of the  
7 Gallagher Group.

8 A. (Mr McLarnon) Gerald McLarnon, Marketing Director at Swinton.

9 A. (Mr Collings) Chris Collings, Insurer Development Director at Swinton.

10 Q. Thank you. On the subject of transcript-taking, can I point out that this is quite  
11 a big room, as you may have noticed already, and the acoustics are not  
12 brilliant. The microphones are only for recording, so can I ask, for the sake of  
13 the transcript writer, that whenever you speak, you could speak as clearly and  
14 loudly as possible. That would be helpful. If anybody shouts too loudly, I will  
15 tell you but I would prefer not to have to tell anyone off for shouting too loudly  
16 but even more, I would prefer not to tell anyone off for not being audible,  
17 especially to the transcript writer.

18 Let me make a few introductory remarks. As you aware, today's meeting is  
19 structured as a joint hearing. We have been mindful of this in preparing the  
20 questions that we are going to cover but I want to remind you at the start that  
21 it is your responsibility that you do not talk about things that it would be  
22 inappropriate to talk about in front of your competitors. If there are  
23 confidential issues or views that you would like to share with us, then we  
24 would be very grateful if you would do that in writing.

25 I am not going to take you through our rules and procedures for hearings, as  
26 we have already written to you setting this out but, suffice it to say, we are

1 taking a transcript of this hearing as a record and we will send a copy of it to  
2 you, I hope, within the next week. We would ask you to check the transcript  
3 and correct any transcription errors or any obvious minor slips in what has  
4 been said. If there are things that you want to add or elucidate in the  
5 evidence that you have provided at the hearing, please do that in writing  
6 separately.

7 We usually only publish summaries of hearings like this but in the context of  
8 these hearings, we have decided that the most appropriate way to publicise  
9 what we are doing is to publish the transcripts of the hearings. So, when you  
10 read the transcripts of the hearings, if, by chance, something confidential has  
11 been said in error, then please draw our attention to it so that it can be  
12 excised from the published transcript.

13 Finally, I have to remind you that it is a criminal offence under section 117 of  
14 the Enterprise Act knowingly or recklessly to provide false or misleading  
15 information to the Commission at any time including at a hearing. I always  
16 feel slightly uneasy at hearings reading out that legal warning which almost  
17 makes it feel that we are approaching this in a suspicious frame of mind. It is  
18 not the case. I have to say, however, with people from the insurance industry,  
19 I say that with no hesitation in reading out the legal warning since I am sure  
20 we will have spent more hours of our lives listening to five minutes of legal  
21 warnings at the start of a conversation about buying your house insurance  
22 than we would like to have spent.

23 In the conduct of the hearing today what we are going to do is I am going to  
24 take the lead in taking us through the questions that we have prepared. But  
25 other members of the panel and staff will chip in with follow-up questions. On  
26 each question, I am going to ask one of you to respond and then I will open it

1 up for additional comments. We are quite tight for time. Two and a half hours  
2 is not a long time to spread around five parties, so I am keen that we do not  
3 spend a lot of time with you agreeing with each other. So, if someone has  
4 spoken in response to a question and you want to say: "Yes, I completely  
5 agree with that" you do not need to spend a couple of minutes saying that you  
6 completely agree with what has just been said. So, I would appreciate the  
7 secondary answers to questions could be largely focused on things that you  
8 want to add or things that you want to disagree with. Of course, if some of the  
9 questions spark a discussion among you, we would regard that as a very  
10 positive outcome. But I do want to emphasise that we are very time-  
11 constrained and if I feel that we are not getting through our schedule fast  
12 enough, I am going to be dictatorial.

13 I hope you are all clear where we are in the process of our inquiry and that the  
14 purpose of the hearings which we are having this week is to allow us to test  
15 our developing thinking. We are in the process of publishing working papers.  
16 We had rather hoped that we would have working papers out in advance of  
17 the hearings. We are not quite there but the working papers are just about to  
18 start emerging. You have our Annotated Issues Statement in which we have  
19 tried to give a very clear picture of what the current state of our thinking is.  
20 You have our administrative timetable which shows where we are headed  
21 next. The next big milestone for us is our aim to publish our Provisional  
22 Findings report in late October or possibly in early November.

23 So, I think that is all that I have to say by way of preliminaries. Are there any  
24 questions about the process or procedure, or shall we get going?

25 I would like to start with a general question which is addressed to each of you  
26 and I am going to invite all of you to respond to it by way of making general

1 remarks that you might want to make. As I said, you have seen our  
2 Annotated Issues Statement, so you know in summary the current state of our  
3 thinking. We would like to know whether you think we have got the issues  
4 right, are we focusing on the right things or are there things that you think we  
5 have got wrong. If we have got something wrong, what is it and what do you  
6 think we are missing?

7 Can I start with BIBA on that?

8 A. (Mr Trudgill) Sure, thank you very much. I am a former insurance broker. My  
9 colleague, George, is a practising broker and my Chief Executive, Steve, is a  
10 former broker, Agency Manager at an insurer and worked at the regulator. I  
11 think I wanted to say that we take the cost of motor insurance very seriously.  
12 We have written in our manifesto an eight-point plan to help reduce the cost of  
13 motor insurance and we want to make the point that the brokers are the agent  
14 of the client as well as the agent of the insurer. We have the duty of care to  
15 make clients aware of options like credit hire, for example. We sit on the  
16 Government Cost of Motor Insurance Summit Group, we sit on the Young  
17 Driver Group and we see the Northern Ireland Government about the costs  
18 out there.

19 The eight points we were talking about include whiplash costs, the access to  
20 the DVLA database to reduce fraud, signposting to help customers access  
21 affordable insurance, issues with some comparison sites, helping young  
22 drivers in Northern Ireland, the regulation of claims management companies  
23 and continuous insurance enforcement.

24 What we will say is we believe things have been progressing quite positively  
25 in the fight against the cost of motor insurance. Our members tell us on  
26 average rates have gone down by about 11 per cent in the last year and 11

1 per cent in the year before that but, of course, it did go up significantly in the  
2 year prior to that.

3 The three things that we think should be focused on are: One, the comparison  
4 sites' most favoured nations clause, which we think should be outlawed. We  
5 think they are anti-competitive. Two, we think, with the huge cost of whiplash,  
6 although I know that is not necessarily part of this document, but having the  
7 new independent panel of medical experts will reduce the cost of personal  
8 injury claims which are the biggest cost of motor insurance and that is a very  
9 important thing to pursue.

10 Three, we think the greater regulation of claims for the management  
11 companies are extremely important because we understand that the budget  
12 from the Ministry of Justice Claims Management Regulation Unit is but a  
13 fraction of that compared with the regulation of insurance brokers who are  
14 regulated by the Financial Conduct Authority very heavily and yet we see very  
15 light-touch regulation for Claims Management Companies (CMCs) which is  
16 sometimes outsourced from that Unit.

17 Therefore, what we do see are many claims management companies failing  
18 or taking advantage or exaggerating and that is a great cause of concern for  
19 us. We think if they could be more appropriately regulated, then that would  
20 take away a lot of the problems as well.

21 With Northern Ireland, we think if you look at the Judicial Studies Board  
22 statistics that some of the reasons for costs being more expensive in Northern  
23 Ireland are due to the awards. For example, loss of or serious damage to two  
24 front teeth in GB costs between £2,850 and £5,000 where, in Northern  
25 Ireland, it is £15,000 and similarly other injuries would see doubling or tripling  
26 of the award costs. That is what I think is the fundamental concern for the

1 insurance industry with Northern Ireland.

2 With post-accident repair services, we are concerned about potential conflict  
3 of interest. If you were to say that the fault insurer should repair the third  
4 party's car, if that third party is -- the innocent third party is third party, fire and  
5 theft, then I am sure that will be of great advantage to them. We just want to  
6 raise a potential conflict of interest because the customer has no contract with  
7 that insurance company. I can see why insurers would seek to, perhaps,  
8 reduce costs by doing it that way. But in your document on section 38, it  
9 says: "This significantly higher proportion of customers were less happy when  
10 the fault insurer handled their TRV" temporary replacement vehicle.

11 The price comparison websites: our other concern is the all-channels clause.  
12 The brokers cannot sell at a lower price, so they might have a branch and  
13 they might have products on comparison sites as well and they might have a  
14 branch network. Yet they pay, say, a £45 fee to the comparison site and yet  
15 they have to offer a price no lower than the comparison site is giving. Now,  
16 why should they have to up the price in their branch by £45? That is  
17 completely ridiculous. So, we are not happy with that. Some comparison site  
18 contracts with brokers also say the broker should not attempt to sell or cross-  
19 sell any of its other products to any client on the comparison site. Again, we  
20 think that is anti-competitive. Surely, it is in the customer's interest for the  
21 brokers to be able to offer alternatives there as well.

22 So, I think we agree with all of the important work that you are doing and are  
23 keen to engage going forwards.

24 Q. Thanks very much. Can I turn next to Endsleigh for your introductory five  
25 minutes?

26 A. (Mr Passmore) In the spirit of your opening address, I will not cover all of the



1 areas that BIBA has just covered. We recognise the issues that you have  
2 identified in the papers you have put out. We concur with much of what  
3 Graeme from BIBA was just saying.

4 There is a little more that I would like to particularly focus on around the role  
5 of the PCWs in the motor market. We recognise that they represent a strong  
6 customer proposition but we believe that consumer understanding of their role  
7 is skewed and that they are far from being just passive helpers into the  
8 marketplace. Indeed, many customers would not understand that there was  
9 any price paid, any fee paid to the price comparison site for offering them their  
10 business.

11 We feel that there is a disconnect between cost control in this space. It is  
12 very similar to the question around theory of harm one. PCWs do operate a  
13 position in the value chain and that position is not particularly well understood.  
14 They are taking a substantial and an increasing amount of money from the  
15 value chain but in the context of the consumer, they are held relatively  
16 unaccountable for the part that they play. There is very little recourse to the  
17 PCW.

18 The annotated statement does refer to the PCWs' ability to increase CPAs  
19 which may be constrained by the fact that the customer can shop around but  
20 we would argue, that shopping around is hampered by the MFN clauses.

21 I think we would take it wider than the point raised in your Annotated Issues  
22 Statement where it refers to cost per acquisition and it has not exceeded  
23 inflation in recent years. That misses the changing dynamic that you referred  
24 to in pricing in the last few years and, bearing in mind, the spend within the  
25 chain and provision of insurance. If I look at our business then I would see  
26 that the various parts of the value chain have been squeezed, that the cost of

1 acquisition of customers is actually rising. The percentage spend on  
2 customer acquisition has risen significantly over the course of the last few  
3 years and there are some customers where it is simply not economic to offer  
4 a price, partly affected by the MFNs, but to offer a price because of the  
5 charges in the acquisition. So, for some of our customers earlier this year  
6 with lower premiums, we have had to raise prices directly because of the cost  
7 of acquisition in that particular space.

8 There is an argument in the Annotated Issues Statement that customers have  
9 a choice but the enormous and drown-out spend in this space is causing the  
10 dominance, effectively customers buying insurance through price comparison  
11 sites is a huge pressure on a lot of the other routes to market.

12 One final point I would make around there, for this as well, is that there is also  
13 a reference to free riding but I would look at it perhaps the other way round  
14 from the intermediary side and say perhaps that could be argued the other  
15 way because the perception, as indeed it appears to be in the marketplace, is  
16 that the PCWs are passive. But then when customers come to our  
17 organisation and seek to validate prices they use that as a mechanism, that  
18 then in turn can change the way of the market share; so there is a question  
19 about free riding both ways that we believe needs to be looked at in this area.

20 Q. Good. Thanks very much. BGL?

21 A. (Mr Simms) I think, again in the spirit of what you said earlier, I will not cover  
22 all of those points and hopefully we can move on from the 'it's not us, it's  
23 them' that has been the approach to date.

24 We absolutely recognise one of the fundamental issues that you have found,  
25 which is the distinction between cost liability and cost control being a  
26 challenge. However, we would have thought that this is a fundamental upshot

1 of the structure and way in which claims are made. The idea that there is fault  
2 and non-fault and realistically it is difficult to understand how that could be  
3 addressed without addressing the question of fault and non-fault, which we do  
4 not think needs to be addressed, that would be our message on that.

5 I suppose the challenge for us is that the linear correlation between claims  
6 costs and premiums, we just do not think exists. The point made there well by  
7 BIBA is that premiums have been static, if not coming down. There is no  
8 evidence that claims costs have done the same. It is an over-simplification to  
9 suggest that claims costs are directly correlated to premiums, particularly  
10 costs related to TRVs or accident repairs having that level of impact. I think  
11 that is probably our position in relation to the overall piece.

12 So, I should declare a clear interest that we have a price comparison site  
13 within our group. I do not think people would be surprised if I was to say that  
14 what price comparison sites are doing is to drive towards market perfection in  
15 this area and, frankly, that is a position which is not in historic insurer  
16 interests. We, as a brokerage, utilise price comparison sites, by no means  
17 just our own one, as a significant element of our core business and a way of  
18 attracting new business and we think that is generally positive.

19 We have launched a number of new brands over recent years and the  
20 accessibility, the ease with which they have been able to access the markets,  
21 the ease with which they have been able to access significant numbers of  
22 customers, the ease with which they have been able to access correct market  
23 pricing, all of that is driven essentially by transparency and visibility that has  
24 been driven by price comparison.

25 There is competition between price comparison websites and brokerages in  
26 terms of setting what is the correct price for the acquisition for each individual

1 customer. The example provided suggests it may be uneconomic for some  
2 providers to provide prices for some customers. This is a consequence of  
3 those customer prices being driven down by competition in this market. It is  
4 not about the acquisition costs.

5 So, I think there is no evidence that we can see nor that we have seen that  
6 actually comparison sites are narrowing the number of customers to whom  
7 motor insurance is available as a result of the activities of price comparison  
8 sites. What we think is that they add another distribution channel; they add a  
9 very efficient distribution channel which is why it is the fastest-growing  
10 distribution channel. It is pretty much as cut and dry as that from our  
11 perspective.

12 I think in relation to CMCs, again I think what they are a creation of is the  
13 historic claims position and effectively the discrepancy between the individual  
14 consumer in a claim and the large insurer, which has always historically  
15 benefited that insurer. CMCs grew up in order to balance that. If CMCs were  
16 not doing a positive job in relation to their customers, they simply would not  
17 exist.

18 I think, again, our position on that is far from being likely to add to the overall  
19 financial burden, it is probably the most efficient way of dealing with the  
20 situation unless and until every third party insurer can be relied upon to act  
21 against its own interests, and in the best interests of the consumer, i.e. to pay  
22 the claims in full and quickly. That is the situation we have moved away from  
23 and what happens is that CMCs and other brokers and ourselves amongst  
24 them, who deal with CMCs are seeking to redress that balance.

25 There is a fundamental difference between our position and that of insurers  
26 and it was characterised earlier on as a potential conflict. It is an actual

1 conflict. The third party insurer wants to reduce costs, reduce claims, overall  
2 settlement amounts and probably prolong the time of that claim. The interest  
3 of the broker with that customer, particularly brokers who have the structures  
4 that we have, taking into account the long-term value of each of those  
5 customers, is to try to maximise that value by retaining that customer. You  
6 retain that customer by having the best outcome that you can achieve for that  
7 customer in the hour of need, which is always the non-fault accident.

8 So, I think there is a reasonable balance. All of that said, it would be  
9 completely mistaken of us not to understand and have an interest in the right  
10 amount of costs being incurred in relation to claims and we think some sort of  
11 extended GTA approach could achieve that but only if and in so far as that  
12 approach is open to every market participant. That is the fundamental  
13 problem that we see at this point with the existing GTA arrangement.

14 Also, I suppose a corollary to that, our second point, which is you have got to  
15 put the customer for us at the centre of that process. If you start the process  
16 by suggesting that its objective is to reduce costs, then the customer who  
17 correctly should have a temporary replacement vehicle will be told to get on  
18 the bus. That is the cost reduction approach but it is not an approach that we  
19 would look to secure for our consumers nor do we think it is the right outcome  
20 for those consumers to achieve given that car insurance (or actually the legal  
21 basis of it) is aimed at putting those customers back into the position they  
22 would have been in had they not been the innocent party in a non-fault  
23 accident. So, our position is slightly broader than that.

24 Q. Good. Thank you. Hastings?

25 A. (Mr Lee) In summary, we agree with most of what has been said by our  
26 colleagues and certainly I think the Annotated Issues Statement does point to

1 the right areas to be looked at at the moment; the view being formed, I think,  
2 is one that we would agree with on all areas.

3 I would perhaps disagree with my colleague over here, Ron, that there is no  
4 direct relationship between claims costs and premiums. The measures in  
5 here are like the measures within the MoJ changes and the changes recently  
6 for bodily injury genuinely might be to return premium discounts. Actually,  
7 taking that as an example, the reduction in rates in the market probably in the  
8 last few months, I think quarter 1 looked like premiums were relatively flat.  
9 But quarter 2 of this year looks like people are starting to make discounts on  
10 anticipated savings from the Jackson and MoJ reports. So, I think they will  
11 have a direct impact on claims prices and there is potential for these changes  
12 to have the same.

13 I do, however, agree that reading it, it is hard to see how some of the potential  
14 changes, some of the options, would not lead to the minority of consumers  
15 receiving a slightly worse service in order for the overall premium pool to be  
16 reduced in the market because claims costs would go down. No doubt that is  
17 what you are wrestling with at the moment. But it looks to me like the  
18 avenues you are going down are correct.

19 Q. Thanks.

20 A. (Mr Collings) Chris Collings and Gerald McLarnon, we represent Swinton.  
21 Swinton Group is the largest high street broker in the UK. We have been  
22 established since 1957 and have been selling motor policies for over 50  
23 years. That is through over 500 high street branches, call centres and the  
24 Internet and we have and sell to over 2 million customers. So, we think we  
25 are pretty well positioned and thinking about the consumer in this.  
26 So, we welcome today's opportunity to be able to comment on the report but

1 at the heart of our responses will be what is right for the customer. We  
2 actually feel that there are a lot of things in here which are about reducing  
3 cost but not considering the customer and some of the conflicts of interest that  
4 can be created. So, we are going to encourage the Commission today to  
5 consider the impact on the consumer, what is right for them and, most  
6 importantly, what is fair for them. I would like to be able to say there are  
7 about three key messages that we would like to bring to the table, the first  
8 being the first theories of harm one and two around the conflict of interest that  
9 we think exists. It is never in the interest of a fault insurer to look after the  
10 non-fault claimant. To shift that responsibility bears a consequence and it is  
11 hard to imagine, we think, the safeguards that would be needed to protect that  
12 customer. We are happy to answer further questions on that.

13 Our other points would be on Northern Ireland. I will not dwell long on this  
14 because we actually agree that there needs to be a move to harmonise  
15 Northern Ireland and the mainland markets and we also welcome a  
16 harmonisation of transferability of no claims discount protection.

17 On the theories four and five, we welcome remedies to limit or ban MFN  
18 clauses and we are happy to have further discussions on that. Thank you.

19 Q. Good, thanks. Thank you very much. I think we are going to cover, one way  
20 or another, pretty much all of the issues which you have helpfully raised and I  
21 do not think I heard anyone say there were big issues that we have not  
22 covered in our Annotated Issues Statement and that is an important message  
23 to have from you.

24 We want to kick off with some questions about PCWs. Given how easy it is  
25 for insurers to sell directly to consumers, given the growth that there has been  
26 in the use of PCWs, what is the future for brokers in the market for private

1 motor insurance? Are you not going to get squeezed out given these  
2 developments? Can I stick with Swinton for the first one and then move on?

3 A. (Mr McLarnon) I am more than happy to answer that. As a high street broker,  
4 we offer a unique service to our customers. What our customers tell us that  
5 they like about Swinton are a few things. They like the opportunity to speak to  
6 someone about their needs to help them to understand what the cover means  
7 to them. They like the reassurance that is provided by high street branches  
8 and they like the idea that, through our expertise, that we can help our  
9 customers to get both the right policy and also to help them find the right  
10 price. So, we are very confident that we have an offering that works for  
11 consumers. Consumers tell us that in research. They also tell us that in the  
12 fact that they buy a lot from us. So, I think we feel very confident that there is  
13 a future for the broker and really just around what we would call the personal  
14 touch that we are able to provide to our customers. In a world where people  
15 are increasingly feeling that they are interacting with machines, the human  
16 service that a broker provides is reassuring to many customers. It is not for  
17 everyone but it is reassuring to enough of them to mean that the brokers'  
18 model will continue.

19 Q. Any of you disagree with that?

20 A. (Mr Thompson) I can give you a view in terms of not disagreeing really as  
21 such, our view on the role of the high street but that is not necessarily the  
22 entire definition of a broker, far from it. So, BGL, operates a number of  
23 businesses as a broker and the majority of the business comes through  
24 electronically and digitally, through Internet channels. We see PCWs as a  
25 very effective and efficient way of taking our propositions to market at a time  
26 when customers are visiting PCWs in the right window to renew and prepare



1 for their insurances. It is a very efficient and effective way of presenting our  
2 propositions and prices.

3 Q. This is really asking everybody, has the role of broker changed over the last  
4 10 to 15 years partly because of the Internet? In the old days, the assumption  
5 was that your broker was an independent party. You would contact them.  
6 They knew the market. They would tell you independently which was the best  
7 for you. But it seems now that brokers themselves have close links with  
8 insurance companies, some of them, and therefore they are selling particular  
9 products which they are linked to. Is this correct? Is it a change? Is it a  
10 development?

11 A. (Mr Thompson) I do not see that as a change. I have been in broking for 25  
12 years, broking and insurance actually alike. Brokers traditionally have held  
13 positions in agencies with a number of insurers. It depends on the number of  
14 insurer relationships that they have got. They have never been fully  
15 representative of the whole market. They represent a good spread of the  
16 market typically. So, in that regard, no, I do not think that has changed  
17 particularly. The medium by which they communicate with the customer may  
18 have changed. Their desire to seek the right propositions and marry those up  
19 with that customer at the right price that the customer perceives as good  
20 value, I do not think that has changed at all.

21 A. (Mr Trudgill) Insurance brokers have a regulatory requirement to  
22 fundamentally manage any conflict of interest. So, they will get the suitable  
23 deal for that customer and that is what their primary mission is. So, they will  
24 look to get that deal there.

25 What I will say is that about 70 per cent of products on some comparison sites  
26 are from insurance brokers. So, we are not being left behind. We are very

1 much involved with comparison sites. Of course, many insurers do not put  
2 their products on comparison sites. Comparison sites do not always cater for  
3 non-standard people, people with convictions, young drivers, overseas  
4 people, et cetera. The broker market is thriving in that area.

5 The broker market share in fact has actually gone up about one per cent over  
6 the last year anyway. It has not really been affected for some time. I think the  
7 brokers are doing a great job and they will continue to do so.

8 A. (Mr Collings) I would like to add to that as well, if I can. Yes, brokers have  
9 not changed. If anything, they have become more and more important. This  
10 is an incredibly competitive market and there are more and more options for  
11 people to shop around. It gets very confusing, very complex for many people  
12 and a broker gives somebody independent advice and can actually help  
13 people.

14 When it comes to the claims part, which really brings it back into one of the  
15 theories of harm here, is that when people have a claim, that is when they  
16 really need a broker, that is when they really want to talk about their advice.  
17 The very idea of suggesting here that you then pass that responsibility to  
18 someone you had the accident with just does not fit with everything that  
19 customer expects of a broker.

20 Q. (Mr Oram) Has the role of brokers not developed? We have got the FCA  
21 probe on conflict of interest. There is a reference in one of the cuttings that  
22 we read that brokers have extended into claims management. So, the role of  
23 brokers has changed, has it not, just following up Anthony's question?

24 A. (Mr Thompson) In that particular point, Steve, yes. That is to fill inequity  
25 really that existed in the market where you had a customer who was involved  
26 in an accident, although they were not at fault, and they were not given the

1 right representation nor necessarily the right advice on their rights when  
2 dealing with an insurer to try to make recovery against their losses. I think  
3 that void that existed has been filled through the development of services that  
4 brokers provide and the likes of claims management companies to make sure  
5 that the customer is aware of their rights and is put back, as near as  
6 practicably possible, to the position that they were in prior to the loss.

7 A. (Mr Lee) I would totally agree with that but also picking up on the other  
8 comment about treating third parties differently and the conflict of interest, I  
9 would like to link the two. I totally agree that insurers generally created, that is  
10 because I was an underwriting insurer previously, a situation where we were  
11 not looking after the innocent third party. 15 years ago you might have hoped  
12 the claim went away and they were treated badly. But I think times have  
13 changed and the world has evolved to the point where saying an insurer who  
14 is dealing with the non-fault client or consumer that they would not ever  
15 represent their interests in the best way, I think things have moved on and  
16 that a number of brokers, insurers would treat that intervention time as one to  
17 intervene to take control of that claim, see them as a future customer frankly.  
18 Now, that is a slightly different conflict of interest but it is one which actually  
19 means that during the claim process they come out with a very good service.  
20 Certainly at Hastings, once we were intervening into a third party who was an  
21 innocent party, once in our process we would treat them the same as our own  
22 customer. Now, I do also accept that means that they may well have been  
23 entitled to a like-for-like replacement and, as you picked up in your report, that  
24 might then mean they wind up with a smaller vehicle but also it seems most  
25 people are happy with that.

26 In the way that they are dealt with, it is not adversarial. It is looking to, as I

1 say, seeing them as a future customer and getting our reputation out there as  
2 a force for good.

3 A. (Mr Passmore) If I could come back to the question you asked about the role  
4 of broker, there is this misunderstanding about what PCWs do compared to  
5 brokers. They do a part of - a single dimension principally - the customer  
6 selection, despite some efforts to do more than this, they are principally about  
7 ranking insurers on the basis of price. Brokers do a much more sophisticated,  
8 finer selection process than that. But, indeed, when PCWs first came on the  
9 market, they were one of the principal reasons for masses of losses being  
10 made in insurers who would put many customers on their books who did not  
11 understand that they had holes in their schemes and so on and that they were  
12 exposed to this new mechanism that came out in the marketplace.

13 There is a very important role for brokers to address one of the critical issues  
14 that many insurers see which is that they insure who they think they are  
15 insuring and to give confidence to the insurer that their book is in the right kind  
16 of shape so they can offer more consistent propositions to that particular  
17 marketplace.

18 I think the other thing worth just exploring a little bit about the PCWs' role in  
19 this is because the drive is so much about price, inevitably there will be  
20 consequences for other paths, that we call in marketing terms less elastic,  
21 which spread into a lot of the rest of the space that is talked about in this area.

22 Certainly there is a lot of squeeze around incomes and earnings for insurers  
23 that has meant that alternative models have been developed to make sure the  
24 customer argument is being made properly.

25 THE CHAIRMAN: Just pursuing that a little bit, have PCWs led to much more  
26 switching in the market?

1 A. (Mr Passmore) Customer loyalty is significantly less than it used to be. There  
2 is some evidence of the decline slowing. Perhaps that is more to do with the  
3 maturing channels and not every customer is going to use PCWs. So, it is  
4 like much of the growth that has existed in the use of PCWs is going to slow.  
5 That brings more concern to my mind for pressures within price comparison  
6 websites for competition, and it comes back to the point about the most  
7 favoured nation clauses. If the easy growth that comes from new channels is  
8 lost, then the competition then has to heat up between providers in that  
9 particular space where they are trying to wrestle for customers from one of  
10 their competitors. There is evidence of increase in spend in this space  
11 precisely for that purpose because it is effectively funded by the consumer;  
12 price comparison fees are likely to have ever increasing pressures upwards in  
13 order to be able to maintain the growth of those particular organisations.

14 Q. So, your costs go up because the customer acquisition fees are high?

15 A. (Mr Passmore) Sorry, that was two different points. The first point, the  
16 question you asked is customer loyalty, customer retention, longevity of  
17 customer is much much lower than it used to be. There has been a  
18 downward pressure on it for some years and it is undoubtedly down to the fact  
19 that many more customers shop around the market more regularly for their  
20 propositions. It is impossible to turn on the TV without having that in place.

21 It has, in my view, meant that a lot of customers are acquired on uneconomic  
22 terms at new business at this stage and some of the claims about loyal  
23 customers then paying for that become relevant in this particular space  
24 because price elasticity at the front end of motor insurance is extremely acute,  
25 it is very, very dramatic.

26 A. (Mr Simms) To be fair, I would agree with virtually everything that is said

1 except the conclusion. Price elasticity at the front end of consumer purchase  
2 is a good thing. The point being made there about the understanding of the  
3 true value of customers in your model driven by a transparency that price  
4 comparison puts forward is exactly the point I think that is relevant for the real  
5 market shift we have seen. So, many insurers did not understand the true  
6 value and/or cost of the consumers they were acquiring. That means they  
7 may well have had holes in their acquisition book as a result of acquiring  
8 them. Transparency is going to make the penalty for that approach, i.e. the  
9 penalty for lack of knowledge of your own cost of acquisition a significant one.  
10 I do not think there is any consumer interest which is not positively dealt with  
11 by that very transparency.

12 There is no question that it makes the market more competitive. It is much  
13 more difficult for you to acquire customers and provide them with prices which  
14 are under competitive any longer whereas in the previous era when a  
15 customer would have to spend all morning or possibly even all day phoning  
16 round for his prices, it was something that was quite easy to do and you have  
17 a whole raft of customers who either did not have inclination or the time or the  
18 money to spend on that sort of approach.

19 We absolutely say that it does shine the light but, as we are finding out from  
20 the brokerage perspective, we have consistently grown our book of business  
21 in that period and profitably grown our book of business in that period. It is  
22 about the survival of those better placed to understand the true long-term  
23 value of their consumers.

24 One point that I also would make here is that when we are talking about new  
25 business customers, we are still only ever talking about a slither of the market.  
26 For everybody around this table, the majority of our policies sold in every year

1 would be policies that were renewed from the year before, not policies  
2 acquired through price comparison sites or any other sites or any other new  
3 business means. It is a relevant point when we are talking about the overall  
4 balance of price across private motor insurance.

5 A. (Mr Passmore) My point right at the very beginning, I do think there is a lot of  
6 good that is coming from the PWCs. It really refers back to protection of that  
7 particular area through the most favoured nation clauses because they have a  
8 protection that does not allow the increasing differential or alternative methods  
9 of attracting business to be reflected in the price to consumers.

10 Q. Could you say how the MFNs affect the way that you can do business through  
11 your own website?

12 A. (Mr Passmore) The clauses vary in truth between different providers.

13 A. (Ms Johnson) I could give an example theoretically of what could happen. A  
14 great example could be, and it talks to the point that was made earlier, around  
15 channel preference. So it may be okay to choose your pricing according to  
16 your channel as a broker but perhaps one of the aggregators might be quite  
17 explicit about your ability to promote that difference. So, the example made  
18 actually was with regard to physical branches. In the banking world, for  
19 example, which is where I came from, it would be quite normal to offer the  
20 most beneficial price to a customer when they can come into your own land  
21 and space. I think it is possible to see that in the aggregated world, which is  
22 genuinely in my mind a really positive thing where customers get a great deal  
23 and real choice and we should absolutely support that, but if the customer  
24 believes they have a great deal and real choice, then there needs to be a  
25 structure in place which genuinely offers that. The kind of clauses which  
26 would prevent you from openly talking about other customers coming to your

1 branch and they get the best deal, I think that is clear and explicit to the  
2 customer and that should be fine. If that were prevented, then I do not think  
3 that would be a great thing for customers.

4 A. (Mr McLarnon) We agree with that point as well in so far as we value our  
5 longstanding relationships with price comparison websites. We have been  
6 there from the start. The consumers get a great deal from price comparison  
7 websites. Many consumers do. But we think that the MFN clauses are  
8 commercial handcuffs. What it does is it prevents us from commercially  
9 innovating between the different price comparison websites and between our  
10 channels in a way that helps us to reflect the cost of doing business and so it  
11 is reflected in the savings and the cost of doing business in the price that we  
12 offer customers.

13 We would welcome any remedies that you can propose which would either  
14 limit or ban MFN clauses and, indeed, I would go so far as to say that  
15 anything which did not ban them, kind of, suffers from an intellectual problem  
16 which is that we end up protecting one class of intermediary, the price  
17 comparison website, without providing suitable protection for other classes of  
18 intermediaries, the brokers all at this table.

19 If we were to go to our insurer panel now, we have a few percentage points of  
20 share in the market, about five -- if we went to our insurer panel and said, "Do  
21 you know what? We will not do business with you unless you guarantee us  
22 your best price that you are going to offer through any other channel" they  
23 would laugh at us and walk away. It would be ludicrous.

24 However, in the world of price comparison websites, where they hold, perhaps  
25 on average 15 per cent share of new business, going through there, you  
26 cannot have those negotiations. You either, kind of, take it or leave it, as it



1 were because that is such a significant distribution channel.

2 I think what they are doing is they are wielding their market power now that  
3 they have grown to be so big in the market, they are wielding their market  
4 power in a way which prevents our commercial innovation and I would assert  
5 over the long term, that is disadvantageous to the consumer.

6 A. (Ms Johnson) I think that is a great analogy. That is fabulous. It really brings  
7 it to light.

8 A. (Mr Trudgill) It is the tail wagging the dog, is it not? The TV campaigns that  
9 are so influential that they are more powerful than the actual people whose  
10 products that they are selling. Why should it be that if comparison site A  
11 invests £10 million in antifraud systems and really offers a great solution  
12 there, that the broker has to offer the same price as comparison site B as they  
13 do to A as they are insisting upon it. Why not offer a more competitive rate for  
14 that comparison site and make more of an investment? So, MFN clauses do  
15 distort competition.

16 Q. (Mr Aaronson) On the issue of balance of power between brokers and  
17 comparison websites, I thought I heard someone along here say that PCWs  
18 are actually not that important; the majority of broker businesses continue  
19 relationships built up over years with continuing customers. How does that  
20 square?

21 A. (Mr Simms) You would not have heard that contradicted, I do not think so far.  
22 Well, I have not. Yes, I said that and I think that is actually unquestionably the  
23 case, unless someone along here does more new business than they do  
24 renewals.

25 A. (Ms Johnson) We are finely balanced. We will get there one day.

26 A. (Mr Simms) Nowhere near the price comparison sites.. The point for us, and

1 I should not leave it unsaid about MFN clauses, is that they are the subject of  
2 individual negotiation, which I see from both ends. The main point is that I  
3 have not come across one that prevents innovation. What it prevents is doing  
4 something innovative in place A and seeking to provide a different, higher  
5 price to that consumer in place B. I think that is the difference between what it  
6 is intended to do and the reason it is intended to do that.

7 I think it is really borne out in a very timely fashion by the Which? survey that  
8 came out this month that talks about consumer expectation and consumer  
9 disappointment when they did not get the best price they were seeking by  
10 going through a price comparison website or even a number of price  
11 comparison sites. None of the price comparison MFNs that I have seen  
12 would operate such as to prevent somebody from doing something else  
13 elsewhere. Price comparison agreements are not like that. They do not go on  
14 for years and years nor are interminable nor do they prescribe specific prices.  
15 What they do is to suggest that this is the price and actually if you want to  
16 offer the same consumer a different price for exactly the same product, and  
17 they are usually related to identical risk information, then that is something  
18 which you should not do and offer a price on this site. I think that from a  
19 consumer experience and back to the point what are we trying to drive at?  
20 From the consumer experience perspective that is something I think is  
21 essential going forward.

22 THE CHAIRMAN: You have been trying to get in.

23 A. (Ms Day) I just wanted to emphasise one point really that has come through  
24 as a thread here. I think we are at an interesting point where the market  
25 dynamics are changing because we are reaching the point of, in effect,  
26 saturation. The volume of consumers now using price comparison sites is

1 probably -- we have seen year on year growth but that has started to flatten  
2 certainly in the last couple of years. The dynamics of that mean that where  
3 price comparison sites are looking to increase CPAs or fees, what they are  
4 really looking for is to increase that competition amongst each other and  
5 ultimately that will have to go somewhere. Whereas three or four years ago,  
6 those increases in fees would enable them to drive more traffic and more  
7 inquiries to us. All they are doing now really is competing with each other and  
8 having no real accountability or liability for the quality of business that they  
9 introduce to us.

10 I think that has got some really worrying dynamics for us, certainly around  
11 quality of business, fraud particularly, the fact that the introducer fees or the  
12 aggregator fees are not linked in any way to how long that customer is likely  
13 to stay with you or whether that consumer is likely to commit fraud, it is not  
14 reflected in fees. So there is no commercial model that promotes right  
15 behaviours at every point of the value chain. Inevitably that will have to either  
16 come back in the rate to the customer and, at the moment with MFN clauses,  
17 that is having to go everywhere; there are rate increases across all channels.

18 A. (Mr Thompson) I have not seen the same experience, I have got to admit. I  
19 am not responsible for the aggregator we have in the group, I am responsible  
20 for all of the intermediated business volumes that we drive and dealing across  
21 the aggregators as we do, and very much as we have seen in your return, it is  
22 showing that we are not seeing CPA pressures above inflation levels. I am  
23 not sure where that dynamic is being generated from necessarily. I just do  
24 not see that.

25 When I look at that in the context of the overall cost, acquisition cost through  
26 an aggregator set against the lifetime value of a customer, and you look at the

1 level of inflationary increases we are talking about it is negligible in the  
2 scheme of things and I do not see that as a significant influence and certainly  
3 not a significant impact or any impact actually on the consumer.

4 A. (Ms Day) But increases are certainly not representative. There is not the  
5 same correlation between increases in premium, as Graeme pointed out in his  
6 opening position, we have seen premiums go backwards over the last couple  
7 of years at a point when fees are going up, which means there are certain  
8 segments of market that is not economical for us to go and trade in.

9 A. (Mr McLarnon) I just offer one example to counter the point that was made  
10 earlier in regards to commercial innovation. We had an example at Swinton  
11 about a year and a half ago, and we can write to you separately about this  
12 example, I am not willing to disclose all the details in open, where we wanted  
13 to develop a pricing special with one of the price comparison websites. So to  
14 say: "Look, we want to develop more business with you. We would like to  
15 give you a pricing special that says 'Swinton Best Price' on this website".  
16 During the period of that promotion, we were required to withdraw our  
17 business from one of the other price comparison websites because we were  
18 making a statement that we were offering a best price. So, there is an  
19 example of how the MFN clauses are restricting our ability to innovate  
20 commercially and it is not about one versus the other.

21 Our view is that we want to develop our business uniquely and in an  
22 innovative way with all of the price comparison websites. But we feel in that  
23 specific example, we have been hindered in doing that.

24 To bring the point home then, I am not sure, from a Competition Commission  
25 point of view, that that is the type of innovation that you want stopped and that  
26 prevention of that innovation is in the interest of consumers.

1 Q. Graeme, you said earlier that you felt that competition between PCWs in  
2 innovation was hampered, it blunted the incentive for any one PCW to be  
3 innovative.

4 A. (Mr Trudgill) One of our concerns is that they are called price comparison  
5 sites and not insurance comparison sites. The whole distraction is with the  
6 price and not on someone getting suitable insurance. The FSA have already  
7 come out, the regulator, the Financial Services Authority, three times to say  
8 that they need to be clearer giving the information, they need to return the  
9 excess that the customer has actually asked for and not upped the excess to  
10 a higher amount so they can come in at the cheapest quote and try to get that  
11 quote rather than the comparison site over there. The industry put out a good  
12 practice guide with the blessing of the comparison sites and they signed up to  
13 it and then they did not all follow it in that regard and they still came up with  
14 higher excesses than the clients wanted. Then in October 2011, the FSA  
15 came out with further guidance, talking about the comparison sites not  
16 complying with the Insurance Conduct of Business Rules and that they should  
17 be giving proper statements of demands and needs.

18 So, what am I getting at? I think I am getting at the fact that about 70 per cent  
19 of customers now go to comparison sites to look for motor insurance, so it is a  
20 very, very important route to market. But they do need to be sufficiently  
21 regulated and practices which we fundamentally think are anti-competitive,  
22 like MFN clauses, are something that have been allowed to grow because  
23 they are so powerful and they can tell the massive brokers, that we have  
24 heard from today, what to do.

25 That is where I think the Competition Commission can have a big impact.  
26 They are so powerful. They have not followed the industry guidelines. The

1 FSA have come in three times already. EIOPA are looking at this, the  
2 European super regulator, because they are growing in other countries. I just  
3 think what we want is a fair and level playing field for us all to go and develop  
4 innovative products for customers and deliver the type of cover that they have  
5 requested at a price that is right for them.

6 Q. Those of you who have been talking about MFNs, do you think we should  
7 take the same approach to all kinds of MFNs? The degree of restriction of  
8 different MFNs is quite different. Some apply only to online sales. Some of  
9 them apply to all sales.

10 A. (Mr McLarnon) Our view is that we have commercial handcuffs in any form.  
11 Any form of MFN clause restricts our ability to innovate commercially. I have  
12 not modelled all the possible combinations of MFN clauses to work out  
13 whether there is a sweet spot. But I would almost go back to the principal  
14 point which is that we have one class of intermediary in the market, which is  
15 the price comparison website. We have another class of intermediary in the  
16 market, which is the broker. It is not obvious to me why we would afford a  
17 certain type of protection to one type of intermediary versus another. That  
18 does not make sense to me from an intellectual point of view. There may well  
19 be arguments under the surface that I am not aware of. Our view is that  
20 competition is best helped by removing these restrictive clauses in the way  
21 that we do business given that we are doing business with people that hold a  
22 significant share of the market. When price comparison sites were small, it  
23 did not matter. They are no longer small. 60 per cent of new business is  
24 going through them. So, you know, does that mean market power? It does to  
25 me. Those terms now which we have to take those terms, I think they restrict  
26 our innovation which is why obviously we are arguing strongly against them

1 and are looking for your help to remove those handcuffs.

2 A. (Ms Johnson) I would just agree. So, if the drive is to give the customer the  
3 most choice, the right product and the right price, then price comparison  
4 websites are absolutely welcomed by Hastings, completely. But if there are  
5 clauses within the contract between the brokers and the PCWs, then that, in  
6 its essence, constrains the very thing that they are designed to do. Without  
7 looking at the fine detail of all the different elements that could be ironed out  
8 and the different degrees, I think the starting point for Hastings would be that  
9 they should not be allowed.

10 Q. (Mr Oram) What would you say to the argument that the removal of MFN  
11 clauses would threaten the existence of PCWs? What is your view of that?

12 A. (Ms Johnson) You would probably have to explain to me why that would be  
13 the case. I am not sure I understand.

14 Q. (Mr Oram) Because the argument would go that consumers would get used  
15 to the fact that PCWs did not give them a competitive price and they would  
16 use them less and less.

17 A. (Ms Johnson) Why would they not give them a competitive price? I am not  
18 sure I draw the link between removal of those clauses meaning that they are  
19 no longer providing competitive prices.

20 A. (Mr Simms) I think it is about proposition development as far as we are  
21 concerned. The argument would be that the consumer comes to a price  
22 comparison site in order to get the best price they could find. That is not all of  
23 the proposition. That is not all the proposition for every comparison site but  
24 there are certain comparison sites that say: "Come to us and we will give you  
25 the best price that we can find for your insurance product". If actually that is  
26 not the best price --

- 1 A. (Mr Lee) It is still the best price they can find. If it was a broker ten years  
2 ago, if you went to a broker to get the best price that they can find --
- 3 A. (Mr Simms) Indeed and each broker was able to negotiate with his or her  
4 panel of insurers, as they pleased, and agreed between them which prices  
5 and what the structure of those prices were that they were bringing to market.  
6 That is absolutely no different to price comparison websites it seems to me.
- 7 A. (Ms Johnson) I think my preference would be to give the customer the best  
8 price through genuine competition rather than through contractual  
9 agreements. I do not believe that the removal of those clauses would lead to  
10 reduced competition.
- 11 A. (Ms Day) I just wanted to answer that. I think there are two points really.  
12 One was linked to our opening position around this challenge around who is  
13 free riding. I think what the price comparison sites issue with price parity  
14 clauses around customers coming direct to our website is because they are  
15 reticent that customer will check on their website and then buy through us  
16 direct. Actually, there is an argument that it happens exactly the other way  
17 round as well and that they are, in effect, free riding, if you like, on the merits  
18 of our brand. We see that certainly in the marketplace that we operate in  
19 where our market resonates with the consumer that we are dealing with.  
20 I think that the other point I was just going to add to is ... actually I will have to  
21 come back to that.
- 22 A. (Mr Passmore) Can I add one thing to it as well about this point of  
23 competition between PCWs? They are a significant cost to the consumer and  
24 in order to be able to drive right prices down in that part, then competition  
25 between price comparison sites, so they did compete on the fees that were  
26 charged, that can then be properly reflected in the price, so the price of



1 distribution is factored into what we think would be helpful for competition.

2 It comes back to the very first point that there is a proposition that is quite  
3 difficult to sustain intellectually that I will find the best price available in the  
4 market if I aim to make money from that as well.

5 THE CHAIRMAN: You were trying to come in.

6 A. (Mr Trower) I just wanted to make a couple of observations about MFNs  
7 generally, it follows on from the point as to whether or not MFNs in total are  
8 problematic.

9 I think there is a danger that MFNs are put into a category in their entirety as  
10 being a problem. What we need to do, I think, is to examine the actual scope  
11 of the MFNs even before we look at their countervailing benefits because  
12 MFNs come in all shapes and sizes and it is not even easy to categorise them  
13 into three little groups depending on whether they are direct, online or all  
14 channels.

15 I think before we get too far down the line of prohibiting anything, we need to  
16 actually understand whether or not they do stop other channels from  
17 innovating and that we do understand the scope that they offer for different  
18 pricing, whether in terms of various value added options that the providers  
19 can supply or whether in terms of altering the questionnaires that they invite  
20 consumers to respond to when requesting private motor insurance; it is not  
21 straightforward. You cannot put them all into the same category.

22 I think as regards the second observation, the point Steve reminded us of  
23 around consumer confidence, they are central in many ways to a customer  
24 trust proposition. If you look at the Which? report published today, some of  
25 the concerns that have been flagged are around the fact that there is a lot of  
26 differential pricing and consumers are starting to think whether or not they are

1 going to get the best price from certain channels. The more that is done to  
2 erode confidence in price comparison sites in terms of delivery of price, the  
3 further away we are going to get from that.

4 A. (Mr Lee) What would be the outcome on the consumer if we removed the  
5 MFNs? I struggle to see that it would not just wind up in being a more  
6 competitive market. I accept the challenges mentioned in here around  
7 protecting investment in technology but, again, that is no different to what  
8 brokers have faced on over the years. So, I am struggling to see where that  
9 detriment would come to the consumer.

10 A. (Mr Simms) Here is the theory. The theory goes that you erode the  
11 customer's ability to get the best price and understand that as part of a price  
12 comparison proposition. That dilutes --

13 A. (Mr Lee) But I do not hear where -- from one comparison website, just like  
14 brokers have got different rates because they have invested in training,  
15 technology, whatever, and get different rates from brokers for the results they  
16 have delivered over the years, the same would move onto the price  
17 comparison websites, what acquisition costs they were going to charge, what  
18 systems they employed, what advertising spend they had would dictate then  
19 what rates they were getting from the brokers or the insurers out there. It  
20 would just result in more competition.

21 A. (Mr Simms) I think that is exactly what it does at the moment. As an insurer,  
22 you are offered a price comparison agreement, it has an MFN in. If that is not  
23 going to be a good way for you, where you had a positive experience with that  
24 price comparison site, you would simply not sign up to it. It is relatively  
25 straightforward. That is exactly what they do today.

26 What is being suggested is that actually you cannot agree that contractually.

1 Actually what you need to have is the free-for-all even after the price  
2 comparison site has been through all of that, because what you say is exactly  
3 right. Everybody is making a judgement and I think this is the point; you are  
4 making a judgement about an overall route to market. If price comparison  
5 sites, including or excluding MFNs, were not by a significant margin the most  
6 efficient route into the market, they would, by their very nature, disappear.

7 Of course the contrary is true. When we are talking about understanding  
8 costs of acquisition, then we need to look at that in broad terms. Peter's point  
9 earlier on is that we bring new brands, new propositions to the market, we can  
10 understand their acquisition costs extremely well. They are extremely visible  
11 and transparent to us. They are easy to plan because of the way in which  
12 price comparison sites work.

13 Roll back a few years and we have lots of above the line marketing more or  
14 less effective, more or less targeting certain customers over other customers.  
15 That made it much less efficient. Actually, that efficiency drives through to  
16 overall consumer pricing rather than to a specific acquisition pricing.

17 A. (Mr Trudgill) Just one other point if I may. Some of the leading insurers in the  
18 UK have told BIBA that the quality of business they receive from brokers, as  
19 opposed to comparison sites, is much better. There is less fraud, the claims  
20 are not so harsh and it is a really successful route to market for them to go  
21 through a broker. So, why should a broker be restricted with an MFN clause  
22 not to give that insurer a more competitive rate because they are paying less  
23 in fraud, less in claims than if they wanted to deal with a comparison site as  
24 well? It is unfair.

25 Q. You want to make a point.

26 A. (Ms Day) Thank you. I just want to go back to Stephen's question around if

1 you banned or outlawed most favoured nation clauses whether that would  
2 mean that there was not a role for price comparison sites. I think it is possible  
3 that the way we see customers shop now may well answer that point. We do  
4 see customers go on average, and people have the experiences round the  
5 table, but regularly our customers go to an average of 2.8 price comparison  
6 sites while they are shopping, which suggests to us that they believe there are  
7 different offers and different services available between the price comparison  
8 sites themselves. So, I think that consumer behaviour would still exist.

9 Q. Before we leave PCWs, there is one other issue I wanted to raise. I am told  
10 there has been the emergence of something called cashback websites. Have  
11 they challenged the position of PCWs?

12 A. (Ms Johnson) There has, yes. No, I do not think they challenge the PCWs. I  
13 do not think I am exactly the right person to answer this one but I think they  
14 provide a different level of service.

15 A. (Mr Simms) We would say they are an additional challenge to price  
16 comparison websites. There are a number of challenges: direct businesses,  
17 there are businesses that do not use price comparison sites. I still think that  
18 just about the largest insurance provider in PMI currently does not use price  
19 comparison sites at all. So, there are a number of different challenges to  
20 price comparison sites and unquestionably cashback sites are one of them.  
21 They change the dynamic because those sites then have what we like to call  
22 customer ownership from that perspective, customers will shop at that site for  
23 a range of products and car insurance might be one of them. Yes, so they are  
24 an additional challenge to the still reasonably narrow number of customers of  
25 total private motor insurance customers who actually buy via price  
26 comparison sites.

1 A. (Ms Day) I was going to add that I would suggest that through our  
2 engagement with price comparison sites that there has been a concern about  
3 the rise of the cashback site, so much so that we have actually seen some of  
4 that work its way into contracts in terms of us not being able to offer the same  
5 product to other cashback sites or when we are looking to give cashback  
6 away some of them have gone as far as wanting to stipulate with us that we  
7 put the cashback back into the premium in order to then give it away, so there  
8 has been historically, not so much now, a real concern that they would  
9 damage their market position.

10 I would go as far as saying that perhaps it is not maybe cashback now that  
11 has the potential for that but things like telematics coming in where they are  
12 starting to get really concerned about what that means to customer loyalty  
13 and churn. We are seeing that in some of the PCWs looking to negotiate  
14 greater fees for propositions that reward customer loyalty.

15 Q. One other source of competition for PCWs that people have talked about,  
16 Google and Tesco. Any of you have views about how much competition they  
17 are going to provide for PCWs?

18 A. (Mr Hallam) I can answer that. There are two key things really. Tesco and  
19 Google have both really made, from our perspective, no impact into the PCW  
20 space over the last two to three years. Google's launch last year has made  
21 no difference in terms of what we see in terms of quote volumes or in respect  
22 of actual policy volumes. So, such a significant brand as Google has had no  
23 impact in terms of volumes and effects on the big four.

24 Q. Why do you think that is?

25 A. (Mr Hallam) I think from all the evidence we see all the research we have  
26 done with consumers is that it is so heavily-driven by the above-the-line

1 advertising. Google dominates the search rankings, the natural search  
2 rankings that they have done since their launch has had very little impact in  
3 respect of driving traffic to their sites. It is all so heavily dominated by the  
4 above-the-line advertising that other sites invest heavily in.

5 A. (Mr Passmore) I have certainly had some conversations with people off the  
6 record saying that people see it as highly risky being able to break into this  
7 market now because the spend is so significant.

8 A. (Mr Simms) The idea that spend for Tesco and Google is prohibitive, are we  
9 seriously -- --

10 A. (Mr Passmore) It is relative terms though?

11 A. (Mr Simms) I do not think that is a very serious argument. Those are brands  
12 which are stronger brands than any that have entered the price comparison  
13 space previously. In respect of Google, they have a far more advanced  
14 technological capability than any brand that is currently in the space. They  
15 represent enormous threats. The point about free riding and the protection of  
16 investment is actually very closely related to the potential damage that these  
17 sorts of entrants to the market, who I might add have found it very, very easy  
18 to enter that market space, could have at any point. Part of the challenge for  
19 any price comparison site is just that; having the ability to continue to  
20 financially benefit from their long-term investment given the potential threats  
21 and ease of entry to this market.

22 A. (Mr Collings) To answer your question, the facts are the facts. They have not  
23 made an impact on the market. What any of us say, they have not. That just  
24 enforces the point of the overwhelming dominance of the existing four PCWs.

25 Q. I want to move on. There are a few topics we want to cover. But I suggest  
26 we have a five-minute comfort break and start again in five minutes.

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(a short break)

THE CHAIRMAN: I would like to move on to add-ons, things like motor legal expenses, breakdown cover, no claims bonus protection. We did not say much in our annotated issues statement about our analysis over add-ons and the work is ongoing. But it seems to use there is some evidence that claims ratios on some of the most commonly sold add-ons are generally very low, sometimes below 50 per cent. Do you agree with this and, if so, why might this be the case? Can I start with Hastings? Do you have a view on this?

A. (Mr Lee) I think that really depends on which ancillaries you are talking about. Some of them do have quite low claimant ratios. But they do offer quite a significant level of protection for the consumer, a convenience to the consumer where loss ratios are relatively low. We feel that the ancillaries we provide, the sort of help that they need generally in the event of some form of claim given that support.

A. (Ms Johnson) Just to add, we do have one relatively new product, which is our premier product, which contains ancillaries as part of that product and they are clearly marked and articulated so the customer can choose if they are applicable to them and have a beneficial price. I am happy to provide it in writing but perhaps not here today, but we do see a significant up-sell and choice for customers to that product versus our standard product. It is never at the top of the table. It is more expensive and customers are choosing that some of these products are relevant for them.

So, I think if there is clear customer choice and the product is right for them, I think what we have to do, and I think where there has been great

1 improvement, is to make sure we are very clear about what those products  
2 are, what they cover and what they do not cover.

3 A. (Mr Lee) I think it is worth adding to that, because you see where that might  
4 go, that we have also removed all commission-based incentives for the sale of  
5 these for the business.

6 A. (Ms Johnson) Also returns on websites as well.

7 A. (Mr Lee) So there is no longer any incentives for staff to sell any particular  
8 type of product. We are still getting that sort of customer value those products  
9 provide.

10 Q. I am not quite sure I fully understand the argument you are making that these  
11 are products which are very much valued by consumers. I understand what  
12 that means. But normally we have got products that consumers want to buy  
13 but prices seems to be way above cost. You would expect competition to  
14 drive the price down.

15 A. (Mr Trudgill) The Financial Conduct Authority, the new regulator, has just fully  
16 analysed motor legal expenses as an add-on. What they have concluded is  
17 that motor legal expenses does have utility, it is an important product that  
18 saves people a lot of money. I think their fundamental issue was not what it  
19 cost, because it is still relatively cheap at £20-odd although it costs quite a lot  
20 of money to administer it all. Their issue is the way it was sold. It touched on  
21 that. It is about making sure the customer is not automatically opted in, that  
22 they are very clear on what it does and does not cover. The primary thing that  
23 they told us was basically if you go online and you look to buy a motor  
24 insurance policy and it might say, "Buy motor legal expenses insurance. This  
25 will recover your uninsured losses in an accident". But it did not say, in a non-  
26 fault accident, where you have a reasonable chance of recovery because



1 online everything tends to be shrunk down. So, you need to have that proper  
2 explanation to the client so they are absolutely sure when it will and will not  
3 respond. Then they can make their own decision, so they are not  
4 automatically opted in. That process will be ending and certainly BIBA is  
5 producing guidelines for our members to make sure that customers get a very  
6 clear journey. But the FCA did conclude the products have utility.

7 A. (Mr Lee) One thing I would like to add to that as well, and I think the utility  
8 has increased again with all the changes that have gone on since the Jackson  
9 report; that actually legal expenses have never been more valuable to the  
10 consumer. Even if the loss ratio has not particularly changed, although it  
11 might change again if certain reforms go through, the one thing I would factor  
12 in is would I buy it myself. I can understand, simply for the peace of mind, I  
13 can understand exactly it works, exactly how the process goes but more so  
14 now, if you are faced with the potential for tort in damages agreement and  
15 capital claim, I would rather have that legal expense insurance and I know  
16 exactly how it operates and exactly what it costs to the person who is selling it  
17 to me.

18 A. (Ms Day) I was just going to mention I think that perhaps loss ratio is maybe  
19 a misleading measure of the value of the product. For me, some of the  
20 ancillary products are very similar to the fire component of the home  
21 insurance policy. Loss ratios are obviously really low on that, but you insure  
22 your home because you want cover in the event of a catastrophe and you  
23 may well choose, as a consumer, that other things you will self insure but in  
24 the event of a complete loss of your home, you still have to insure it and I  
25 think that is true of some of the ancillary products, particularly the likes of  
26 personal accident where in the event of a payout on that it is a catastrophe.

1 Just looking at loss ratios do not give you the right, I think, insight into the  
2 value of the product to the consumer.

3 Q. From the point of view of the industry, a low-loss ratio would seem to imply a  
4 highly profitable product to sell. Do you think that the industry uses the high  
5 profits on add-ons to subsidise other parts of the business?

6 A. (Mr Passmore) I think that there is some indication but-- loss ratios are not  
7 the only important thing. There is the cost of distribution as well. Motor  
8 insurance itself has a hugely valuable push behind it. It is a legal requirement  
9 to buy it. Therefore, customers seek it out in a way that they do not in other  
10 product sets and, therefore, more energy, particularly if you think that  
11 something adds value to the customer, needs to go into making sure that  
12 customers are clear about that, are presented with options. But there is more  
13 cost in distribution when the customer is not actively looking for product sets.

14 Q. (Mr Aaronson) I find that slightly odd because you would think the  
15 compulsory product would be the one that was profitable because people  
16 have to buy it, they do not have a choice. The one that they are not terribly  
17 clear on the value of it, that would be a much less profitable product.

18 A. (Mr Passmore) Because for all the reasons we talked about this morning,  
19 price comparisons are extremely easy on motor insurance and it is also a very  
20 significant spend. Most of the add-on products are just that; relatively small  
21 purchases. They will have got covers that only really get properly laid out in  
22 front of people who are reluctant to go for the purchase. People do not wake  
23 up one morning and say, "I must get personal accident insurance". They will  
24 buy motor insurance but where they are considering that and they have those  
25 benefits presented to them properly, then many of them do buy but there is  
26 more energy that needs to go into the cost of explaining the benefits of the

1 cover--

2 Q. (Mr Aaronson) Are you saying the cost of selling or the cost explaining the  
3 benefit has to be taken into account?

4 A. (Mr Passmore) Yes, the process of talking that one through properly with  
5 people and so on.

6 A. (Ms Day) The growth of supply management, the procurement process,  
7 making sure they have got the right ancillary provider, that they are offering  
8 the right kind of service to customers and then carries that across is not  
9 something you can directly attribute to the add-on. It is the cost of funding  
10 that inquiry by the customer and then managing that customer.

11 A. (Mr Lee) I think, as a coincidence, as we have already pointed out, the FCA  
12 have been through -- we have made submissions including full costs for  
13 administration, et cetera, the overheads that go along with that product and  
14 there have been no specific concern expressed there.

15 A. (Mr Simms) There is no question that all of us, I would assume, certainly from  
16 a broker perspective, we look at the entire value of that any particular  
17 consumer and the ability to or prospect of selling that customer more than one  
18 product is a part of that consumer's value. Back to my point I made at the  
19 start, which is that the linear correlation between claims costs and pricing  
20 does not exist because the nature of the value of that consumer is what is  
21 driving your pricing at inception and, therefore, throughout that consumer life  
22 cycle.

23 To suggest it does not have any impact would be incorrect, you are absolutely  
24 right, but in terms of the overall value of each individual consumer you are  
25 looking at what the total sales position is. In fact, for some of the brands that  
26 we sell, you are not probably even just looking at car insurance, you are

1 taking that overall consumer of that brand and its other products in insurance  
2 and externally. I think it is relevant in that way.

3 THE CHAIRMAN: Someone talked a few moments ago about motor legal expenses  
4 cover as one the FCA was concerned with that consumers understood. Do  
5 you think that consumers understand no claims bonus protection, what they  
6 are getting for that?

7 A. (Mr Trudgill) No claims bonus protection does differ slightly with different  
8 providers. So, some might get more lives than others, so to speak. Some get  
9 a more few lives and some might guarantee it but that would be explained by  
10 the broker at point of sale so that they understand how that works. Obviously,  
11 it does bring a benefit because if the customer did not have protected no  
12 claims bonus, then their insurance would go up due to that. It does offer  
13 value. It usually costs about five per cent or so, not too expensive, and then it  
14 is the customer's choice whether they want to have that or not.

15 Q. I suppose the issue I wonder is whether consumers who have got no claims  
16 bonus protection think that if they have an accident, then their insurance costs  
17 are not going to go up next year. Then they find that is actually not the case.

18 A. (Mr Trudgill) There are two reasons why it would go up: one, because you  
19 lost your bonus but two, because there is a loading. Because of your claims  
20 experience, you are not such a good risk after all. So, it might go up but it  
21 would not go up as much as it would have done if you had not had that  
22 protected no claims bonus.

23 Q. But clearly when you have got a complex product like that, it is very hard for  
24 consumers to know what they are buying.

25 A. (Mr Trudgill) That is why our brokers would speak to the customer saying,  
26 "This is how it works. Do you want to have it? IT would mean that you can

1 have two claims in five years and the bonus would remain intact” or however it  
2 worked.

3 A. (Mr Collings) I think they do know what they are buying. I think people value  
4 their no claims bonus. They work very hard for it. It is something they  
5 become very proud of. You have got one years, two years, maximum no  
6 claims bonus, 60 or 65 per cent. People love it. They actually want to keep it.  
7 They do not want to lose it at any cost. So the idea of protecting it is really  
8 important to it. I am protecting my bonus which means that if I have a claim,  
9 my bonus will not be lost. It is quite simple and I think customers do  
10 understand it.

11 The two issues that have come to light are: what if I have a really bad claim  
12 where I run into a bus stop and kill three people, will the insurer say I will keep  
13 my no claims bonus? You will, but you will also find that your premium has  
14 been increased because you have now become a worse risk. That is actually  
15 quite separate. I think that is up to the broker or the insurer to explain that to  
16 the customer. But his bonus is still protected.

17 Where the customer might be confused and might find it difficult is if you  
18 decide at renewal, with his protected no claims bonus, after he has had an  
19 accident, so he has still got his full bonus, is how do I go somewhere else,  
20 how do I take my protected bonus and shop around? Will insurers, other  
21 insurers honour that no claims bonus? That is where it is difficult because the  
22 customer is really locked in now to his own insurer who he has paid a  
23 premium to.

24 Now, it would help enormously if the insurers would all agree that bonus could  
25 be transferable. If you were a new incoming insurer, you might say, “Well,  
26 you have not paid me the additional premium, so why should I protect your

1 bonus?" but if everybody could agree to that, that customer would be able to  
2 move around, shop around much more easily.

3 Q. So, is there a concern then that protected no claims bonuses are a barrier to  
4 customers switching? That is what you are saying, is it not?

5 A. (Mr Collings) It is not the product that is actually the barrier; it is the way that  
6 insurers may well regard the transfer of that product. The product itself is  
7 ideal for a customer who wants to protect his bonus.

8 Q. (Mr Oram) Would the new insurer always know that the no claims bonus that  
9 results has been protected?

10 A. (Mr Collings) The consumer?

11 Q. (Mr Oram) Well, the consumer would know, they still have their ten-years no  
12 claims bonus and it has not gone down despite having an accident. But when  
13 they come to switch and go to a new insurer and say to the new insurer, "I  
14 have got ten years' no claim bonus" how would the new insurer know?

15 A. (Mr Collings) Because we would tell them. It is up to what is on his renewal  
16 notice and what it actually says. Different insurers will know different things.  
17 If an insurer wanted to lock that customer in, he could actually say, "Your  
18 bonus is actually only 40 per cent but because you are protected, 60 per cent"  
19 that would actually provide him with a difficulty to take that to another insurer.  
20 It would not be as easy to switch. Other insurers do not, so there is a bit of a  
21 mismatch in how it is presented. But most people will have to declare it  
22 because they have had a claim, so they are going to have to say claim. I  
23 have had an accident and I still have 60 per cent bonus because obviously it  
24 has been protected. Whereas some insurers will allow that transfer provided  
25 you pay them the new protected additional proof.

26 Q. (Mr Oram) So, if I have understood you correctly earlier, I think you said that

1 brokers do say to the consumer that if they have an accident, although their  
2 no claims bonus protection kicks in, nevertheless, you tell them, do you, that if  
3 they have an accident, it is likely that their overall premium will go up?

4 A. (Mr Collings) Do brokers tell them that? I doubt that.

5 Q. (Mr Oram) That is why I asked the question. In fact, I will ask all the brokers.  
6 Do any of you brokers actually tell the consumer that if they have an accident  
7 their premium will go up even though their no claims bonus is protected?

8 A. (Mr Collings) I think that question is irrelevant of what is protected insurance,  
9 that is a completely separate question.

10 Q. (Mr Oram) If it is the case that you do not tell them, and it is the case that the  
11 no claims bonus protection, with some insurer has the effect of being a barrier  
12 to switching, we have a situation where the consumer has bought this no  
13 claims bonus protection but actually is locked in to a premium that goes up.

14 A. (Mr Collings) But it has gone up for a different reason. Whether you have got  
15 any bonus, whether you have got protected bonus, it is irrelevant. Insurance  
16 is a risk-based product. If you have an accident which is significant enough to  
17 change the risk that the insurer is accepting, I am not going to talk about the  
18 intelligence of the consumer, but most people would know that I am a worse  
19 risk, then my premium is going to go up.

20 Q. (Mr Oram) If I just finish off, I think it is a relevant point to Alasdair's comment  
21 or question, how on earth does the consumer properly value no claims bonus  
22 protection if they are not aware that their premium will go up if they have an  
23 accident?

24 A. (Mr Lee) I do not think their position is as simple as portrayed actually so far.  
25 The first thing to say is an insurer will not necessarily know for one accident.  
26 Some may, some may not. It is not necessarily certainly the case that

1 absolutely a rate will change with the no claims. That is the first point.

2 Q. (Mr Oram) Depends on the severity, presumably.

3 A. (Mr Thompson) It depends on a number of things but it is by no means you  
4 cannot explain to a customer, "Your premium will go up" because that is not  
5 necessarily the case; first point. The second point is that market practices are  
6 different, so the businesses that are numbered in BGL, many of the  
7 propositions that we provide are panel-based solutions. It is BGL policy  
8 wording, including no claims discount protection wording, that applies. So,  
9 the customer actually -- if we want to re-broke that customer to another  
10 insurer, we have set the no claims discount in the first instance, so that  
11 customer is transferable within that panel-based solution. The customer still  
12 has access to a consistently updated discount position.

13 It is not as straightforward as it appears.

14 Q. (Mr Oram) I understand what you are saying, yes.

15 THE CHAIRMAN: I would like to move on. We have got a couple of things we want  
16 to ask you about Northern Ireland. If I may, let me start with Swinton. Why do  
17 so many fewer insurers want to write PMI business in Northern Ireland than in  
18 the rest of the UK?

19 A. (Mr Collings) Swinton are represented in Northern Ireland. We have about  
20 17 high street branches and we are probably in the top 3 brokers in Northern  
21 Ireland. We have a panel of insurers and it is considerably smaller than it is  
22 on the mainland. I do not think you are allowed to say mainland if you are in  
23 Northern Ireland, I think their word is GB, but it is considerably smaller. We  
24 are constantly trying to bring new insurers into Northern Ireland to broaden  
25 that panel and to make it more competitive. But it is very difficult. It is out of  
26 our control. It is actually an insurer issue with the legal system. I do not have



1 all the details of that but it is around personal injury and the size of personal  
2 injury claims, and insurers have gone in, not understood the localness of the  
3 province and have lost money and withdrawn again. So, it is a restricted  
4 market because of that. We have probably 70 per cent of our business with  
5 just 3 insurers. I would love it to be more but it is a difficult one for us. That is  
6 really, I think, probably a question for the insurance industry, insurance  
7 companies rather than brokers.

8 A. (Mr Lee) I think your point touches on the broader issues and I think Graeme  
9 mentioned it, of the different injury law level which then means that it comes  
10 down to the data and the size of the data and the size of it then -- is it, without  
11 having that particular data or slightly different claims cost, is it worth taking  
12 that risk in order to go into Northern Ireland? There is nothing really  
13 intrinsically that would stop you doing it, particularly now. The environment  
14 has changed quite a lot. Hastings has gone into Northern Ireland as house  
15 insurers with their own panel. But it is very small steps for an insurer to go in  
16 there, learn about the system and learn about the differences. It is not a huge  
17 market, so some will just take the view that it is not worth taking that risk.

18 Q. We have seen some evidence that suggests that loss ratios in Northern  
19 Ireland are lower than in the rest of the UK which would imply that even if  
20 there are these legal risks, these legal costs, they are more than  
21 compensated for in premium.

22 A. (Mr Lee) In my experience, I can only speak for various operations that I have  
23 seen over the years is that that is probably historic. I think that was the case.  
24 I think it has changed. 10 years or so ago, even 15 years ago, it was a very  
25 different market where debt-free policies, accident-free policies would have  
26 been lower but the claims costs were higher, the proportion of drink driving

1 out there was probably lower, et cetera. As that part of the environment  
2 changed, then the insurance price of things changed but it is still different from  
3 the mainland. The competition has increased and the difference between a  
4 Northern Ireland rate and the mainland rate has also got closer and it has just  
5 become another postcode. I think some of those big premium increases with  
6 big premium advantages have been eroded.

7 A. (Mr Trudgill) The Northern Ireland Government did some research. They  
8 said the amount claimed on car insurance Northern Ireland represents 5.4 per  
9 cent of UK total claims whereas Northern Ireland only has 2.6 per cent of the  
10 total number of cars. There are various discussions about that. It is because  
11 it does not have many motorways and various things. When we did our  
12 research, actually some of the highest rated postcode risks in Northern  
13 Ireland, like Londonderry and Belfast, were cheaper than Cardiff, Newcastle,  
14 London, Birmingham, Manchester. They were half the price of Birmingham  
15 and Manchester.

16 So, maybe it is not as expensive as some have said, but nevertheless there  
17 still is not the capacity that we would like as brokers. We would like more  
18 insurers to be placing business out there.

19 Q. (Mr Stern) Can I just be clear because you said, of course, that you could not  
20 find insurers to join your panels. You were saying it was a very competitive  
21 market. Are these two consistent?

22 A. (Mr Lee) I think it is a more competitive market. I do not know if Chris would  
23 agree, there has been an increase to that panel over the years but my  
24 personal experience is that there are more that have gone in there. That loss  
25 ratio has deteriorated probably over the last ten years or so.

26 A. (Mr Collings) Some insurers do not want to come into Northern Ireland, it is

1 as simple as that. It will be for different reasons: one because of the legal  
2 system and one, Michael is right, is it is very, very competitive. People in  
3 Northern Ireland want a good deal, it is all about negotiation and getting a  
4 deal. People in Northern Ireland still like to do business a certain way. Some  
5 insurers are very good at that and some brokers are very good that.

6 The premiums, I think, are lower. The loss ratios are better because of lower  
7 frequencies, actually a lower claims frequency in Northern Ireland. All this  
8 has a, "Why should that not be attractive to insurers?" I agree, it is something  
9 I have been trying for a long time to get some big insurers to come into  
10 Northern Ireland. They will not do it. So, I would encourage you to ask the  
11 question to the insurers.

12 A. (Mr Lee) The other thing, of course, that makes it relatively small territory and  
13 the inherent risk and the uncertainty, if you are not used to the legal costs,  
14 you have then got to set up your own repair network for the insurers out there  
15 because they might have different agreements there. They are going to have  
16 to set up links with law firms out there. It just means all those additional  
17 issues for a relatively small amount of business. Some will say it just not  
18 worth it.

19 If there were large profits to be had and there were extremely low loss ratios,  
20 and again I am speaking from personal experience, that is when I have gone  
21 in as an underwriter in my past and gone in and written Northern Irish  
22 business and I have never had a problem with it, but my view is I have seen  
23 that erode as I have seen more competition coming in. I can still see why  
24 some insurers and underwriters would simply say, "I don't need that extra  
25 business with all the additional administrative issues that it will bring".

26 THE CHAIRMAN: Does the lower presence of PCWs in Northern Ireland affect the

1 way the market works in Northern Ireland? Is that part of the story?

2 A. (Mr Lee) I think it is a little bit chicken and egg as to Chris alluded to. It is  
3 probably demand that is driving that change. So, I think the consumer  
4 behaviour is different. They do want to walk into their local Hughes or Abbey  
5 branch and there are a couple of large personalised brokers that have not had  
6 a huge local presence and a lot of local brand value has built up over the  
7 years. I think those consumers like to buy more from their brokers and again I  
8 am sure that will change over time but you will find that is still prevalent.

9 A. (Mr McLarnon) There are PCWs that are there and their business is growing,  
10 so they are out there but they are probably not at the stage yet for penetration  
11 on the mainland.

12 Q. But presumably the insurance companies that do not want to do business in  
13 Northern Ireland through you also do not want to do business through PCWs  
14 in Northern Ireland, do they?

15 A. (Mr McLarnon) I am not sure I can answer that question.

16 A. (Mr Hallam) The Northern Ireland business through PCWs, has the same  
17 panel of insurers as their offline panel. What you will find that insurers that  
18 predominantly write business in Northern Ireland are also behind the PCW  
19 panels, so it is still ostensibly the same insurers who dominate..

20 A. (Mr Collings) It is a very difficult market which is controlled by just three or  
21 four insurers. It is not a very big market. It is only 1.2 million people there. if  
22 you then drive that down to how many private cars are viable, I think it is  
23 around about 700,000, so when you have already got 3 or 4 big insurers  
24 controlling that market, it is quite difficult for another insurer to come in and  
25 get live volume to make it pay, so that will have something to do with it. it will  
26 be just the economics and scale.

1 Q. (Mr Aaronson) Is it not true that AXA came in and built up a strong market  
2 position?

3 A. (Mr Collings) Yes, AXA are the dominant force in Northern Ireland.

4 Q. (Mr Aaronson) But that is in fairly recent years that they have done that?

5 A. (Mr Collings) Yes. I am missing his question.

6 THE CHAIRMAN: Has AXA grown over time?

7 A (Mr Collings) Yes, AXA has been there a long time. They have firmly  
8 established themselves in Belfast and have grown -- they have not just grown,  
9 they have always been the dominant player.

10 A. (Mr Lee) Yes, they were dominant. I go back 15 years; they were probably  
11 the dominant player right from the Dublin office into Northern Ireland and are  
12 one of the biggest capacity providers.

13 Q. I would like to move on to the role of brokers in post-accident claims services.  
14 What is the role of broker in managing claims? Can I look at BGL first on  
15 that?

16 A. (Mr Thompson) Principally, it is to make sure that the customer is looked after  
17 during the process, so if it is a fault claim, when we understand the customer's  
18 position, we pass that customer through to the insurer. But non-fault claims,  
19 where there is the exposure that I referred to earlier, we are going back a few  
20 years before the emergence of CMCs came about, then a number of  
21 customers were worse off as a consequence of that non-fault accident  
22 through the efforts of the insurers who had incentives to reduce costs. All the  
23 broker has done is to make sure the customer understands their rights and  
24 their position as far as practicably possible. It is never possible to do away  
25 with the stress and administration burden, et cetera, but as far as putting the  
26 customer back into the position that they were in prior to the loss, that position

1 has largely been fulfilled. Perhaps the main concern is to make sure the  
2 customer's experience through that is as smooth as it possibly can be in  
3 arriving at the position I have just described.

4 Q. (Mr Stern) Do you put non-fault customers through to CMCs to help them  
5 with their claim?

6 A. (Mr Thompson) At BGL we use a number of different partners to make sure  
7 that the customer is put back in that position and CMCs are such now that we  
8 manage relationships with a number of -- so, car hire, for instance to make  
9 sure the customer is kept moving. We will, with the customers now through  
10 our own alternative business structure, make sure that, for instance, any legal  
11 support is provided and help them if they have suffered any bodily injury.

12 THE CHAIRMAN: What is the role of referral fees in your decision about which car  
13 hire to use for replacement vehicles for your customer?

14 A. (Mr Thompson) We do not select at the point of the claim for the customer.  
15 We arrive at a deal with the car hire provider on a long-term basis. We make  
16 sure the customer is getting the vehicle and the customer service  
17 considerations, primarily driver support, and making sure the customer is kept  
18 moving with the right kind of vehicle. Referral fees do play a part.

19 A. (Mr Collings) Referral fees were banned on 1 April and so we do not take any  
20 referral fees.

21 Q. Only for personal injury cases.

22 A. (Mr Collings) On personal injury.

23 Q. Yes.

24 A. (Mr Collings) Yes. Just to make a point really, and I will come to your point,  
25 when customers shop around, they shop around for price. They rarely ask  
26 about service. We can tell them, as a broker, about the service but they

1 usually they are shopping around for price. They do not think about service  
2 until they have had a claim. Most brokers have a wide range of insurers.  
3 Probably we have nearly 25 different insurers. Every one of them offers a  
4 different level of service especially when it comes to claim.

5 So, at that point the customer then wants the very best service. A broker then  
6 becomes actually very essential for a customer in handling the claim because  
7 the insurers he is dealing with have different levels of service standards. So,  
8 handling that claim, as a broker, becomes very important to the customer.  
9 Where some of the suggestions in the statement is that for no-fault customers  
10 to be then handed over to the third party insurer actually destroys a lot of the  
11 credibility of what the broker is there to do and actually what is legally right.

12 Q. (Mr Wright) Can I just go back to your question because I think you were  
13 suggesting that in terms of providing a good quality of service for your  
14 customer, when you select your partner, and if you think particularly  
15 replacement vehicles, you pick the partner who is going to be providing  
16 particular replacement vehicles for your customers, one of the main things  
17 you look at is customer service. You also look at referral fees. What is the  
18 balance between those factors when you choose which ones to go for?

19 A. (Mr Thompson) The principal consideration is the customer. The way that we  
20 demonstrate that is by explaining that on a daily basis we are managing those  
21 providers to the service levels they are committed to. If I take one of the  
22 businesses that we manage on behalf of one of the big brands, say [X], it  
23 could be the [X], looking after their customers on behalf of their brand. So,  
24 you can imagine the kind of intensity of focus around customer service which  
25 is paramount for other brands when they sell a relatively minor product in the  
26 wider scheme of the services that we have to apply. So, we manage those

1 products literally on a daily basis with information flowing through to us, as far  
2 as I know, on a real-time basis to make sure those customers are looked  
3 after. We host monthly executive reviews with those partners to make sure  
4 that that performance is driven forward. So it is a very, very large  
5 consideration for us in the scheme of things.

6 THE CHAIRMAN: We do still have referral fees for temporary replacement vehicles  
7 in other services. It is only for personal injury that they have been banned.  
8 We have been told the referral fees, particularly for temporary replacement  
9 vehicles, are high and contribute significantly to the cost of the service to the  
10 non-fault customer.

11 Would customers as a whole not be better off if referral fees were banned for  
12 temporary replacement vehicles as well?

13 A. (Mr Thompson) I do not think that would be the case actually. What you  
14 would end up with is the replacement vehicle providers fighting for the  
15 customers that are available if there is no referral mechanism and process  
16 working. Actually what you would end up with is significant marketing spends  
17 being incurred to try to grab those customers on behalf of the replacement  
18 vehicle providers. I think ultimately it would end up being less economical -  
19 far less economic actually - than the efficient model that exists today.

20 Q. (Mr Wright) Would you still not have the incentive to ensure that your  
21 customers get the best service and so find the best provider for your  
22 customers?

23 A. (Mr Thompson) I think what you would end up with is probably more of a  
24 disquiet in terms of people trying to exploit our customers in terms of the  
25 service providers.

26 A. (Mr Lee) I think it would have to be coupled, if you did do it -- I would see, as



1 Pete said, it would turn into marketing spend. I think just this last bill on its  
2 own would not have the effect desired. It was a combination of measures for  
3 removing that element of premium out of the market. It would have to be the  
4 same thing to meet the credit hire arrangements. You would have to take that  
5 out and, of course, that would dilute it otherwise it would not work, it would  
6 just turn into a marketing spend.

7 A. (Mr Collings) I am not sure if the Commission is aware but the latest legal  
8 advice is that any referral fee paid for a temporary replacement vehicle where  
9 there has been a personal injury, then that referral fee will fall under the ban  
10 of referral fees. That, in effect, will take away well over half of referral fees  
11 that are currently repaid for temporary replacement vehicles because between  
12 50 and 60 per cent of people who have a temporary replacement vehicle for  
13 a non-fault incident currently have a personal injury, whether that be a  
14 whiplash or whatever. The fee paid for that vehicle to whoever, whatever  
15 party, if a personal claim is proceeding, will fall under the umbrella of the  
16 same claim as a personal injury and, therefore, the fee will be in breach. We  
17 have had some legal advice on that and the SRA has confirmed that.

18 So, your concerns in that will certainly be achieved by the removal of these --

19 THE CHAIRMAN: Thanks very much for that but do not read anything into our  
20 questions about what our concerns are. We are here to find out your views  
21 on issues. Do not infer things from questions about views that we have  
22 formed because we are still in the process of forming our views.

23 A. (Mr Lee) There are a number of things on that as well that are potentially  
24 some loopholes that people might be exploiting that are technically correct but  
25 are in the spirit that they -- and which probably would require some testing  
26 and I have heard that similar comment. Even if that were true, it still means

1 quite a lot of credit hire referrals are not linked to that.

2 Q. (Mr Oram) What you said, Chris, if I understand it properly, is that would be  
3 the case that half or so referral fees would go if the level of personal injury  
4 claims stays at the level it is but of course the idea is of the changes is to get  
5 the personal injury claims down.

6 A. (Mr Collings) Absolutely. It might not be as high as that, you are right.

7 THE CHAIRMAN: Staying with temporary replacement vehicles, how effective are  
8 the constraints on credit hire companies from providing a vehicle that is too  
9 good, better than the customer needs or providing a vehicle for too long or  
10 overcharging for it?

11 A. (Mr Pardon) Well, a lot of insurers have the opportunity to challenge what  
12 they get from the GTA to make sure it is there for the duration. All of the hire  
13 companies we use actually have to monitor repairs to make sure they are  
14 appropriate to the terms of the GTA and check every two days to see the  
15 progress of the repairs to make sure they were progressing as they should be  
16 so that the vehicle was not out on hire for too long. Certainly our contractual  
17 arrangements, we actually put penalties in there to make sure that our  
18 providers actually abide with the GTA to make sure that the at fault party is  
19 not exposed to excessive hire duration and the wrong type of vehicle.

20 Q. So, are you saying that the GTA is an effect of constraint against  
21 overcharging?

22 A. (Mr Pardon) Yes, I think it is.

23 Q. Is that the general view?

24 A. (Mr Trudgill) On that, it is the case that the issue is that some insurers like  
25 AXA do not subscribe to the GTA but certainly Beachcorft have said that 85  
26 per cent of fraudulent credit hire claims come from outside the GTA, so

1 certainly as someone mentioned about beefing up the GTA, I think it is very  
2 important to have something like that to prevent this fraud and exaggeration to  
3 get insurers to sign up to it because brokers are not signatories to it;. it is  
4 between credit hire providers and insurers.

5 A. (Mr Lee) There is a vast difference between the average hire rate GTA-  
6 agreed insurers, one that operates their credit hire department in one manner  
7 and another that is less diligent then there would be a massive increase,  
8 probably at least 60 per cent difference in the average hire.

9 So, if the GTA worked on its own, that would not be the case. It would still  
10 require insurers to spend a lot of money and time on fighting those credit hire  
11 organisations, even if they are both parties to the GTA, or it will be exploited.  
12 On its own, it does not stop the length of hire being excessive or vehicles  
13 being driven that they do not necessarily want. I do not think that the GTA on  
14 its own does that job.

15 A. (Mr Simms) For me, as I think I have said right at the outset, the GTA may  
16 need some enhancement and possibly some more teeth and certainly more  
17 industry participants to be around the table when it is set so that we put the  
18 consumer at the centre of what is happening to the cost of GTA. But that  
19 said, I struggle intellectually with the argument that insurers are missing out  
20 on preventing over claims on a massive scale owing to their inability to access  
21 the court system which is there to provide them with exactly that opportunity.  
22 So, I just do not see that is a logical argument that actually it is the cost to  
23 them. If the cost to them is so significant, then you would have thought that  
24 what you would build to mitigate that risk, is a system whereby you constrain  
25 that challenge and so on, on an ongoing basis. That does not exist because  
26 the delta is not sufficient.

1 A. (Mr Lee) I think it does exist in the good insurance company for that reason. I  
2 will just clarify as well that I do not think this is necessarily a broken part of the  
3 process. I think there are some good credit hire organisations that abuse it  
4 and push the rates up. It is on the insurers to set up those processes and to  
5 invest in the claims departments in order to keep that cost down. I think most  
6 of them do and, therefore, I do not feel like it is a particularly broken part of  
7 the process and, as I think Peter said earlier on, the insurers brought it on  
8 themselves as in the past. It was through a lack of diligence with innocent  
9 third parties that this whole area was created. I think it can do with some  
10 improvement but I do not think it is a particularly broken process.

11 Q. (Mr Wright) You are saying some are successfully using the system, you said  
12 then whether that is by increasing the length of the hire or providing  
13 customers with a better vehicle. Surely that would provide customers with a  
14 better service than other credit hire companies would but it is also providing  
15 the credit hire company with good profits which means they are probably able  
16 to pay good referral fees.

17 So, going back to the point made earlier, that those are the two things that  
18 you would look at when selecting your credit hire company, why do brokers  
19 not choose the ones that are abusing the system?

20 A. (Mr Lee) Well, it was not me who said that. I think my experience is that the  
21 referral fees all fall generally within a range and I think anyone, my colleagues  
22 here and the other people on this table, that has a valuable brand to protect,  
23 we are equally bothered about protecting that brand and, therefore, picking  
24 someone that is not going to cause our customers issues throughout that  
25 process as we are about the individual referral fee that we have agreed  
26 contractually. It is not on a case by case basis but we will spend six months

1 assessing these individuals and assessing the offer. But whilst we might  
2 make money from credit hire referrals, it is not the biggest part of what we do  
3 make money from, so the ultimate thing is to protect that brand and what that  
4 consumer uses us as.

5 THE CHAIRMAN: Turning then to repairs, it appears to use that there are various  
6 ways in which non-fault insurers or claims management companies can  
7 increase repair costs, for example by getting a subsidiary to charge high  
8 prices using approved repairers in kind for referral fees, charging and paying  
9 for parts at prices which do not reflect the discounts the repairer is getting and  
10 so on. How prevalent do you think these problems are?

11 A. (Mr Lee) I think they go on for some degree in the market. For me, there is a  
12 distinction between those that have set out to deliberately inflate the cost of a  
13 non-fault repair that they can then pass on to a third party insurer and make  
14 money out of and then down to the situations where, through the economies  
15 of scale that one person might get, that they receive an advantageous repair  
16 cost for something else that that is almost a by-product of the arrangements  
17 that we have set up. It is very different between those that have deliberately  
18 engineered their business model in order to exploit the other insurers in the  
19 market.

20 A. (Mr Collings) I think this is all about control. We mentioned the GTA which  
21 brings in an element of control and agreement between two different parties.  
22 If credit repair services and temporary replacement are done properly, it can  
23 be done with insurers. We ourselves use a credit management company. it  
24 is completely ring fenced so it is operating to our rules and we also have a  
25 panel of insurers which is nearly all the market. So, we do not want to inflate  
26 their costs. it is actually on our own book. So, there is a complete partnership

1 to be worked and to do that we need control. Our average claims cost for  
2 credit repair is almost exactly the same as it is for what an insurer would see  
3 averaged in the market. It is no different. Our average cost of a temporary  
4 replacement vehicle is actually less than what an insurer would see coming  
5 from other parts other parts of the market. So, it is about control and having  
6 protocols with insurers.

7 There are other companies out there and there are other claims management  
8 companies who will push the boundaries in order to make more money,  
9 maybe pay more referral fees. But the whole market is not like that. I think  
10 there are a lot of brokers probably in this room who have those levels of  
11 controls with claims management companies but there is a wider area which I  
12 think needs to be addressed in the type of companies.

13 Q. Anyone else want to comment on these issues?

14 A. (Mr Trudgill) Small brokers might not have the influence to be able to have  
15 similar protocols that are required that some of the larger ones here do. That  
16 is when people call for there to be greater regulation, more appropriate  
17 regulation, of CMCs so they cannot be these problems occurring that you are  
18 mentioning.

19 Q. Do you have any concerns that insurers might be managing repairs in ways  
20 that led to some consumers not getting the quality of service that they had a  
21 right to expect?

22 A. (Mr Collings) I was not sure whether I should say this but in the old days,  
23 before credit repair and credit hire, and that is probably not going back that  
24 long, insurers of the fault party, when they were dealing with the non-fault  
25 party, dealt with them pretty badly. They were told to go away and fund a car  
26 themselves or get a bus and show the receipts and the estimates. Repairs

1 would be sometimes, not always -- and of course the insurer, through the  
2 claimant, would not have anywhere to go if somebody was repairing his car  
3 who had no interest in him, there was no contract. There was no policy. So,  
4 along came credit repair and credit hire services and suddenly insurers had  
5 an incentive to try to deal with those non-fault parties to stop them going out  
6 into the market.

7 If, for any reason, that was ever taken away, I think insurers would go back to  
8 the old ways; not every insurer, some insurers are saying they will deal with  
9 them exactly the same. But remove that incentive, then the conflict of interest  
10 would become greater. Even today, there are some insurers who are so  
11 obsessed with delivering a reduction of cost, their overriding desire is to keep  
12 a cost of a claim, particularly someone claiming against them, and we have  
13 had examples of customers who have ended up with the fault party paying the  
14 insurer, who have not been happy with repairs, who have certainly not been  
15 happy with temporary replacement vehicles, been given vehicles or  
16 sometimes even being refused a vehicle. So, hence I think that is where we  
17 are with what brokers offer; providing it is controlled, it does protect the  
18 customer from that.

19 A. (Mr Trudgill) BIBA did some research in January this year where we asked  
20 many of our members about claims and the response was that 90 per cent of  
21 those responding said that insurers were becoming stricter on paying claims.  
22 That may be because of the economic recession, it may be because of the  
23 anti-fraud concerns but what it meant was that the broker was having to fight  
24 harder to get those claims paid for the customer.

25 Q. Unless there are any other questions that people want to ask, we have come  
26 to the end of our agenda but I want to give you all the opportunity at the end

1 to raise any issues that you think we ought to know about that we have not  
2 raised in this discussion. Are there any issues that you think we have missed  
3 in this discussion that you would like to raise? You are allowed to say no. I  
4 see heads being shaken, so I regard that as a success indicator that we have  
5 managed in the time available to us to cover the issues that you wanted to  
6 bring to our attention.

7 If that is the case, then we are done and I would like to thank you all very  
8 much for coming along. We appreciate the time that you have given to this  
9 process, not just this afternoon but all the time that has no doubt gone on  
10 behind the scenes in preparing for this.

11 It is very important for us to hear the views of as many people in the industry  
12 as we possibly can at this stage in our deliberation. We are, of course, well  
13 aware that different participants in the industry have different interests and,  
14 therefore, different views and it is important to hear the full range of views that  
15 exist in the industry to help us develop our thinking and develop any  
16 proposals if, in the end, we do decide to make any proposals.

17 Thank you very much indeed.  
18



### Key to punctuation used in transcript

--	Double dashes are used at the end of a line to indicate that the person's speech was cut off by someone else speaking
...	Ellipsis is used at the end of a line to indicate that the person tailed off their speech and didn't finish the sentence.
- xx xx xx -	A pair of single dashes are used to separate strong interruptions from the rest of the sentence e.g. An honest politician – if such a creature exists – would never agree to such a plan. These are unlike commas, which only separate off a weak interruption.
-	Single dashes are used when the strong interruption comes at the end of the sentence, e.g. There was no other way – or was there?