Opening Statement

Admiral welcomes the provisional findings from the Competition Commission.

We feel that is it important that any remedies that are adopted must be proportionate and able to be implemented in a timely fashion in order that the industry can pass on the savings in the form of reduced premiums to consumers. In our view, the single most important issue identified by your work is the inflation of costs in the provision of replacement cars which feeds through to roughly 2% higher car insurance premiums than necessary. We would urge the Commission to consider the materiality of some of the other theories of harm, where the impact on consumer outcome is relatively small and where the complexity of possible interventions runs the risk that the costs of the "solution" outweigh the benefits.

Inflated Provision of Replacement Cars

Admiral already provide information to our customers within policy booklets, our websites and at the time that they make a claim. Any further steps which can be taken to raise customers' awareness is very much welcomed and as such the inclusion of a small number of questions on legal entitlements included in the driving theory test is a sensible and proportion recommendation.

We are concerned that First Party insurance for replacement vehicles would be disproportionate, would take some time to introduce, would lead to an increase in the number of customer complaints and result in a poor outcome for customers.

This remedy would require a change in the law, the changes required are complicated by the proposal that customers could choose from three levels of cover. Primary legislation would be required to amend the RTA and to restrict the right of recovery, thereby amending the common law of tort. It is impossible to predict when such legislation would be enacted. Much would depend on the degree of importance/priority attached to such legislation, and other competing legislation for parliamentary time/resource. It is most likely that there would be a White Paper even before a bill being laid before parliament. Unless such legislation was given special priority we would estimate a minimum 12 to 18 months to Royal Assent. Once legislation was enacted, a delay of in excess of 12 months would be required before implementation in order for all annual motor insurance policies to be amended (new wordings, prices etc). Realistically a delay between enactment and implementation of two years plus seems likely. Therefore it seems likely that it would be three years plus before such legislation would come into force.

We are concerned that a number of unintended consequences could arise from the first part model, for example, where a motorist does not get the benefit of a hire vehicle for whatever reason, would they be permitted to maintain a claim for loss of use? Would they be able to claim for the cost of alternative transport arrangements such as public transport or taxi fares? If the answer to this question was yes, it is conceivable that a new type of claim would emerge: credit taxi fares in respect of taxi accounts. There could also be claims for gratuitous lifts being provided (consisting of the cost of the transport together with some allowance for the friend/family member's time).

We note that there is a general election in May 2015, given the other issues facing the current government, it's difficult to see that there would be appropriate time to debate the issues, draft an a bill in reasonable time frame, given the extra premium costs equate to £150 million to £200 million.

It is highly unlikely all customers would elect to take out a policy but there would still be a reasonable expectation at the claims stage that they would be entitled to a like for like replacement vehicle. We are concerned that this would lead to customers receiving less than they currently do

now which is a disproportionate and poor outcome for consumers. At present there are very few policies that offer like for like replacement hire and if a customer opted not to purchase a hire vehicle in the event of an accident, in the absence of new legislation amending the current position in relation to the law of tort it is extremely difficult to convince a court that sufficient mitigation did not take place given their option not to utilise such a vehicle available on a policy.

There are a number of changes that should be adopted. The most material issue here is the daily hire cost of cars provided under credit hire. The analysis has highlighted that the average credit hire daily rate is between about 50 and 120 per cent higher than the average direct hire daily rate and the average credit hire duration is about 3.7 days longer than the average direct hire duration. With this in mind, we feel that daily hire rates should be very substantially reduced rates for at-fault insurers who admit liability early. The simplest way of achieving this would be to introduce a circa 40% reduction in daily rates within the GTA. Improved mitigation statements should be introduced to reduce claims frequency and a credit hire portal similar to the MOJ Claims Portal would lead to a reduction in frictional costs given the lack of success insurers have with the judiciary when challenging excessive claims. The introduction of these steps would realise savings to the industry in the region of £200 million.

We believe a reduction in daily credit hire rates enforceable via a mandatory portal in conjunction with a system that allows the at-fault insurer to achieve further savings where early offers to deal with the claim and/or provide the replacement vehicle, would be a reasonable and proportionate response to the increased costs in premium which represent an absolute pound value of £6 to £8 per customer.

Issues for comment Remedy 1

(a) What information should be provided to consumers?

With regards to the legal entitlements information which should be provided in the annual insurance policy documentation we are of the opinion that simple, effective statements written in plain English are most effective. This could be divided between information which is applicable to at-fault drivers and information which is applicable to non-fault drivers. Policy booklets already stipulate the entitlements for an at-fault driver involved in an accident. This is also highlighted between the type of policy which a customer has (fully comprehensive, third party etc.) Furthermore the circumstances of repair are also explained with particular reference to when the customer could be entitled to a courtesy car and using an approved repairer.

In the case of non-fault drivers this explanation could be as simple as, "*If you are involved in an accident which is not your fault you have a legal right to be returned to the position which you would have been before the accident happened. The cost for this will be recovered from the at-fault driver via their insurance company. This could include the cost of repairs to your vehicle, the cost of a hire car whilst your vehicle is being repaired and any other out of pocket expenses incurred due to the accident.*"

With regards to the information which should be given at the first notification of loss stage (FNOL), we agree with points A-C as specified on page 4 of the Remedial Notice, however disagree with point D. We do not believe that providing information to claimants on their contractual rights should the situation arise whereby the claimant is unhappy with the repairs they have received is necessarily at best dealt with at the first notification of loss stage. Many customers at this stage of the claims process will be more concerned with receiving details of how their vehicle will be repaired, rather than anticipating a problem which may or may not arise.

(b) When is this information best provided to consumers—with annual insurance policies, at the first notification of loss, or at some other point? Should this information be available on insurers' websites?

Information in relation to legal entitlements should be provided in the annual insurance policy documentation as the information could potentially be both lengthy and detailed. The majority of Admiral customers now receive their documentation through an online portal system, whilst the policy booklets are placed on each brands individual websites. For example the current Admiral guide (which can be found here:

http://www.admiral.com/policyDocs/AD116%20_policybook_1013.pdf) includes a heading on page 9 entitled, 'How to make a claim.' It would be a relatively easy process to include further details in this section.

It would also be possible to place this sort of information in the FAQ's section of all Admiral brands websites for customers to receive further information in a user friendly format.

(c) Would it be more effective for consumers to be provided with a general statement of consumers' rights prepared and periodically updated by a body such as the Association of British Insurers or are there any examples of existing best practice in relation to information given to consumers by insurers?

A general statement of consumers' rights would lend itself to be included in the annual insurance policy documentation as a separate flyer, similar to the key facts document. Both hardcopy and an electronic copy would need to be created, provided and periodically updated. If the ABI were to be responsible for such a document then it would also be preferable for the ABI to include the document on its own website as well.

The greatest advantage to insurers having a prepared stand alone document is that it will provide consistency across the industry and consequently there would be no disparity to the level of information or the way in which it is presented to customers. Ultimately over time it would become a document which customers would become very familiar with as it would not alter from insurer to insurer.

We would point out that the FSA have previously published a Third Party Code of Assistance this could be amended to be appropriate for either a third party claimant or customer.

(d) Would this remedy give rise to distortions or have any other unintended consequences?

There is a possibility that the increased consultation of lawyers on behalf of customers in small value claims could potentially increase costs involved within the chain. There is also the possibility that customers feeling that their choice is more informed will unwisely in some circumstances choose to use a non-approved repairer. If more of our customers were to use non-approved garages, this results in us losing control of the repair process and we cannot ensure the same controls concerning the standard of the repair when a customer is using a garage that we have no relationship with.

We cannot envisage any unintended consequences of customers' receiving further information on their rights. However, as stated above, we do not believe that providing information to claimants on their contractual rights should the situation arise whereby the claimant is unhappy with the repairs they have received is necessarily at the FNOL stage.

(e) What circumvention risks would this remedy pose and how could these be addressed?

As discussed above, there would be minimal risk involved if the ABI were to prepare a general statement of consumers' rights as there would be consistency across the industry. There would be a marginal risk involved if insurers were responsible for preparing their own wording as there would be varying degrees of information which could be offered to customers.

With regards to information at FNOL stage we would envisage that these statements would be delivered to customers over the telephone therefore an effective scripting and call monitoring programme would need to be implemented to serve as a control against incorrect or misleading information being given to customers.

(f) How would this remedy best be monitored, particularly in relation to a statement of rights at the first notification of loss?

As stated in question (e), an effective scripting and call monitoring programme would be the best way of monitoring this sort of remedy and it is out view that this would be for the FCA to monitor as an external regulatory body**.**

(g) How much would it cost to implement this remedy?

Changes to policy documentation, call centre scripting and websites changes are often made, consequently much of this already in place and the cost incurred in creating and implementing these changes would not be extensive. However it is clear that there would be an increase in scripting and as such call lengths would increase and resultant operational costs.

(h) Is there any reason why this remedy should not be implemented through an enforcement order?

We do not envisage any reasons why this remedy could not be implemented through an enforcement order but are of the view that the FCA should govern the same.

(i) Is this remedy more likely to be effective in combination with other remedies than alone and, if so, which combinations of remedy options would be likely to be effective in addressing the AECs that we have provisionally found?

We believe that this information remedy is sufficient in conjunction with effective monitoring.

(j) Would the additional measure set out in paragraph 20 be likely to be effective in enhancing consumers' understanding of their legal entitlements?

Any further steps which can be taken to raise customers' awareness of their legal entitlements following an accident dependant upon their liability is beneficial and as such any inclusion to this effect within driving licence theory examinations would be welcomed.

Views are invited as to:

(a) Whether the possible remedies under ToH 1 are likely to be more effective in combination with other remedies than alone and, if so, what particular combinations of remedy options would be likely to be effective in addressing the AEC we have provisionally found.

(b) Whether the possible remedies under ToH 1 should be implemented by the CC through an enforcement order or whether the CC should make recommendations to the Government (for example, the Ministry of Justice), regulators or other public bodies to implement the remedies.

Issues for comment Remedy 1A: First party insurance for replacement cars

Please see opening statement.

(a) What aspects of the law would need to be changed?

A number of changes to the law would be required.

(b) How should policyholders be given a choice as to the extent of replacement car cover?

Please see opening statement above.

c) To what extent would the need for consumers to pay a premium for replacement car cover be offset by the effect on premiums of the overall reduction in replacement car costs that would occur as a result of this remedy?

Please see opening statement above.

(d) How might this remedy affect NCBs and the premiums of non-fault claimants? Would non-fault claimants have to pay an excess when provided with a replacement car under their own policy? If so, would this be treated as an uninsured loss which should be recoverable from the at-fault insurer?

Please see opening statement above.

(e) How would this remedy affect the credit hire and direct hire activities of vehicle hire companies? How might the quality of service in the provision of replacement cars be affected if replacement car provision is contractually specified in motor insurance policies?

Please see opening statement above.

(f) Would it be likely that the non-fault insurer providing the replacement car would also handle the repair of the non-fault claimant's vehicle? What would be the consequences of this? Would complexities and costs arise if the replacement car is provided by the non-fault insurer and the repair is carried out by a different service provider?

Please see opening statement above.

(g) Would this remedy give rise to distortions or have any other unintended consequences?

We consider that this investigation is in relation to the private motor insurance market and that any changes made to the RTA would also affect the commercial and motorcycle market.

(h) How long would it take to implement this remedy? What administrative changes would need to be made?

Please see opening statement above.

(i) Would this remedy need any supporting measures? If so, what are those measures?

Please see opening statement above.

Issues for comment Remedy 1B

(a) Which of the variants in paragraphs 38 and 39 are likely to be most effective?

The remedy outlined in paragraph 37 leads to a risk of claimants being without mobility for varying periods of time dependant upon how efficient their own insurer was. This is possibly the best remedy in terms of lowering the cost of hire providing sufficiently low daily rates are in force where the at fault insurer agrees to deal. It will however need a sufficient degree of definition in terms of how long the insurer at fault has to make contact and offer a replacement vehicle. A remedy that incentivises early admissions and should be welcomed.

Paragraph 39 raises the question once more that if the customer doesn't have the right to choose, then that will require an overhaul to the law of tort.

(i) If the non-fault claimant retains the right to choose who handles the claim, what incentive would they have to choose to have claims handled by the at-fault insurer? Would this remedy favour larger insurers with stronger brands?

There is no extra incentive, they simply are not required to pay their excess and are not obliged to process a claim through their own policy of insurance which many consumers feel strongly about when involved in a non-fault accident.

ii) If the at-fault insurer is able to capture the claim should it wish to do so, what incentive would the at-fault insurer have to provide the standard of service to which the non-fault claimant is entitled? What measures need to be put in place to safeguard against this risk?

It has to be remembered that there is no incentive for an insurer to provide a sub-standard service to a captured third party, this is where an insurer gets the opportunity to provide a service which is impressive and which encourages that consumer to consider insuring with us at renewal given the level of claims service received.

Furthermore, there is an inherent risk on the at fault insurer that they will "lose" the capture if they underprovide on service, which will only increase their costs.

(b) What are the implications of the non-fault claimant having the right to choose an alternative service provider?

Increased frictional costs introduced into the market.

(c) To what extent might this remedy inconvenience non-fault claimants, for example if they have to wait for the at-fault insurer to make contact? How long should the fault insurer be given to contact the non-fault claimant?

There should not be a loss of mobility for a non-fault claimant and we would recommend that the insurer at fault is is contact with the customer within 24 to 48 workings.

(d) Should non-fault claimants who make the first notification of loss to their own insurer, broker or CMC have to wait for an offer from the at-fault insurer before deciding who to appoint to handle the claim even if they want their own insurer or CMC to do so?

The non-fault party should advise directly and provide the fault insurer with the opportunity to achieve the lower daily rate for early admission. In practice however, most efficient insurers will have made contact with the customer within a very short period of time post-accident.

Scope could be provided for the at fault insurer to be given an opportunity to take over the hire provision. There will be many cases where the potentially at-fault insurer requires some time to make contact with their own policyholder. Provision to step in at a later point could be made, particularly where the non-fault driver's vehicle remains driveable pending repairs being authorised and commencing.

(e) Are there any advantages or disadvantages to the variant applying this only to replacement cars (see paragraphs 40 and 41) compared with applying this to both replacement cars and repairs? What might be the consequences of a replacement car being provided by the at-fault insurer but the repair being managed by the non-fault insurer?

Under-provision, further frictional costs and circumvention of any codes of conduct that are in place.

(f) Would this remedy give rise to distortions or have any other unintended consequences?

There are likely to be unintended consequences if this remedy were not adequately enforced, monitored and sanctioned.

Problems could arise with claimants demanding specific vehicles particularly where their own vehicle was a specialist or premium/prestige vehicle. To what extent would a claimant be permitted to demand a particular make/model of replacement vehicle?

(g) How might this remedy be circumvented? How could this circumvention be avoided?

An enforceable portal system which mandates that all parties abide by the rules of conduct.

(h) How should insurers, brokers and CMCs be monitored to ensure that claimants are properly informed of their rights when making the first notification of loss? How should non-fault insurers and CMCs be monitored to ensure that the at-fault insurer is informed of the claim? Who should undertake this monitoring? What additional costs would arise as a result of monitoring?

The FCA's competition remit is envisaged to cover the advice provided at sales stage. In terms of conduct between insurers, a mandatory portal will need to be introduced.

(i) How long would it take to implement this remedy? What administrative or legal changes would need to be made?

In theory, this is simple in practice but is very dependant upon the resource pull within individual companies in terms of IT and administrative obstacles. The biggest delay to implementation would be the time to implement primary legislation (see earlier general comments around the likely timescales for legislation).

Issues for comment Remedy 1C

There are other limits which could and should be placed on the hire claims. For instance:

- Limiting the hire to a percentage of the damaged vehicle's value.
- Limiting the period of hire where the vehicle is a total loss (particularly an issue where liability is in dispute).
- Assessing the economics of hire being provided and the vehicle being repaired verses treating the vehicle as a total loss.
- Requiring hire to only commence in conjunction with steps being taken to assess and repair the damaged vehicle (where the damaged vehicle is not roadworthy).

(a) What would be the most effective way of implementing this type of remedy? Possible ways could be an enforcement order made by the CC, an undertaking to replace the GTA, or (in relation to the hire costs of TRVs subject to dispute) a recommendation for judicial guidance on the level of hire costs recoverable from at-fault insurers by non-fault insurers and other providers of replacement cars.

A newly formed independent body which monitors and polices a mandatory portal system involving a mix of all parties.

(b) Which parties should be covered by this remedy?

All.

(c) What is the appropriate time period in which repairs should commence once a replacement car has been provided? How should the hire period be monitored and by whom?

The repair should start immediately where possible. Where this is not possible, what is reasonable and proportionate should be considered. The hire period should be monitored by the insurers who are better placed to do this and have a vested interest in ensuring that hire does not extend unnecessarily.

There can be significant difficulties in practice. Once repairs commence, additional damage may be identified which extends the period of repair, particularly where parts are required. Undue focus could be placed on the repair commencing rather than minimising the total period of repair.

(d) What is the most appropriate mechanism for setting hire rates for replacement cars? Who should determine the hire rates?

An independent body regulated by the Ministry of Justice, representing a mix of stakeholders, funded by all parties and akin to the Civil Justice Council. However if credit hire is going to be permitted, and not in effect outlawed, there is a policy issue here: what premium over spot hire should be permitted to allow for the cost of credit being provided?

(e) What administrative costs should be allowed? At what level should administrative costs be capped?

This requires further consideration but these should be significantly lower than current GTA fees, if the objective of stripping out cost is to be achieved.

(f) Is it practicable for the relevant documentation to be exchanged through a web portal rather than in paper form?

Yes, please see above.

(g) What costs would the measures in this remedy entail?

Our experience leads us to believe that the cost would not be particularly prohibitive.

(h) Would this remedy give rise to distortions or have any other unintended consequences?

There will be opportunities to circumvent, some parties will choose to ignore the portal, or simply deny liability in all cases and there will be likelihood that some parties will look to make their own arrangements outside of the portal, hence the requirement for it to be enforceable.

i) To what extent is there a risk that this remedy could be circumvented by the evolution of new business models that are not subject to it? How could this risk be avoided?

As above, this will be dependant upon the enforceability and policing. If this is insufficient, there will always be innovative players in the market who adapt and utilise new models to circumvent current rules practices that limit their profitability.

An existing issue which would need to be addressed is the prevalence of CHOs charging for added extras including for example:

- Additional driver
- Automatic transmission

- Satellite navigation
- High risk driver (age, endorsements, etc)
- Windscreen, tyres, underbody damage waiver
- Excess waiver
- Theft waiver

These types of additional potential charges would all need to be covered.

Issues for comment 1D

Views are invited on the effectiveness and proportionality of this remedy and, in particular, on the following:

(a) What would be the most effective way of implementing this remedy?

(b) Would either variant of this remedy give rise to distortions or have any other unintended consequences?

We consider that any remedy which fails to allow efficient insurers from gaining the advantages they have strived to achieve through economies of scale and volume should be avoided.

Regarding Remedy 1D (a)

(c) How could repairers be prevented from inflating the wholesale prices they charge to non-fault insurers and passing excess profit to non-fault insurers through referral fees, discounts or other payments?

Please see response to 1D above.

(d) Could this remedy be circumvented by insurers vertically integrating with repairers?

It would be difficult to foresee with any degree of accuracy at this stage if vertical integration is a factor in the circumvention of this remedy.

Regarding Remedy 1D (b)

(e) Is it practicable to set standardized costs for all aspects of repairs in subrogated claims? If not, what are the potential problems?

It is possible but there would be material practical difficulties defining the “standardised costs”

(f) What are appropriate benchmarks for inputs into the price control? To what extent are cost estimation systems helpful? What other indices would need to be used?

Audatex is a superior cost estimation system which is helpful in relation to price control. In-house engineers then compliment this process. Thatcham and PAS125 accredition may prove useful in terms of benchmarking.

(g) What would be the costs of implementing this arrangement?

We do not consider these costs to be prohibitive.

(h) How would monitoring of this remedy work?

Independant body with a mix of stakeholders representing all parties within the market that complete periodic audits. Insurers could also be required to submit periodic data.

(i) What would be the most appropriate organization to review the inputs into the price control on a regular basis?

Any sort of price control and price capping which will need regular review needs a body with a competition remit. Consequently, if this were to be introduced we would wish for the FCA to be involved in this process.

(j) What measures would be required to ensure that the price control arrangements would not have adverse consequences for the quality of repairs?

Periodic audits would ensure that the quality of repairs were maintained to the required standard.

Issues for comment 1E

(a) would either variant of this remedy give rise to distortions or have any other unintended consequences?

The status quo works primarily on the basis of efficiency. It is not reasonable to wait until a salvage sale has actually taken place. There are risks with increased storage prices and operational costs and it is not practicable to envisage a situation whereby written vehicles are left in salvage yards for unspecified periods of time until such time as an actual sale of the salvage takes place.

Regarding Remedy 1E (a)

(b) Would at-fault insurers be likely to take up the option of handling the salvage?
(c) At what point in the claims process should at-fault insurers be given this option?

We feel that this is an unlikely solution and further operational inefficiencies will arise in a scenario where an insurer is responsible for dealing with only one element of the vehicle damage claim. These increased frictional costs would appear to be disproportionate to the potential further income they might become entitled to at a later date and would likely be eroded by storage costs in any event.

Regarding Remedy 1E (b)

(d) What impact would this remedy have on salvage companies? To what extent would this proposal reduce the incentives for insurers to get the best salvage value from salvage companies?
(e) What administrative costs would the adjustment mechanism have? What evidence would need to be provided to verify the salvage proceeds (and any referral fee)?

Competitive advantage within the market in relation to salvage agreements that have been negotiated would be lost and this is sensitive and individual to each particular insurer and agent.

As a general comment, there could be unintentional consequences to insisting on using actual amount. This could potentially push the industry back in fixed percentage deals and in turn push costs up.

The salvage market has developed over recent years and most salvage is now sold on auction sites reaching a far wider potential customer base (international as well UK). This has been a positive move for the industry as it has resulted in improved prices.

Issues for comment 1F

The reference to subrogated claims is unhelpful; the majority of the hire claims that cause problems are not subrogated claims or are merely said to be subrogated by the CHO to avoid other technical challenges to the hire.

(a) Could this remedy operate on a stand-alone basis?

No. It is all too easy to complete a mitigation statement to justify need where the non-fault motorists could and would make alternative arrangements if they were meeting the need themselves. Who will determine what is a genuine need and what is an alleged need which is insufficient to properly justify a hire vehicle or a like-for-like hire vehicle? To date the courts have demonstrated a general unwillingness to find that hire is not justified. There would be a lot of scope for further litigation.

(b) Which other remedies would benefit from this remedy as a supporting measure?

See opening statement.

(c) What questions should the non-fault insurer or CMC ask non-fault claimants in order to assess the need for a replacement car, the appropriate type of replacement car and to demonstrate that the provision of a replacement car had been appropriately mitigated? Should the cover provided by the claimant's own insurance policy be considered in assessing the claimant's need: for example, if the claimant's own policy included provision of a replacement car in the event of an at-fault claim, would that be sufficient evidence of need for a replacement car in the event of a non-fault accident?

Insurers already request mitigation declarations on a routine basis and will operate a hire department that deals sole with scrutinising these types of issues with a view to making savings but there is clearly a need to improve upon the standard of mitigation statements required.

(d) Would the right of the at-fault insurer to challenge the non-fault insurer or CMC and to see the 'mitigation declaration' and call record be sufficient for this remedy to be self-enforcing without additional monitoring? Would giving the at-fault insurer access to the non-fault insurer's or CMC's call records give rise to any data protection issues?

We simply do not consider that such a remedy would have any appreciable impact.

(e) How much would it cost to implement this remedy?

The cost of more in-depth mitigation statements would be minimal. However as we have said, alone these proposals would be unlikely to lead to any savings and arguably add to total costs by adding a further area of dispute.

(f) Would this remedy give rise to distortions or have any other unintended consequences?

Unlikely

Issues for comment 1G

(a) Could this remedy operate on a stand-alone basis?

This would only work with a commensurate lowering of the daily rate of GTA and credit hire in the case of replacement vehicles. Referral fees are a symptom of excessively high returns for the provision of replacement vehicles to non-fault claimants. They are not a driver of those excessively high returns.

(b) Would remedies 1A to 1F benefit from a prohibition of referral fees as a supportive measure? Or would remedies 1A to 1F have the effect of reducing referral fees in any event?

Remedies 1A to 1F would have a positive effect which may lead to a natural reduction over the transitory period as insurers would reach adapted commercial agreements with their providers.

(c) What would be the impact on premiums if referral fees were prohibited?

It is extremely difficult to foresee the exact impact at this stage, but, in our view, a ban of referral fees in isolation as the sole intervention would actually increase car insurance premiums due to a resulting re-distribution of the excessive margin from closely-regulated insurers to credit hire providers and others involved in the "value chain".

(d) Would this remedy give rise to distortions or have any other unintended consequences? In particular, would a prohibition on referral fees create a greater incentive for insurers to vertically integrate?

Insurers would adapt to gain transfer of value via alternative methods as any commercial operation would have a duty to their stakeholders to consider amendments to their current models.

(e) What circumvention risks would this remedy pose and how could these be mitigated? In particular, how could other monetary transfers (eg discounts) having the same effect as referral fees be prevented?

We believe that it would be very difficult to pass legislation which would prohibit monetary transfer by one mean or another.

(f) How could this remedy best be monitored and what costs would be incurred in doing so?

We feel that the cost and resource would be prohibitive. Please refer to opening statement.

Issues for comment 1H

The CC invites views on these two possible remedies which we are not minded to consider further and on any other possible remedies that we have not included in this Notice which interested parties consider may be effective in addressing the AEC we have provisionally found in relation to ToH 1. Where parties are of the view that these remedies could be effective, they are asked to submit evidence to support their views.

Issues for comment 2A

(a) What costs would be involved in auditing the quality of repairs?
(b) How frequently should audits of repair quality be undertaken?

(c) Should audits of repair quality be undertaken by insurers and CMCs or an independent body? Is it necessary for the audits to standardized and be performed by an independent body for the results to be comparable and credible? How would an independent body be funded?

(d) If the results of repair quality audits were to be published, who should collate the results? Should be results be categorized by repairer or insurer?

(e) If audits are carried out by insurers, how would consistent standards be achieved?

(f) If this remedy were to be implemented through expanding the scope of PAS 1259and the scope of audits undertaken in relation to PAS 125, is it necessary for PAS 125 accreditation to be made mandatory for all repairers undertaking insurance-related work?

(g) Would this remedy give rise to distortions or have any other unintended consequences?

(h) Whether this remedy is best made by the CC through an enforcement order or whether the CC should make recommendations to another party to implement the remedy, and if so who that party should be.

(i) Whether this remedy is likely to be more effective in combination with other remedies than alone and, if so, what particular combinations of remedy options would be likely to be effective in addressing the AEC we have provisionally found.

With regards to compulsory audits concerning the quality of repairs, in principle we are in agreement with this however in practise to implement this fully and effectively it may lead to a significant undertaking for a business.

Issues for comment 2C

The CC invites views on this possible remedy which we are not minded to consider further and on any other possible remedies that we have not included in this Notice which interested parties consider may be effective in addressing the AEC we have provisionally found under ToH 2. Where parties are of the view that this remedy could be effective, they are asked to submit evidence to support their views.

Theory of Harm 4

Views are invited as to:

(a) whether the possible remedies under ToH 4 are likely to be more effective in combination with other remedies than alone and, if so, what particular combinations of remedy options would be likely to be effective in addressing the AEC we have provisionally found; and

We think additional information on PC sites on add-on prices and features will have some beneficial effects through a reduction in information asymmetry. We do not see a requirement for other remedies for this benefit to be realised. We believe any remedy should be proportional to the size of the problem. Average new business car insurance premiums are circa £500 and the price charged to an individual motorist varies very substantially between insurer. Average add-ons revenues per new business sale are between £20 and £25 and the variation in pricing is less marked in percentage and absolute terms than the variation in car insurance pricing.

(b) whether the possible remedies under ToH 4 are best made by the CC through an enforcement order or whether the CC should make recommendations to another party to implement the remedies, and if so who that party should be.

We have no opinion on the relative merits of an enforcement order by the CC or implementation via other parties

Issues for comment 4A

***(a)* Should PCWs be required to enable consumers to compare the policies offered by different insurers including all add-ons on their websites or are they sufficiently incentivized to do so without such a requirement?**

As an insurer, we see some upside in requiring PC sites to give the customer the option of seeing information on add-ons costs along with the key product features and not a huge downside. `We would see a downside to forcing the PC site user to enter their add-on selections prior to a price listing. This would lengthen the quote process and increase quote drop-off and failure to complete.

***(b)* Should the remedy be extended to brokers?**

Any obligation on PC sites to show price and feature data should extend to brokers and direct insurers so consumers can compare options presented on OPC sites with options from other sources on a like for like basis

***(c)* Should the remedy apply to all add-ons?**

Yes

***(d)* How long would it take for insurers to prepare the pricing information to pass to PCWs and for PCWs to alter the design of their websites to accommodate this change?**

This will vary by PC site and insurer however it will involve an extra piece of work to pass through add on prices as these can vary by the individual details. A transition period should be allowed.

***(e)* How much would it cost to make these changes?**

Our estimate for our own costs and insurer will be in the order of £200k of IT cost to build (implying circa £10m across the market) and £50-100k a year to maintain (£2.5m to £5m across the industry). The PC sites would have extra costs as well.

***(f)* What circumvention risks would this remedy pose and how could these be mitigated?**

Not aware of obvious major risks

***(g)* Would this remedy give rise to distortions or have any other unintended consequences?**

It would make the fixed costs of servicing a PC site somewhat higher creating a slightly higher barrier to entry for small PC sites.

Issues for comment 4B

(a) Is it necessary for consumers to be given the NCB scales both when choosing whether to take out NCB protection and when receiving their policy quotation?

No – we understand why it may be desirable for customers to understand the future impact of deciding whether or not to protect their NCB, but we feel that attempting to achieve this by displaying NCB Scales at point of quotation is problematic. For example:

i) Historically rate structures were a lot simpler using fewer variables and less correlation variables. That made it practical to display an ncb scale which was relatively easily understood and meaningful. However, rate structures have become a lot more complicated, meaning that NCB rates can't be presented in a simple table with one level of discount associated with each level of NCB. For example, the level of NCB discount can vary according to a number of other rating factors such as age, vehicle type, voluntary XS etc ("correlated variables"). In order to accurately display the NCB Scales, insurers would need to provide the level of NCB discount for all combinations of NCB crossed with all levels of all correlated variables, which would result in several thousand combinations, making such a scale impractical to present to customers at point of quotation.
ii) if a customer is presented with an NCB rating scale at the point in time when they decide whether to take out NCB Protection, this NCB rating scale may well have changed by the time the customers renewal price is calculated (because rates are changed on a regular basis, or because other customer risk details may have changed in the mean time). This creates a problem where the NCB rating scale presented to the customer at point of purchase is no longer relevant at the point in time when the renewal price is calculated.

(b) What wording could best be used to help consumers that NCB protection does not prevent premiums rising following an accident?

NCB protection only protects the level of NCB associated with your policy; it does not prevent your premium from increasing at your next renewal.

(c) Are there any obstacles to effective implementation of this remedy?

Yes – see two points covered in a)

(d) How long would it take for insurers to prepare the NCB scales?

A period of several weeks or months (due to complexity explained in a) i). Also, each time a rate change is implemented to any other rating variable that impacts the NCB discount rate, then the NCB Scales displayed would need to be refreshed, adding material maintenance time to this task

(e) What circumvention risks would this remedy pose and how could these be mitigated?

We are not aware of any circumvention risk

(f) Would this remedy give rise to distortions or have any other unintended consequences?

as per a) ii) Increase in complaints from customers who are told a specific NCB Scale at point of sale that is no longer valid at point of renewal.

Companies who intentionally do not target low-NCB customers would potentially produce NCB Scales displaying large NCB discounts, that could be interpreted by customers as suggesting that there is a lot of value in protecting NCB. This interpretation is likely to be wrong if the customer does not stay with the same insurer (because other companies will have a smaller difference between low-NCB and high-NCB and therefore less value achieved in having protected NCB)

Issues for comment 4C

(a) What are the key aspects of each add-on product that need to be explained in such descriptions and how should the quality of these descriptions best be established?

For each add on product which is sold the 'salient' product information (i.e. key characteristics) needs to be established.

As a general comment the key characteristics of a product are the significant features, benefits and limitations which the customer needs to be aware of in order to make an informed purchase decision.

The quality of these descriptions can best be established by understanding the product and the needs of customers in relation to the product. This can be done be monitoring MI on claims repudiations, complaints and customer feedback. Competitor research and analysis can also help in establishing quality descriptions.

(b)How should these descriptions be provided to consumers—for example, in the insurance policy documentation, on insurers' websites or on PCWs?

It is essential that the key characteristics for an add-on product need to be delivered to a customer at the point of sale. As explained above this is a fundamental part of the customer understanding the product they are purchasing. If a customer is purchasing a product via a call centre the key characteristics are established in all sale scripts to be delivered by the sales agents. If a customer is purchasing a product online then the key characteristics need to be in a prominent position during the online sales journey to ensure that they are brought to the attention of the customer. Further descriptions are given on an insurers website, the policy documentation goes further however and will give the full T&Cs, the policy summary lends itself to brief descriptions. The full policy documentation should be available for the customer to review prior to purchase if they wish to.

(c) How would this remedy best be monitored—both for initial approval of descriptions and ongoing approval?

All online descriptions can be accessed by any regulatory body for monitoring.

Issues for comment 5A

(a) How would this remedy be best specified? Would the prohibition be best described in relation to all MFN clauses except those in relation to insurers' own websites?

This sounds sensible.

Historically we've only had one contract that contained a cross-PCW MFN clause (TescoCompare). This was removed earlier this year. We do have commitments in a number of our key PCW partner contracts (notably with the larger partners) that require us not to offer a cheaper price direct than we do through them. We have kept these in previously as the reason behind this is largely to protect the integrity of the service the PCWs are offering the customer.

In terms of specifying this remedy, potentially the absence of the cross-PCW MFN clause from a contract is sufficient. Alternatively, a standardised clause could be adding to specify that this does not apply, but we would have thought the former should be sufficient.

(b) Could this remedy take effect immediately (or within a short period to remove the clauses) or would an adjustment period be required?

As per the above, we no longer have any cross-PCW MFN clauses within our contracts so for us there wouldn't be a transition period.

(c) **What circumvention risks would this remedy pose and how could these be mitigated?**

Given we haven't had these clauses in our contracts historically, we are not aware of anything we have come across in respect of the above. Some PCWs do run checks to compare prices from a particular insurer across multiple PCWs, but where they have identified differences in our pricing approach we have gone back to them to explain the key value-based drivers relating to this.

(d) **In addition to threatening to delist an insurer, what other actions could a PCW take that might have the same effect as a 'wide' MFN? How could the risk of a PCW taking these actions be effectively mitigated?**

Potentially the PCWs may seek to exert power by proposing unreasonably high CPA increases, particularly if they are uncomfortable with the rates they are receiving from an insurance partner relative to what that insurance partner may be offering across other PCWs. The standard negotiation process should help to mitigate this issue.

(e) **Would this remedy give rise to distortions or have any other unintended consequences?**

Potentially this could mean some insurers and PCWs start to establish closer relationships/do deals amongst themselves that could result in the best insurer deals being limited to certain sites. In theory though this wouldn't be limited to one particular PCW and would possibly encourage more shopping around amongst customers to get the best deal.

From a customer perspective, there may potentially be an education piece to do i.e. will customers understand if they enter exactly the same details across multiple sites why their prices could differ. However, if they understand that by shopping around the PCWs they may be able to find alternative/better deals, they should view this as a positive thing.

Issues for comment 5B

The CC invites views on the possible remedy in paragraph 102 which we are not minded to consider further and on any other possible remedies that we have not included in this Notice which interested parties consider may be effective in addressing the AEC we have provisionally found under ToH 5. Where parties are of the view that these remedies could be effective, they are asked to submit evidence to support their views.

N/A

Issues for comment 6

Views are invited on the nature, scale and likelihood of any relevant customer benefits within the meaning of the Act and on the impact of any possible remedies on any such benefits.

N/A