

PRIVATE MOTOR INSURANCE MARKET INVESTIGATION

Audatex (UK) Limited

Response to CC Notice of Possible Remedies under Rule 11 of the CC Rules of Procedure

Please find below Audatex's response to the CC's notice of 17 December 2013¹.

Remedy 1D: Measures to control non-fault repair costs

The aim of this remedy would be to prevent subrogated claims for repair costs being marked up. This remedy would also aim to reduce the frictional costs associated with repair claims as lower claims should result in fewer disputed claims. We have considered two possible ways in which these aims could be achieved through an enforcement order:

Remedy 1D(a)

Non-fault insurers would be required to pass on to at-fault insurers the wholesale price they pay to repairers, plus an allowance for an administration charge.

However, there is a concern that this remedy might encourage inflated bills from repairers to insurers in exchange for referral fees. This remedy might therefore also need to be considered in conjunction with a remedy to prohibit referral fees (see Remedy 1G).

Remedy 1D(b)

The repair costs recoverable through subrogated claims would be limited to standardized costs. If the actual repair cost were higher than the standardized cost, then the non-fault insurer would not be able to recover that cost and would incur the costs. Conversely, if the actual repair cost were lower than the standardized cost, the benefit could be retained by the non-fault insurer. It is not proposed that the standardized costs would be used for any purpose other than in relation to subrogated claims.

The standardized costs could be developed with the help of cost estimation systems (eg Audatex or Glassmatix) used by repairers. Cost estimation systems use data from manufacturers' manuals and Thatcham repair standards to determine the parts required, the paint quantity and the labour time for different jobs. The cost estimation systems allow non-OEM parts to be specified instead of OEM parts. The systems use this information together with parts and paint prices and labour rates to calculate the estimated cost of a repair. The systems would therefore provide a number of aspects that would feed into the price control.

In order to develop standardized costs to provide a form of price control, it would be necessary to set standard discounts to the list price for parts and the paint index and to specify labour rates (with regional variation and provision for different types of labour). It would also be necessary to set out the circumstances in which non-OEM parts could be used.

¹ Audatex's response relates to Remedy 1(D) only.

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?

Audatex considers that it would be well positioned to provide a platform that would give full transparency to the process and therefore enable the effective implementation of this remedy:

- Our solutions have been adopted by 100+ Insurer and CMC companies to manage repair costs, with the vast majority also using our B2B XML based interfaces to provide integration with their back office and claims systems.
- Our repair cost estimation system is used by 2000 repairers, with ~ 400 repairers providing 80% of the insurance claims volume.

Audatex has recently invested in developing a web based B2B platform to facilitate the process of handling subrogated claims. This subrogation platform is in effect an extension of the existing repair estimate authorisation process, where the repair costs within the subrogated claim are based upon the same Audatex repair data used to generate the original estimate for the repair work. The solution enables the non-fault insurer to prepare and submit a claim for subrogated costs, and the defendant insurer to review and validate those costs. Both the non-fault insurer and at-fault insurer are able to define business rules at their end to semi-automate or fully automate the process if required.

This approach promotes an electronic relationship between insurers, provides a transparent and auditable process, efficiencies to reduce frictional costs, and the benefits of a more automated process which, with the necessary controls to support the individual rules and procedures of individual insurers, should lead to fewer disputed claims. The solution has the capability to automatically accept subrogated claims where they meet the defendant insurer's rules, providing further efficiencies and reducing frictional costs. Recognizing that the process is auditable, we believe the industry should be aiming for a rules based subrogation process that will automatically accept 80% of subrogated claims.

This platform could be enhanced to support either passing on wholesale costs (remedy 1D(a)), or standardized costs (remedy 1D(b)), or indeed both business models if required depending on the relationship(s) between the respective insurers.

In addition, having established a communications platform between interested parties, this opens up possibilities to support Remedy 1B in notifying the at-fault insurer from the non-fault insurer's first notice of loss, and generally in exchanging other relevant and supporting information.

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

Increasing transparency, from the original estimate through to subrogation, will reduce the likelihood of distortions or unintended consequences. In the event they do arise, they would be visible, can be measured and audited, and therefore can be managed.

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?**

It is difficult to see how repairers can be prevented from inflating wholesale prices. However, Audatex provides tools and solutions for an insurer to review and audit the submitted estimate prior to authorization, and in turn within the subrogation solution, so the at-fault insurer is able to validate and challenge the subrogated repair costs submitted by the non-fault insurer against pre-defined business rules and criteria.

As well as providing operational tools to manage individual claims at each stage, Audatex provides management information ("MI") to both repairer and insurer customers to manage performance in their respective businesses. Audatex also provides aggregated industry MI (e.g. composite reporting) to the market, and MI to ABP who use this data for inclusion in their annual UK Body Repair Industry Yearbook, looking at various KPIs, measures, and trends from 2003 onwards. This same or similar information could be provided to insurers, on an individualised basis, for any independent audit purposes, to review their moving averages and highlight any potential adverse trends. Extra sophistication could be added to normalize the costs, for instance to address parts inflation.

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

As described immediately above in c), with decision support driven by a set of rules based criteria, the outcome should be the same whether a repairer is vertically integrated or not.

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?**

The Audatex vehicle database covers 97% of the UK vehicle car parc with vehicle manufacturers' published data, and our estimation system processes 2 million estimates annually covering all manner of vehicles and repairs.

Given the underlying data for repair operations, parts and paint is based upon vehicle manufacturers' data, one might argue, even before the key input variables (labour rate, parts and paint discounts) are applied to produce the repair costs, there is already a degree of standardization inherent in the underlying data. Clearly, no two accidents are identical, but the premise of an estimating system is that given two vehicles of the same age and specification with very similar damage will produce similar costs given the same key input variables.

In the case of subrogating individual claims, it's recognized that each insurer may have a differing mix of vehicles insured on their books, adopt alternative strategies to differentiate and manage their business channels/affinity schemes depending on vehicle manufacturer, repair location, prestige vs. non prestige, OE vs. non OE, repair vs. replace strategies, etc.

Audatex would be in a position to determine standardized rates for the key input variables of labour rate, parts discount and paint discount or if required produce a standardized overall average repair cost.

(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?

The Audatex repair cost estimation system is already widely used as the basis for cost control, using vehicle manufacturer methods and standards for repairing vehicles. With the ongoing advancements in vehicle technology, introduction of new materials, hybrid technology, etc., having an estimating platform that is continually kept up to date with manufacturers' own data and the latest developments provides assurance that the underlying base calculation will be 'kept real', and that the full cost is established so that the most cost effective repair / total loss decision can be made.

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

Audatex would be prepared to develop and implement a subrogation solution with no upfront costs to the insurers. Our commercial model is based on return on investment over a longer period, and is always intrinsically linked to a value proposition, i.e. based upon the value add to the customer.

(h) How would monitoring of this remedy work?

If the business rules and underlying mechanism to produce the "standardized" costs are agreed, maintained and updated with openness and transparency then the remedy should be self-monitoring.

Business Intelligence and Management Information tools could be made available to in effect produce a 'before and after' analysis if required.

There would however, need to be a review and refresh of the standardized costs if/when any key underlying costs change, e.g. annual paint price increases, and or vehicle technology and repair methods.

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

An independent FCA type body, set up specifically for the purpose but not one that is linked to Insurer/Repairer/CMC specific interests.

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

There should be an objective that in the eyes of the repairer there should be no discrimination between 1st & 3rd party repairs. Both the contracting insurer and repairer need to be accountable for this. The quality of repair audits could feed into this.

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