

Private motor insurance market investigation: final report, September 2014

**Alasdair Smith
Inquiry chair**

PMI report: Summary

- Ban on some price parity agreements between price comparison websites and insurance providers
- Require better consumer information on no-claims bonus protection; and recommendation to FCA for other add-ons
- No remedy/recommendation on repair costs
- No remedy, but strong observations, on replacement vehicle costs
- No adverse finding on repair quality, but observations on potential improvement in practice

PCW MFNs

- Narrow MFN – PCW stops insurance provider from making better offer on its own website
- Wide MFN – PCW stops insurance provider from making better offer on another PCW
- PCWs encourage competition among insurers and narrow MFNs may be necessary to discourage free-riding
- Wide MFNs prevent competition among PCWs and will be banned

NCB protection

- Nature of product poorly understood – protects years but not premium or actual discount
- Price unclear – buying NCB protection may change basic premium
- Requirement 1a: inform consumers about how no-claims years affect discount
- Requirement 1b: inform consumers of effect of claims on discount with and without protection
- Requirement 2: inform consumers about premium costs with and without NCB protection

Other add-ons

- Recommendations to FCA on
 - Better information on add-on products
 - Better price comparisons for insurance *packages*

The 'separation' issue

- Some (25%?) NF claims 'captured' by AF insurer (or AF and NF insurer the same)
- But most (75%?) NF claims managed by NF insurer, CMC or other
- The AF insurer pays the bill, so in most cases the manager of the claim has an interest in making profit from claim

Separation and repair costs

- Variety of ways in which repair cost claim managed by NF insurer or CMC can pass ‘inflated’ bill to AF insurer
- Recent (2013) judgement in *Coles v Hetherton* has endorsed the legal position that ‘reasonable’ repair cost claims can be higher than actual repair costs
- But evidence is that cost to consumers at present is small
- Detriment under £30m per year, largely from credit repair
- No recommended action, but CMA will keep position under review

Separation and replacement vehicles

- Typical NF claim – £1100 for credit hire
- Typical captured claim – £545 for direct hire
- Typical referral fee on NF claim – £328
- Allowing for differences between NF and captured claims:
 - Cost of separation (duplication, friction, litigation) – £227 per claim
 - Cost in aggregate – £84m per year (or more)
 - Cost per policy – £3 per year (or more)

Replacement cars – remedies considered

- First party insurance – a fundamental change to legal rights, difficult to justify given scale of problem
- Require provision of replacement cars within standard insurance provision – reduced cost, but some danger to standard of provision
- Price control – would require legal change to make it secure, and effects very uncertain; tight price control endangers claimants' rights, loose price control has little effect on problem

Replacement cars – observations on insurers

- Insurers could change their standard policies to include replacement car provision for NF drivers
- Insurers could make more of bilateral agreements with credit hire companies and with other insurers

Replacement cars – observations on legal system

- Credit hire claims are set by courts by asking what it would have cost the claimant to hire a car themselves
- Additional costs allowed for ‘impecunious’ claimants who couldn’t have afforded to hire a car themselves
- These hypothetical questions are artificial, because almost no claimants hire in the retail market
- Payment is not made to claimant but to credit hire company
- Large referral fees show claims are set too high

Repair quality

- Our survey of NF claimants showed no great concerns about repair quality
- Inspection of several hundred repairs showed
 - Many had already been returned for rectification
 - Many others not restored to pre-accident condition
- Inspection evidence not robust enough to justify finding a problem
- But doubts about PAS 125 – too concerned with process rather than quality of work?
- Insurers leave too much quality control to consumers

Questions?