ZURICH INSURANCE PLC (UK BRANCH) ("Zurich")

RESPONSE TO THE COMPETITION COMMISSION'S WORKING PAPERS

Zurich is grateful for the opportunity to provide the Competition Commission ("CC") with its views in response to both the working papers and the Annotated Issues Statement which the CC has produced as part of its on-going market investigation into the private motor insurance market in the UK.

As Zurich has stated in previous submissions to the CC, Zurich has both welcomed the CC's detailed investigation into this market and supports many of the initial conclusions reached in the CC's Annotated Issues Statement.

In this response we have considered each of the working papers in turn, making reference to relevant conclusions contained in the Annotated Issues Statement. We have then provided a summary of our key comments.

1. Theory of harm 1: Overcosting and overprovision of repairs

1.1 Zurich broadly agrees with the approach taken and initial conclusions arrived at by the CC in this working paper and in paragraphs 12 and 13 of the Annotated Issues Statement. The CC's conclusions broadly support Zurich's own opinion that, if the fault insurer has responsibility for repairs, then these are completed to same standard but at a significantly lower cost than if undertaken by third parties such as credit repairers.

1.2 We note that the CC has identified at paragraph 35 that insurers and CMCs manage their non-fault repairs in many different ways, some of which have the effect of inflating their non-fault repair charges passed to fault insurers above the net costs they incur. Some of these practices are then listed. Zurich recognises on the basis of its market experience the behaviours listed by the CC. Zurich cannot comment on the practice specified at sub-paragraph (b) which has been partially redacted.

1.3 Likewise, Zurich cannot interpret the meaning of paragraphs 75 and 76 because they have been heavily redacted.

1.4 As regards the comments made at paragraph 103, Zurich's market experience is that it is generally unlikely that a customer would lose his or her no claims bonus by going to his or her own insurer rather than, by way of comparison, to the fault insurer or a CMC. The latter organisations generally only offer their services or choose to get involved if liability is clear. When the customer does go straight to his or her own insurer, that insurer will make recovery from the at-fault insurer. For Zurich's customers at least, the customer's no claims bonus would not be affected in these circumstances.

2. Theory of harm 1: Analysis of the results of the non-fault survey in relation to overprovision

2.1 Zurich notes the key findings of the "Survey report" as discussed in this working paper and paragraph 23 of the Annotated Issues Statement and considers that they support Zurich's belief that insurers provide a high standard of care to both fault and non-fault claimants (including high quality repairs and temporary replacement vehicles).

3. Theory of harm 3: Horizontal concentration in PMI providers in Northern Ireland

3.1 Zurich recognises that it is appropriate for the CC to examine competitive conditions for the provision of PMI in Northern Ireland, given certain indications about market features. However, Zurich's experience suggests that some of the features that the CC appears to have identified are not in fact representative of competition conditions as they are currently developing.

Market size

3.2 Zurich recognises the estimated market size of the PMI market in Northern Ireland ("NI"), provided by the CC at paragraphs 11 and 12 of the paper, as being similar to the figures indicated by our own internal market intelligence. Likewise, Zurich's market intelligence indicates that AXA NI, Allianz and Prestige Underwriting are amongst the main insurers active in NI, as per paragraph 23 of the paper.

However, we are unable to comment on the specific market shares illustrated by the table set out at paragraph 24 as the table is entirely redacted. Nor can we therefore tell from the data collated by the CC whether it is accurate to categorise Zurich as one of the main underwriters active in NI (paragraph 23) (we estimated our market share to be [✂]%), whether the market in NI is "highly concentrated" (paragraph 26) or whether "the concentration of PMI providers active in the supply of PMI to certain types of driver is likely to be particularly high" (paragraph 28).

Provision for higher risk drivers

3.3 In paragraph 27 of the paper, reference is made to Zurich only writing business for young drivers through certain sales channels. This fact appears to be one of the factors contributing to the CC's reasons for the conclusions set out at paragraph 4 of the working paper and at paragraph 41 of the Annotated Issues Statement, namely that: "the supply of PMI in NI is more concentrated that in the rest of the UK and that is particularly true for young drivers and high-risk drivers who face a particularly limited choice of suppliers".

We agree that a key distinction between the way in which consumers purchase PMI in NI and in Great Britain ("GB") is the greater propensity of consumers to purchase PMI via a broker. Zurich's approach to underwriting young drivers in NI through Endsleigh Insurance Services ("Endsleigh") (part of the Zurich group) is both consequent upon that consumer propensity and also upon Endsleigh's expertise in the young driver market in NI. We would again emphasise that Zurich's appetite for insuring risks in NI is based on the same criteria which are considered in all parts of the UK.

Any underrepresentation of a particular types of driver in the PMI policies Zurich underwrites in NI compared to the profile of drivers in NI generally will be a product of the risk appetite decisions we have taken on underwriting performance (as would be the case elsewhere in the UK). Zurich's general broker product will be underrepresented in terms of young drivers as we have decided generally not to accept new risks where drivers are aged under 25 years. By comparison, because the Endsleigh products are focused on young drivers markets they will, by their nature, therefore be overrepresented in the under 25s group. This focus on young drivers in NI on the part of Endsleigh does not seem to be properly taken into account in the working paper.

Entry and expansion

3.4 Zurich is unable to comment on much of the content and the CC's conclusions under the heading "Evidence of entry and expansion in PMI provision in NI", or how such evidence feeds into the CC's conclusions, due to the redactions in paragraphs 46 to 51.

Profitability

3.5 Zurich notes that in Appendix 1 of the working paper the CC presents an analysis of PMI profitability in NI compared with PMI profitability in GB. The CC compares the weighted average PMI claims ratios between GB and NI over the five-year period 2008 to 2012 as an indicator of profitability. The conclusion arrived at is that weighted average claims ratios over the period were approximately ten percentage points higher in GB than in NI, indicating higher levels of profitability in NI than GB. The CC also suggests that this ten percentage point difference is driven by large insurers providing themselves with a claims "cushion" (paragraph 4(b)), indicative of a market which is not competitive. Zurich sets out below a number of observations on this analysis:

(i) Zurich is not able to comment on the content of paragraphs 20 to 26 of Appendix 1 or the data set out in the table entitled "Claims ratios for each insurer in our sample, split between GB and NI, five years 2008 to 2012" in the Annex due to the redactions made to the text and the table;

(ii) given the significance of the CC's initial conclusions as to profitability of NI business, it is important that the CC properly analyses the reasons for the figures that it has found. Without it offering more substantive views, it is not particularly helpful for the CC merely to state that certain features (in the case of broker commission) "in our view…are [not] likely to explain the whole difference" (paragraph 4(a), Appendix 1) and (in the case of claims volatility) "we did not believe this to be a relevant explanation for much of the ten percentage point difference that we observed" (paragraph 4(c), Appendix 1). Zurich believes that it is critical that the CC properly analyses the extent to which the factors which it recognises at paragraph 4 of the Appendix do have an effect on claims ratios i.e. what is the percentage difference between what might be expected given each of these factors and the 10% difference the CC has found in the data?

(iii) at paragraph 34(c) of Appendix 1, reference is made to Zurich's explanation of the difference in claims ratios throughout the five year period in question. In summary, Zurich's experience in the years 2009 and 2010 in GB was made more challenging by factors specific to GB (which, we believe were experienced throughout the PMI market during that time). This brought down the "profitability" of the GB PMI book during these years.

(iv) The NI market is broker dominated, with commissions therefore a significant distribution cost. Any loss ratio difference would need to be compared to an expense (including commission) ratio difference.

The impact of these factors was less in NI and therefore had less of an impact on "profitability" of the NI PMI book. However, Zurich's combined ratios for the five years in question (please see table below) in both GB and NI illustrate that Zurich was not making profit on its PMI business in either jurisdiction.

Zurich believes that it may be informative for the CC to also analyse and present an analysis of the claims ratio position for 2012 on its own as well as the weighted average claims ratios over the last five years. Zurich's claims ratios for 2012 in NI and GB were significantly closer to each other ([✂]% in NI and [✂]% in GB) than in 2009 and 2010 ([✂]% and [✂]% in NI and [✂]% and [✂]% in GB in 2009 and 2010 respectively). Zurich's analysis of the differential which exists for Zurich business is that it is within acceptable margins (especially given the relatively low volume of business being written by Zurich in NI). If other insurers' experience has been similar to Zurich then Zurich queries whether the 10% difference identified by the CC existed in 2012 or will going forward. In our view, this should be a key part of the CC's analysis, since it appears to provide a more plausible explanation for the data (i.e. that the data for the period analysed by the CC is not representative) than any of the explanations canvassed by the CC.

For ease of reference and to illustrate the points made above, we set out Zurich's PMI expenses ratios, loss ratios and combined operating ratios both in tabular and graphic form for the period 2008 to 2012 in GB (excluding NI) and in NI:

Zurich - PMI Expenses Ratios 2008 - 2012

	2008	2009	2010	2011	2012
GB (ex NI) ER	[✂]	[✂]	[✂]	[✂]	[✂]
NI ER	[✂]	[✂]	[✂]	[✂]	[✂]

Zurich - PMI Loss Ratios 2008 - 2012

	2008	2009	2010	2011	2012
GB (ex NI) LR	[✂]	[✂]	[✂]	[✂]	[✂]
NI LR	[✂]	[✂]	[✂]	[✂]	[✂]

Zurich - PMI CORs 2008 - 2012

	2008	2009	2010	2011	2012
GB (ex NI) COR	[✂]	[✂]	[✂]	[✂]	[✂]
NI COR	[✂]	[✂]	[✂]	[✂]	[✂]

4. Theory of harm 3: Horizontal concentration in PCWs

4.1 Zurich broadly agrees with the approach taken and initial conclusions arrived at by the CC in both this working paper and in paragraphs 46 to 50 of the Annotated Issues Statement. Zurich notes that this paper touches on the fact that there may be some factors arising from the nature of competition between PCWs that may cause consumer detriment, notably the existence of some wide-scoped most-favoured-nation ("MFN") clauses in the contracts between PCWs and PMI providers. Zurich agrees with this conclusion and refers to this below in more detail in response to the CC's working paper concerning "Theory of harm 5: Impact of MFN clauses in contracts between PCWs and PMI providers".

4.2 In reviewing the working paper on horizontal concentration in PCWs however, Zurich has found it challenging to follow the CC's workings through to their ultimate conclusions on some occasions. This has been for a number of reasons:

(i) a number of the paragraphs both in the body of the working paper and in the Appendices are heavily redacted and therefore difficult to follow. Examples include paragraphs 34, 39, 46, 47, 71, 82, 111 to 113, all of Appendix 1 and paragraph 6 onwards of Appendix 2; and

(ii) we note that there are some seemingly substantial discrepancies between the CC's own "Survey report" and the "Datamonitor" findings (specifically at paragraphs 51 and 52). Zurich believes that it is important for the CC to seek to reconcile any differences between these reports where the findings may feed into the CC's conclusions in this paper.

4.3 Zurich notes that at paragraph 65 of this working paper it is reported that PCWs told the CC that the proportion of PMI policies sold via PCWs is relatively small (an estimated 23%). At paragraph 51 the working paper does refer to the fact that Datamonitor estimates that, as of September 2012, "between 54 and 56 per cent of new PMI business was bought through PCWs".

5. Theory of harm 3: Horizontal concentration in repair cost estimation systems

5.1 Zurich broadly agrees with the approach taken and initial conclusions arrived at by the CC in both this working paper and in paragraphs 52 to 55 of the Annotated Issues Statement and notes that the CC does not intend to investigate further the horizontal concentration in repair cost estimation systems.

6. Theory of harm 4: Obstacles to switching

6.1 Zurich broadly agrees with the approach taken and conclusions arrived at by the CC in both this working paper and in paragraphs 63 and 64 of the Annotated Issues Statement. In particular, we do not believe that automatic renewals, cancellation fees or NCB protection represent obstacles to switching or that harm is likely to arise for consumers in this area. Zurich is committed to ensuring that its customers make well-informed purchase decisions, including as to the purchase of NCB protection.

7. Theories of harm 1 and 2: Vehicle write-offs

7.1 Zurich broadly agrees with the approach taken and initial conclusions arrived at by the CC in both this working paper and in paragraphs 14 and 34 of the Annotated Issues

Statement. The CC believes that there is good evidence that the separation of cost liability and cost control results in the overcosting of non-fault vehicle write-offs. As the CC observes, this is achieved by estimating salvage values for non-fault vehicles being set artificially low by some non-fault insurers and CMCs, increasing payouts by fault insurers. The CC also notes that most CMCs and some non-fault insurers receive a referral fee from the salvage companies per salvage. Zurich does not engage in either of these practices and agrees that they result in an overcosting of non-fault vehicle write-offs.

7.2 At paragraph 9 of this working paper, the CC states that it did not find any evidence of overprovision of services to non-fault customers who had a vehicle write-off (not including TRVs). This finding aligns with Zurich's experience. Zurich also agrees with the CC's specific finding at paragraph 10.

7.3 We note the CC's findings set out at paragraph 30 and the suggestion set out at paragraph 31 that captured third party write-off payments were typically lower in value than other non-fault write-offs because a claimant was more likely to deal with a third party insurer (rather than their own insurer) where the claim involved a less valuable car (i.e. an older or smaller car). The CC may also wish to explore whether the insurers' behaviours as set out in paragraphs 6 to 8 of this working paper may also explain this cost difference.

7.4 Zurich notes the CC's observation at paragraph 32 of the working paper that average write-off costs are significantly higher for fault write-offs. The CC states that: "It is not clear to us why this is the case".

7.5 Redactions at paragraphs 34 and 38 to 40 make it difficult to fully understand the CC's reasoning on the points made.

7.6 Zurich notes the comparisons drawn by the CC at paragraph 58 but notes that the figures are not presented on a like for like basis, which leads to pejorative presentation of Zurich's figures. Zurich's numbers provide the average time taken to send out a cheque on a write-off claim from FNOL whilst Esure is only referring to its performance in 70 per cent of cases. Admiral's numbers are split between fault and non-fault. Zurich's view is that by presenting the figures in this way Zurich's performance is underrated in comparison with Esure and Admiral.

7.7 Zurich notes the content of paragraphs 61 to 64 of the working paper. The difference highlighted is due to the fact that where the non-fault customer makes the claim with its own insurer then this claim is made under the policy, whereas if the claimant goes to another insurer the claim will be assessed under the law of tort. Whilst policies do specify the number of days a replacement vehicle is available, the practice is now generally to put non-fault claimants into credit hire vehicles which will be available until the claimant is sent a cheque in settlement. Alternatively, at this stage a claimant could go to a CHO.

If the claimant is at fault, whilst he or she would be provided with a replacement vehicle for a number of days, that claimant would not be entitled to a vehicle at all from another party. Zurich therefore does not agree with the statement made at paragraph 63 that there is “a gap between the duration of TRV services which claimants in the event of a vehicle write-off might want (both fault and non-fault claimants)…”.

8. Theory of harm 2: Analysis of the results of the non-fault survey in relation to underprovision

8.1 Zurich notes the key findings of the “Survey report” as discussed in this working paper and paragraphs 38 and 39 of the Annotated Issues Statement and considers that they support Zurich’s belief that insurers provide a high standard of care to both fault and non-fault claimants (including high quality repairs and temporary replacement vehicles). In particular, Zurich notes that “almost 90 per cent of respondents said that their vehicle was in at least as good condition post-repair as it was before their accident”.

9. Theory of harm 2: Underprovision of repairs

9.1 Zurich broadly agrees with the approach taken and initial conclusions arrived at by the CC in both this working paper and in paragraph 31 of the Annotated Issues Statement. Zurich notes that the CC found no evidence of systematic underprovision of repairs and no significant differences between credit repairs and insurer-managed repairs. This is consistent with our experience.

9.2 Zurich notes the CC’s findings at paragraphs 10 and 68. Zurich only uses non-OEM parts where the policy in question states that non-OEM parts may be used in repairs. Zurich does not use non-OEM parts for third party claims.

9.3 Zurich also welcomes the CC’s decision to appoint a third party to carry out inspections of vehicles which had been involved in accidents and subsequent repairs with the objectives of assessing the quality of the repairs by comparing the pre-accident condition of the parts of the vehicle which had been repaired. We comment on the findings of that report below.

Zurich does not recognise the behaviours reported by some repairers to the CC which are detailed at paragraphs 22 and 54 of this working paper and commented on by the CC at paragraphs 3 and 56. Zurich does not encourage, accept or condone the “corner cutting” that is alleged by these repairers and is not aware of these practices in the market as a whole. All Zurich Approved Repairers carry the BSI Kitemark (PAS 125) and we insist that repairers adhere to either PAS 125 or manufacturer-approved guidelines. In addition, our approved repairer network are required to provide a three year warranty for repairs. This indicates that a high quality standard of repairs is undertaken in all cases.

In particular, Zurich does not consider poor-quality repairs and the use of “filler” and “gluing” to be common practice in the market and considers that use of such descriptions are likely to be inaccurate or exaggerated. Zurich agrees that specialist bonding materials are used on occasions to repair broken lugs on headlamps, grilles, bumpers and other plastic components. However, if undertaken correctly, such repairs should have no adverse impact to the vehicles’ appearance or operation.

9.4 Due to the redactions we are not able to comment on paragraphs 80 to 82 of the working paper.

9.5 As regards paragraphs 90 and 91 of the working paper, Zurich accepts that non-fault claimants may need to pay the excess in the short term (before looking to secure a recovery as an uninsured loss claim). If a claim has not been settled by the renewal date NCB will be reduced (unless NCB Protection is in place) at that time, but reinstated if an when a full recovery of our outlay is secured. However, if despite the circumstances, we cannot secure a recovery of our outlay (because of, say, an uninsured or untraced driver) the NCB will be reduced at the next renewal.

For non-fault customers Zurich offers a credit hire vehicle until 7 days after a cheque has been sent to the customer in settlement of the written-off vehicle. This is the same as they would receive via alternative routes. In any event, there is nothing preventing the customer from claiming under his or her own insurance whilst also pursuing uninsured losses with the at-fault insurer.

In addition, for non-fault customers using CHCs, there exists a small risk that they could ultimately be responsible for the hire costs if at a later stage liability became an issue.

10. Theory of harm 5: Vertical relationships involving PCWs

10.1 Zurich broadly agrees with the direction taken by the CC in this working paper and notes the CC's conclusions as set out in paragraph 6 of this working paper and paragraph 69 of the Annotated Issues Statement.

10.2 Zurich has found it difficult to follow the CC's observations or reasoning at certain sections of the working papers due to heaving redactions namely, at paragraphs 5, 20-22, 29, 30 and 32 to 33.

11. Theory of harm 5: Impact of MFN clauses in contracts between PCWs and PMI providers

11.1 Zurich broadly agrees with the direction taken and initial conclusions arrived at by the CC in both this working paper and at paragraph 75 of the Annotated Issues Statement.

We also note that the CC intends to undertake further work in this area, as specified at paragraph 18 of the working paper and we welcome that further analysis.

11.2 Zurich is in agreement with the CC's analysis that there is a distinction between the potential effect of an "own-website MFN" and of an "online-sales MFN" or an "all sales-MFN", and the CC's reasoning set out in paragraphs 9 to 11 is in line with Zurich's own views and experience.

11.3 Zurich has found it difficult to follow the CC's reasoning by reference to data contained in the tables set in figures 3 to 7 in the paper as they are entirely redacted. However, the reasoning set out in paragraphs 36 and 38 is clear in Zurich's view.

11.4 Zurich agrees with the conclusion set out at paragraph 56 of the paper that it is implausible that PMI providers would be able either implicitly or tacitly to coordinate on premiums. Zurich does not engage in such practices.

11.5 Based on its own experience, Zurich also agrees that wide MFNs (i.e. "online sales MFNs" and "all sales MFNs") are likely to constitute a barrier to entry into the market (as indicated at paragraph 66 of the working paper) and that these wide MFNs may hinder cost-saving innovations by PCWs (as indicated at paragraph 68). Zurich would welcome action by the CC to address these problems.

11.6 Finally, Zurich notes the pro-competitive effects of MFN clauses are also listed. At paragraph 86 of the paper the CC states that "MFN clauses may help to solve two issues in the market for PCWs: search trustworthiness and fixed/sunk cost recovery". In relation to search trustworthiness, we agree with the CC that PCWs are not currently effective at making consumers believe that they offer the best prices available, indicating that they are not effective in reducing customers' search costs. We also believe that there is no evidence that the wider MFN formulations (at least) provide protection against any genuine "free riders" such that they could fairly be said to aid legitimate fixed/sunk cost recovery.

12. Theory of harm 5: Analysis of potential foreclosure as a result of vertical relationships

12.1 Zurich notes both the content of and conclusions arrived at by the CC in this working paper and in paragraphs 78 to 85 of the Annotated Issues Statement. We have no additional comments to make over and above the CC's analysis.

13. Theory of harm1: Overcosting and overprovision of TRVs

13.1 Zurich broadly agrees with the direction taken and initial conclusions arrived at by the CC in both this working paper and at paragraphs 16 and 19 of the Annotated Issues Statement.

13.2 In particular, Zurich notes that the CC has found that credit hire appears to be more expensive than direct hire with insurers paying, on average, around twice as much for a credit hire vehicle than for a direct hire vehicle. The CC has noted that this is driven principally by a higher daily rate (50 – 120% higher) and also longer hire periods (3.7 days longer than the average direct hire duration). Zurich's experience strongly supports these findings along with other insurers. The differences between credit hire costs and direct hire costs drive insurers to employ additional resource with the sole responsibility of capturing non-fault claimants rather than leaving them to go down the far more expensive credit hire route. This is the clearest example of where the separation of cost liability and cost control increases the costs of the services supplied.

13.3 In respect of paragraph 14 of this working paper, it is Zurich's experience that whilst the replacement vehicle is usually equivalent to the damaged vehicle, there are instances where the CHCs provide vehicles of a much higher specification.

13.4 Due to redactions, we are not able to comment on certain paragraphs in this working paper, including paragraphs 34, 36, 78 and 79.

13.5 Zurich notes the CC's reasoning set out in paragraph 50 of this working paper. However, we do not agree with the proposition that the difference between the average credit hire and direct hire duration could be due to "(a) the mix of claims i.e. with TRVs for more complex claims, which require longer repair periods, being provided under credit hire". There would be no reason to conclude that more complex claims would be provided for under credit hire. In fact, an at-fault insurer would make every effort to capture such claims as the costs involved are likely to be substantially higher if they fail to do so. We also question why the CC has included sub-paragraph 50(b) when it has found no evidence to support the view that there is underprovision of TRV services under a direct hire agreement in relation to duration.

13.6 In respect of paragraph 74 of the working paper, it is Zurich's experience that what the CHCs define as their debtor list is likely to include many cases which are subject to a disagreement on liability and do not therefore represent true debts.

13.7 Zurich agrees with the CC's findings set out in paragraph 101 of the working paper.

13.8 It is difficult for Zurich to comment on the content of paragraphs 104 to 106 due to redactions and the fact that this information has been provided by CMCs and CHCs.

13.9 We note the statement at paragraph 107 that the likelihood of full recovery from the fault insurer falls as the size of the claim increases. This may be because it is difficult for the CMCs and CHCs to argue impecuniosity on behalf of a claimant once a number of months have passed, especially where the value of the damaged vehicle is only a few thousand pounds (and the credit hire costs can be tens of thousands of pounds).

13.10 At paragraph 111, we are unable to comment in a fully informed manner due to redaction but it appears that the paragraph is suggesting that only a small amount of credit hire claims are terminated due to a change in liability assessment. Zurich's experience is that there is disagreement on liability on a not insignificant number of claims.

13.11 Zurich notes the reference to one repairer in paragraph 125 who told the CC that it manages fault repairs to completion as quickly as possible "but non-fault repairs were not as fast, as it was in the interest of the non-fault insurer or CMC/CHC to delay repair authorization and vehicle inspection, in order to extend the hire period." Zurich does not agree with or tolerate such practices.

13.12 Zurich notes and agrees with the observation made by the CC at paragraph 143 (b) that although a fault insurer has the incentive to minimise the cost of TRV services to a captured non-fault customer, if it offers a poor quality of service the customer may go to a CMC.

13.13 Regarding paragraph 152 of the working paper, it is Zurich's experience that it is not unusual for CMCs to provide add-ons even under the GTA, to increase the final invoice. Where we capture a non-fault claimant these addition costs are much rarer.

14. Theory of harm 2: Underprovision of TRVs

14.1 Zurich broadly agrees with the direction taken and initial conclusions arrived at by the CC in both this working paper and at paragraph 36 of the Annotated Issues Statement.

We also note that the CC intends to undertake further work in this area, as specified at paragraph 7 of the working paper and we welcome that further analysis of call records.

14.2 Regarding the point made by the CC in paragraph 28 (a) of this working paper, it is Zurich's experience that even under the GTA, the CMC/CHC will not provide a TRV of a lower class than the customer's vehicle. This is the case even where to do so would accord with the customer's needs. This is because the CMC/CHCs do not ask about the customer's needs. As the CC has noted, the provision of these vehicles by CMC/CHCs is generally by credit hire and this is more costly than by direct hire. Regarding paragraph 28 (b), Zurich does not encourage customers to accept a lower class TRV than his or her own vehicle. This is the case even where a lower class TRV would actually meet the customer's needs because if Zurich were to do so the customer might turn to a CMC/CHC. However, because Zurich provides these vehicles on a direct hire basis, the costs will nevertheless be lower than those incurred when a CMC/CHC provides the vehicle.

15. Background to private motor insurance (insurers, brokers and price comparison websites)

15.1 Zurich notes the content of this working paper and agrees that it provides an accurate high level description of the private motor insurance industry.

16. Background to claims management process

16.1 Zurich notes the content of this working paper and agrees that it provides an accurate high level description of the claims management process.

17. Theory of harm 4: Analysis of add-ons

17.1 Zurich notes both the content and the conclusions arrived at by the CC in this working paper and at paragraphs 56 to 59 of the Annotated Issues Statement. Heavy redaction of some paragraphs of the working paper (particularly from paragraph 50 onwards) makes it difficult to interpret and comment on the CC's findings.

17.2 We also note the CC's comments at paragraph 17 and footnote 12 that as only 5% of the policyholders contacted were both available and willing to respond to the telephone interview there remains a question over the extent to which the survey answers can be considered representative of all PMI policyholders. The CC should therefore exercise particular caution in placing reliance on this data in drawing conclusions on the operation of this market

17.3 At paragraph 5 of the working paper we note that reference is made to windscreen cover being the most popular add-on but that this might be partly because many basic PMI policies automatically include it. We question the validity or usefulness of treating windscreen cover as an add-on, especially when comparing it to other covers which almost always are not inclusive on basic PMI policies. We consider that windscreen cover is popular is because it is included in most basic PMI policies and therefore is not seen by the customer to come at an additional cost to them.

17.4 Zurich notes that at paragraph 22 the CC notes that 32% of respondents said that they preferred add-ons to be included in the basic policy. We question whether this number would remain the same if these individuals had then been asked the supplementary question whether they would remain of the same view knowing that such inclusiveness would come at a higher premium for the policy.

17.5 The working paper conflates personal accident, personal injury and medical expenses as one add-on. However, Zurich and potentially other insurers actually provide some elements as standard cover and others as add-ons. We also view the seasonal effect rationale which is cited at paragraph 30 as perhaps overly simplistic. We would question whether customers are really more aware in January to March of "the risk of injury at that time of year" than perhaps between October and December.

17.6 At Table 12 on page 22 of the working paper the first footnote states that "DLG does not treat NCB protection as an add-on, but as a variation to its pricing of the basic OMI policy". The same statement could be made about Zurich consistent with Zurich's' response to your information request of 16 May 2013.

18. Theory of harm 1: Statistical analysis of claim costs

18.1 Zurich notes both the content of and conclusions arrived at by the CC in this working paper. However, as the CC's analysis is based upon confidential data provided to it by other insurers (which has also been redacted from this working paper), it is not possible for Zurich to comment on the CC's analysis or the conclusions presented in this paper any meaningful way.

19. Theory of harm 5: Analysis of vertical agreements for the supply of paint (excluding foreclosure)

19.1 Zurich broadly agrees with the direction taken and initial conclusions arrived at by the CC in this working paper and agrees that it provides an accurate reflection of the current market.

Conclusions

Zurich has supported the CC's investigation since its commencement and continues to do so. As we have explained to both the OFT and the CC, we consider that there are certain features of the market which could operate more effectively in the interests of consumers. We believe that the CC has effectively identified these – particularly in the context of its first theory of harm. The initial thinking set out in the working papers and Annotated Issues Statement in this respect seems to Zurich to be consistent with its commercial experience and accurate in its identification of both the underlying problems and the scope of the harm.

We look forward to continuing to work with you as you move towards your provisional findings, and then on developing proposals that effectively and proportionately address these concerns.