



Response to the Competition Commission enquiry into  
the Supply or Acquisition of Private Motor Insurance  
and Related Goods and Services

**NON-CONFIDENTIAL VERSION**

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### **Important Notice**

This report is issued by the Directors of Chief Vehicle Rentals Limited for the exclusive use of the Competition Commission in connection with its investigation into the market for Private Motor Insurance and Related Goods and Services.

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## 1. Purpose

- 1.1. This paper has been prepared following publication of the Competition Commission Annotated Issues Statement and subsequent and associated working papers in regard to the market for Private Motor Insurance and Related Goods and Services.
- 1.2. Time limitation prevents comment on all aspects of the Annotated Issues Statement and associated working papers. The observations in this paper relate to specific points considering Theories of Harm 1 and 2.
- 1.3. The absence of any comment or observation on any point does not indicate any agreement or support for that point.

## 2. Introduction

- 2.1. Chief Vehicle Rentals Limited (CVR) is the UK's leading provider of temporary replacement vehicles (TRVs) to drivers of privately-owned business vehicles. These include among others, taxi drivers, driving instructors, couriers, chauffeur drivers, builders, tradesmen and delivery van drivers.
- 2.2. The vast majority of these drivers are self-employed and their vehicles are essential, both in providing the owner with their livelihood and also in supplying services for other consumers and businesses.
- 2.3. CVR estimates that these groups exceed 600,000 consumers - approximately equal to the number of people employed in the City of London plus the number of people employed in the entire UK insurance industry.
- 2.4. In the past twenty years CVR has helped approximately [✂] of these consumers to maintain their business activity following an RTA. In the company's own qualitative research approximately 96% of those consumers have rated the service provided by CVR as good or excellent.
- 2.5. CVR therefore believes it is in a position to provide an informed response to the Competition Commission on the needs of these consumers after an RTA.

## 3. Theory of Harm 2: Harm arising from the beneficiary of post-accident services being different from and possibly less well informed than the procurer of those services.

- 3.1. This section aims to address some of the observations made in the working paper *Theory of Harm 2: Underprovision of TRVs* - both in general and specifically in regard to drivers of privately-owned business vehicles.
- 3.2. CVR believes that the motivation of a fault insurer to reduce costs, reduce claims and reduce settlement amounts will always be in conflict with the needs of a consumer involved in a non-fault accident.
- 3.3. Furthermore CVR believes that the fault insurer is self-evidently the party with the lowest incentive to explain to the consumer their legal rights and to subsequently put the consumer back to the position that they were in prior to their loss following a non-fault accident.

- 3.4. This is evidenced in the survey data in this working paper which shows that, where the fault insurer managed the claim, 72% of consumers were not made aware of their legal rights. Fault insurers would appear to prioritise reducing their costs ahead of meeting their obligations to observe consumer's legal rights.
- 3.5. CVR is in full agreement with the view of Chris Collins (Swinton) on this matter which he made at the hearing on Monday 15 July 2013 - in particular that *"it is never in the interest of a fault insurer to look after the non-fault claimant. To shift that responsibility bears a consequence and it is hard to imagine the safeguards that would be needed to protect that customer."*
- 3.6. CVR endorses Chris Collins' view of the behaviour of insurers before the availability of credit hire - *"...in the old days, before credit repair and credit hire, and that is probably not going back that long, insurers of the fault party, when they were dealing with the non-fault party, dealt with them pretty badly. They were told to go away and fund a car themselves or get a bus..."*
- 3.7. CVR is also in full agreement with the view of Ron Simms (BGL Group) on this matter which he made at the hearing on Monday 15 July 2013 - in particular that *"it (the position between the consumer's broker and the third party insurer) is an actual conflict. The third party insurer wants to reduce costs, reduce claims, overall settlement amounts and probably prolong the time of that claim."*
- 3.8. Some insurers appear to be indifferent to consumer rights even when those consumer rights are reaffirmed by the courts. This is demonstrated by the comments made on this matter by Gordon Hannah of esure to the hearing on July 16<sup>th</sup> 2013 - *"...at-fault insurers have challenged excessive claims and more often than not the courts have not supported the at-fault insurer."*
- 3.9. CVR is surprised that a major motor insurer would expect the independent judiciary to prioritise "supporting" the commercial interests of insurers over and above the protection of consumers' rights.
- 3.10. CVR is concerned to learn that 50% of the insurers in the sample have agreed bilateral arrangements with competitors whereby both insurers prevent the non-fault claimant from obtaining independent advice regarding the provision of a replacement vehicle (and thus associated services such as uninsured loss recovery). CVR has concerns that this practice could result in consumers either receiving a vehicle that does not meet their needs or not being properly advised of their legal rights, as evidenced in the Consumer survey. Furthermore, CVR believes that these apparent "cartel" style agreements should warrant serious investigation to determine the impact on the consumer rather than merely the cost saving to the beneficiaries of the agreement.
- 3.11. Insurers make an active choice in not providing TRVs to consumers involved in non-fault accidents. There is nothing in current legislation to prevent any fault insurer from providing TRVs to consumers involved in non-fault accidents.
- 3.12. The inability of fault insurers to effectively provide TRVs to consumers involved in non-fault accidents is caused by the reluctance to make sufficient investment in systems and processes to enable them to do so.

- 3.13. Insurers are currently choosing not to provide TRVs to consumers involved in non-fault accidents (at a time when those consumers have an alternative in credit hire.) It could therefore be considered very unlikely that those same insurers would make the necessary investment in systems and processes to enable them to do so were credit hire vehicles not available as an alternative to the consumer.
- 3.14. [✂].
- 3.15. Paragraph 11 observes that a TRV may be supplied “...in accordance with the terms of their policy. This may be a courtesy car from the non-fault insurer’s repairer...” CVR is unaware of a single vehicle repairer in the whole of the UK that is able to provide a suitable, useable courtesy car to taxi drivers, driving instructors, couriers, chauffeur drivers, builders, tradesmen or delivery van drivers
- 3.16. Paragraph 22 identifies that where the fault insurer provided the TRV “...14% of respondents said that the TRV fell short of their needs.” A similar survey of taxi drivers, driving instructors, couriers, chauffeur drivers, builders, tradesmen and delivery van drivers would have a significantly higher level of dissatisfaction as factors such as local authority certification, fuel consumption, size and efficacy of the vehicle, etc are far more critical to these drivers than for members of the general public.
- 3.17. Paragraph 23 points out that where the TRV is supplied by the fault insurer one-in-five consumers are dissatisfied with the TRV provided. 80% is an unacceptable service level for business drivers and a service level that no insurer would accept from any of its suppliers.
- 3.18. It appears that it is not uncommon practice and policy for fault insurers to deliberately provide a TRV of a lower quality than the non-fault driver’s own vehicle. As Paragraph 28 (b) identifies “The customer is encouraged to accept a lower class TRV by the claims handler. [Redacted] told us that, when direct hire customers were provided with a downgrade, it was the fault insurer which determined the category of vehicle to be supplied to the customer.”
- 3.19. Paragraph 39 confirms that “...there was a greater likelihood of receiving a lower quality TRV if captured by the fault insurer (3 in 10 compared with 1 in 12)” This would suggest that it is both policy and practice for insurers to prioritise cost-cutting over consumer rights. Again, 70% is an unacceptable service level for business drivers and a service level that no insurer would accept from any of its suppliers.
- 3.20. There is a significant imbalance in knowledge and resource between a consumer involved in a non-fault accident and the at fault insurer.
- 3.21. The behaviours and attitudes of insurers noted above would appear to indicate that some insurers are inclined to exploit this imbalance and prioritise cost reduction over their obligations to put the consumer back to the position that they were in, prior to their loss following a non-fault accident.
- 3.22. Figure 3.30 of the consumer survey (based on a sample of claimants where liability had been admitted) shows that nearly a quarter of those claimants who had to pay an excess did not receive reimbursement of that excess from the at fault insurer. CHCs play the essential role of recovering consumers’ uninsured losses. CVR considers that this statistic is extremely concerning, particularly as the sample for the

survey was made up of claimants “whose claims had been settled in the last 12 months” (3.2). Clearly, the claims had not been adequately settled as a quarter of the claimants who incurred a loss did not receive reimbursement of that loss. As no other losses other than excess recovery appear to have been assessed, the potential is that the number of claimants in the survey who did not recover all of their financial losses could be higher.

3.23.CVR also wishes to highlight the fact that the survey was drawn from a sample of claimants who should have had a positive claim experience. CVR would expect the picture to be vastly different if a sample of all claimants were to be surveyed, including those who had yet to have their claims settled.

3.24.CVR provides an uninsured loss recovery service to its customers and has seen demand for this service increase in recent years, as solicitors stopped providing this (loss-making) service. This a major benefit to the consumer, few of whom have the knowledge or resources to fund litigation to recover these losses.

#### **4. Theory of Harm 1:**

4.1. At fault insurers are currently able (both legally and within the GTA protocol) to provide TRVs to consumers involved in non-fault accidents and consequently have the opportunity to control costs. However, insurers do not have the resources (people, systems and procedures) or the culture to quickly and effectively supply suitable TRVs - especially to drivers of privately-owned business vehicles. Consumers should not be compromised because of these operational and cultural weaknesses.

4.2. Evidence of this inability to respond both quickly and effectively is in the results of the Competition Commission survey which show that only 11% of non fault claimants had initial contact with the at fault insurer (Figure 3.40) and that only a further 41% had any contact at all from the at fault insurer during the whole claim process.

4.3. Direct hire charges from international car rental companies which are available to insurers with massive buying power cannot reasonably be compared with credit hire charges available to individual consumers.

4.4. The correct comparison of hire rates is between those which individual consumers involved in non fault accidents would have to pay to a “High Street” vehicle rental company (referred to as “Basic Hire Rates” by the Courts) and credit hire rates. As fault insurers are often very slow to respond - or do not respond at all - the only choice an individual consumer might have is to arrange hire themselves or to engage the services of a CHC.

4.5. At the Competition Commission round table meeting with insurers on July 16<sup>th</sup> several delegates stated that ABI GTA rates were too high. As previously mentioned (in 4.3) this is partly based on a comparison of direct hire rates that are not available to individual consumers with credit hire rates.

4.6. This is evidenced by comparing ABI GTA vehicle categories which the large international car rental companies do not supply. For example GTA rates for white vans (often used by self employed tradesmen) and minibuses are between 50% and 80% lower than “Basic Hire Rates”

- 4.7. Insurers incur direct hire charges to prevent a non-fault party from incurring credit hire charges; the at fault insurer's objective for supplying direct hires is cost control and consumer rights are often deliberately compromised - see 3.18
- 4.8. If consumers did not have access to credit hire services it is unlikely that the fault insurers would provide direct/intervention/capture hire. As previously noted in 3.6 at fault insurers provided a poor service to consumers involved in a non fault accident.
- 4.9. Paragraph 66 of *"TOH1 Overcosting and overprovision of TRVs"* observes CHC and insurers duplicate some costs when dealing with credit hire claims. Whilst this is an undesirable element of the process, it is a necessary one from the consumer's point of view. If tasks listed in paragraph 66 were left solely to the fault insurer to establish, there is no doubt that their main consideration would be to reduce costs rather than to protect consumer rights. CVR accepts that it is an imperfect system, but it is one that has developed to provide a service that both benefits and protects the consumer.
- 4.10. CVR agrees with the Competition Commission's general comments that the ABI GTA has helped to minimise frictional costs and also reduce credit hire payments.
- 4.11. CVR agrees with the comments attributed to Ms Connelly (Head Of Claims, Admiral) in the transcript of the meeting with insurers on 16<sup>th</sup> July 2013 that the GTA is effective in controlling costs.
- 4.12. CVR agrees with the comments made by Aviva at their hearing meeting of July 19<sup>th</sup> 2013 - in particular that *"...before the GTA credit hire costs were even greater and had to be challenged through expensive legal proceedings."*
- 4.13. CVR agrees with the comments made Ron Simms (BGL Group) at the hearing meeting of July 15<sup>th</sup> *"...it would be completely mistaken of us not to understand and have an interest in the right amount of costs being incurred in relation to claims and we think some sort of extended GTA approach..."*
- 4.14. CVR acknowledges that there are also comments made by the insurers that do not support the benefits of the GTA in its current format. However, CVR suggests that the GTA has been extremely effective in its principal objective of reducing the high level of both claims and frictional cost that existed prior to the implementation of the GTA. The fact that frictional costs remain suggests that further efforts should be made to refine the GTA in a bid to reduce these costs further.
- 4.15. CVR agrees with the comments attributed to Mr Woolgrove (Direct Line) on page 8 of the transcript of the meeting with insurers on 16<sup>th</sup> July 2013 that *"...we would suggest caution here.... Any reforms of this model carry a high risk of unintended consequences, so we strongly believe that any changes that you might propose in this area should be very carefully considered and underpinned by a full cost benefit analysis"* and those of Mr Howell (AXA) on the same page that *"We would, however, recommend that the Commission exercise extreme caution to avoid any unintended consequences when considering what action it might take in relation to these."*
- 4.16. Paragraph 10 of the *"TOH1 Overcosting and overprovision of TRVs"* working paper states *"...it appears to us that the level of referral fees may be an indication of the extent of the underlying profitability in credit hire."* CVR acknowledges that payment of referral fees is questioned by insurers but believes this is naive.



- 4.16.1. Referral fees and introduction fees are a standard means of promoting a business' goods and services, in this sense they are no different to other forms of promotional spend such as advertising, sales-promotions, direct-mail, pay-per-click and the use of sales personnel.
- 4.16.2. This might include the estimated £140m annual spend on television advertising by the UK's major motor-insurers and price comparison websites or the tens-of-millions of pounds they spend on search-engine pay-per-click advertising or the commissions they pay to brokers and agents or the salaries they pay to their large sales forces.
- 4.16.3. All of these are legitimate means of promoting businesses. The promotion of a business' products and services is clearly not an indicator of excessive profitability. It is unreasonable to seek to restrict any business from legitimately and legally promoting its products and services where there is a clear consumer benefit from the provision of those products and services.
- 4.17. Referral fees are the most efficient means for CHCs to promote their services. Thankfully an RTA is a very rare occurrence and a consumer will seek expert help (usually from his broker or insurer) rather than seek information in broadcast media or on the internet. The insurer or broker has already performed all the tasks required in selecting a high-quality CHCs to assist the consumer.
- 4.18. This is confirmed in the transcript of the Competition Commission meeting with five insurance companies on July 16<sup>th</sup> 2013 which confirms that service quality is the key consideration for insurers when selecting a credit hire partner for their policyholders.
- 4.19. CVR's agreements with insurers and brokers reflect this; CVR has strict service level agreements with each of its customers and is regularly audited by those customers. Furthermore CVR continually audits its own service and processes through ongoing qualitative customer research.
- 4.20. CVR wishes to comment on the statistic that the average credit hire duration is 3.7 days longer than the average direct hire duration in light of the comments in paragraphs 125 to 127 of the "TOH1 Overcosting and overprovision of TRV's" working paper that credit hire organisations deliberately manipulate the repair process with a view to increasing the hire period. Of particular concern is the comment in paragraph 126 that "The evidence is consistent with the view of (redacted) that non-fault repairs are not completed as quickly as fault repairs ...in order to extend the hire period".
- 4.21. CVR note that the assessment provided at paragraph 134 is non-committal on whether or not credit hire periods are longer than necessary, but the suggestion remains in that paragraph that CHC's have an incentive and ability to extend hire durations. CVR believe that these are contentious statements that are not supported by the evidence obtained. Figure 3.44 of the survey shows that 74% of repairs were managed by an insurance company, who would have control over all aspects of the repair process. Conversely, only 16% of the claims surveyed were managed by the CHC/CMC. Therefore, a CHC/CMC would have the ability to control only a small proportion of the repairs.
- 4.22. On the basis that insurers control a vast majority of the repairs, CVR consider that there is a suggestion that insurers prioritise the cases where they know that they will incur the costs, as supported by the comments reported from the meeting with

insurers on 16th July 2013 made by Ms Connelly (page 36 lines 15-19 and Mr Sinho (page 37 lines 8-9). The inference to be drawn from the evidence collected is that insurers do not act as quickly in the cases where they will be passing the costs to a fellow insurer.

## 5. Summary

- 5.1. CVR believes that the motivation of a fault insurer to reduce costs, reduce claims and reduce settlement amounts will always be in conflict with the needs of consumers involved in non-fault accidents.
- 5.2. Current legislation does not prevent insurers providing an adequate or an acceptable service to consumers involved in non-fault accidents.
- 5.3. CVR is especially concerned that the unique needs and specialised requirements of drivers of privately-owned business vehicles (taxi drivers, driving instructors, couriers, chauffeur drivers, builders, tradesmen, delivery van drivers, etc) have not been (and are not being) properly considered in this enquiry.
- 5.4. There is a significant imbalance in knowledge and of resource between a consumer involved in a non-fault accident and the at fault insurer. In these circumstances the consumer clearly requires expert independent assistance to ensure their legal rights are not compromised. The rights of the claimant need to be carefully considered and evidenced prior to the publication of any provisional findings.
- 5.5. CVR believes that the ABI GTA is the appropriate vehicle by which costs to fault insurers can be better controlled and managed without compromising on the legal rights of individual consumers.
- 5.6. CVR would recommend that CHCs and insurers explore better use of technology as a means to reduce frictional costs.
- 5.7. CVR does not believe that GTA rates are too high; furthermore CVR believes it is disingenuous to compare hire rates from international car rental companies which are available to insurers with massive buying power with credit hire charges available to individual consumers. CVR contends that the CC should investigate the true cost of car hire available to the claimant as the comparable to credit hire, rather than rely on the direct hire rates that have been used to date. This is the comparable used by the Judiciary to decide whether credit hire rates are reasonable.
- 5.8. CVR invites the CC to include CVR in any future discussions to assist in explaining the complexities of the services provided by CVR.

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