

Dear Sirs

COMPETITION COMMISSION MARKET INVESTIGATION – PRIVATE MOTOR INSURANCE

NFU MUTUAL: COMMENTS ON WORKING PAPERS AND FURTHER SUBMISSIONS ON THEORIES OF HARM

Thank you for the opportunity to submit some final comments following our review of your working papers, Annotated Issues Statement and our attendance at the multi-party hearing.

1. OVERCOSTING AND OVERPROVISION OF REPAIRS

NFU Mutual ("NFUM") notes the CC's comments on the Coles v. Hetherington jurisprudence. NFUM considers that the effects of this judgment contribute significantly to the problems that the CC has identified in relation to Theory of Harm 1. NFUM's view is that the "reasonable" cost of repair should be defined by reference to what has actually been paid for the repair, rather than a more vague open-market concept of what that repair might conceivably cost.

We have a high satisfaction rate from members about the quality of vehicle repairs. In 2012 complaints received by NFU Mutual related to vehicle repair quality represented only 0.14% of AD claims in the year.

As explained during the hearing on 16 July our members are free to choose whether or not to have their vehicle repaired in our Approved Repairer network. There is no financial penalty for our members if they choose a 'non-approved' repairer; i.e. their policy excess is exactly the same.

The majority of customers report their Motor claim to our 'First Notification of Loss' service (currently administered for us by the RAC). Of those customers, between 75% and 80% choose to use our Approved Repairer network. This is a choice made on the quality and ease of service that our network provides.

NFUM fully concurs with the CC's views that there is potential for overcosting and overprovision of repairs by non-fault insurers. NFUM has sought to mitigate the effects of this and has two material bilateral agreements in place at present.

Firstly, a long standing "Knock for Knock" agreement with Co-Operative Insurance. This involves each company agreeing to bear their own repair costs without recovering monies against each other. We have a small number of minor equivalent agreements with organisations such as the Post Office.

Secondly, a bi-lateral agreement with RSA Insurance. NFUM and RSA do

recover money from each other where their insured driver is “not at fault”. The terms of the agreement, in broad terms, confirm that neither party will recover more in repair or total loss costs from the other than was actually incurred in the fulfilment of the claim.

2. **OVERCOSTING AND OVERPROVISION OF TRVS**

As mentioned at the recent hearing, NFUM ‘not at fault’ members are provided with a courtesy car via their legal expenses insurance. This is done on an ‘insured hire’ basis rather than on credit hire terms.

We receive many ‘not at fault’ claims from third parties who have had accidents with our members. Those that involve a credit hire TRV are handled by a specialist claims unit within NFUM. We look to settle as many of these claims as possible on the base GTA rate for the vehicle type involved. Currently we resolve the majority of claims on this basis, with 77% being settled at the ‘30 day rate’.

There are substantial differences between the hire rates we can achieve when arranging hire directly (via an arrangement we have with Enterprise Car Rental) and the costs endorsed by the GTA regime. [✂]

Despite the relatively high differential between the two rates the GTA scale is often still cheaper than relying on ‘open market’ hire rates overall. Much will depend on the nature of the vehicle and the extent to which vehicles of that type are already out on hire. For example, a recent search for the best internet rate for a Ford Mondeo 2.0l hire, linked to our Stratford-upon-Avon postcode, returned a cheapest rate of £95 per day (15 July 2013).

3. **HORIZONTAL CONCENTRATION IN PMI PROVIDERS IN NORTHERN IRELAND ("NI")**

We would like to stress again that we do not approach NI in a different way to the rest of the UK. We offer the same single Car product there as we do everywhere else & whilst we do treat it as a distinct rating area, in all other respects regarding other rating factors, risk acceptance, product design and method of distribution etc we do not approach it differently to any other region in the UK.

[✂]

4. **ANALYSIS OF ADD-ONS**

As the FCA is undertaking a market study of general insurance add-ons we feel it would be more appropriate and efficient for all involved if the Competition Commission were to feed into that work rather than have two investigations running concurrently into the same area.

During the hearing we explained that we do not use high margins on ‘add-ons’ to subsidise the risk premiums we charge for PMI but we did not feel able to share our pricing approach in the open forum. We

have therefore set out below some further brief details.

We sell a single PMI policy to all customers. This is a Defaqto 5* product. We do not offer a pared down or basic product to which other covers or extensions are added at a cost after the customer has been quoted a base price.

Examples of covers which are commonly up-sold as 'add-ons' by others in the market, (often we believe at significant margin) which are included in our standard PMI product are:

Motor Legal Expenses - included as standard without charge.

Basic Roadside Assistance (i.e. mechanical repairs at roadside or tow to nearby garage) - included as standard in our PMI product & provided by our partners RAC. [✂] Customers have the option to upgrade this to provide wider cover including recovery to home/other destination or home start assistance with a similar percentage margin applied to the wholesale price from RAC

Courtesy Cars – included as standard without charge

Child Seats – included as standard without charge

The inclusive nature of our product in respect of these points is clearly explained to prospective customers in our sales scripts and literature. However in light of the FCA's thematic work on Motor Legal Expenses we are seeking to further improve how we do this.

As we have sought to stress in all of our responses NFU Mutual's brand proposition is strongly focussed on product and service quality. We have considered, but rejected, 'add-ons' as possible revenue generators as we feel this approach would not resonate with our Brand or our customers.

5. ANALYSIS OF POTENTIAL FORECLOSURE AS A RESULT OF VERTICAL RELATIONSHIPS

We have noted the Commission's interest in the commercial relationships that insurers may have with repair parts and paint suppliers.

NFUM does not have any contractual relationships with motor parts or paint suppliers. The network of 'approved repairer' garages that we make available to our members is managed on our behalf by Motorcare (part of the Innovation Group). We understand that Motorcare do have a discounted paint cost arrangement with one paint manufacturer which is made available to garages within the Motorcare network; including NFU Mutual approved repairers. However, the use of this manufacturer's paint is not mandated and repairers are free to make

their own arrangements for paint provided that meets appropriate standards for repair quality.

Kind Regards

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