

**CMA MARKET INVESTIGATION
INTO PRIVATE MOTOR INSURANCE**

AXA UK PLC

RESPONSE TO FORMAL CONSULTATION ON DRAFT ORDER

6 February 2015

1. Introduction

- 1.1. The CMA has invited submissions on its Draft Order dated 7 January 2015 '**Draft Order**'. However, AXA notes that the Draft Order is not materially different to the Draft Order that AXA commented on as part of its response to the CMA's Informal Consultation in December 2014. Accordingly, AXA wishes to reiterate the concerns raised in its submissions to the CMA dated 10 December 2014 and 29 December 2014 ("**Informal Submissions**"), which are attached at the Appendix to this response for ease of reference.
- 1.2. AXA is not only disappointed that the CMA has not taken on board AXA's key recommendations on the Draft Order, AXA has serious concerns about the manner in which the CMA has conducted this part of its enquiry. Thus far, AXA believes that the CMA has failed to take into account relevant considerations when developing effective remedies to address the harms identified in its Final Report.
- 1.3. Putting aside these procedural issues, AXA's more pressing concern is to address the practical implications of adopting the Draft Order in its current form. As drafted, the Draft Order will be ineffective and will not benefit the industry or consumers.
- 1.4. In this regard, and in addition to those points raised in its previous responses, AXA wishes to draw the CMA's attention to AXA's immediate concerns.

2. Timing for implementation of remedies

- 2.1. AXA remains very concerned about the highly ambitious timescales for the implementation of the Draft Order, in particular in relation to the requirement to provide additional information about NCB Protection.
- 2.2. The current implementation date of 1 September 2015 will simply not allow insurers and brokers sufficient time to make the required changes. AXA refers to the ABI's submission on the Draft Order dated 6 February 2015 which details the various processes that must be carried out by both insurers and brokers before implementation can occur. AXA agrees with the ABI's description, and provides further detail on the processes that will be required to facilitate implementation for AXA's indirect business (AXA Personal Lines Intermediary) and AXA's direct business (AXA Direct and Partnership):

2.2.1. **AXA Personal Lines Intermediary.** As the CMA is aware from its meeting with the ABI and BIBA on 21 January 2015 ("**CMA meeting**"), the software houses agree with the insurers' concerns that the current implementation deadline of 1 September 2015 is insufficient, indicating that an implementation period of up to 16 months will be required. To add to the information provided in the ABI's submission, AXA understands that the following will need to occur before the Order can be implemented:

- Software houses will need to amend the customer interface to accept a separate premium for NCD Protection, which will require the NCD Protection question to be moved to the end of the quote journey so the non-PCD Protection price can be calculated (so, in effect, the NCD Protection is treated like a separate add-on);
- Quotation notes for the NCD stepback table and an NCD discount table will need to be populated;
- New business and quotation documents, as well as renewal documents, will need to be amended to include a separate "one-pager" which will contain some hard-coded paragraphs and stepback and NCD discount tables (for new business), and some hard-coded paragraphs and NCD discount tables as well as a dynamic stepback table which changes based on the number of claims a customer has had in the last three years (for renewals);
- Carry out testing to ensure the above has been implemented accurately; and
- Migrate to a live system.

Currently, AXA only operates two scheme rules for intermediate policies (AXA Car and AXA Car Plus) which include all the different rules relating to the level of NCB and the NCB discount. These rules are then fed into the software houses. However, AXA expects that as a consequence of the remedy, brokers are likely to be inclined to establish common step back rules (and perhaps even common NCB discounts) to apply across their entire panel of insurers. If brokers move to a common set of rules, this could result in AXA having to set up a large number of separate schemes across the brokers that AXA writes business through. For each new scheme, AXA would have to go through the process detailed above.

Of course, these requirements relate only to AXA, and so the amount of work for AXA, which is already significant, will need to be repeated numerous times to account for the large number of insurers that each of the software houses works with.

2.2.2. **AXA Direct and Partnerships.** While the implementation requirements for AXA's direct business will be less onerous than for its indirect business, it will still be very challenging to implement the changes within a 6 month timeframe, taking into account the time it will take AXA to do the following:

- Design and implement the digital experience (and the hierarchy of information within it) where the disclosures and information need to be presented in AXA's (i) online quotation/new business journey, and (ii) online servicing and renewals journey (as it is possible to upgrade or purchase NCD Protection at any point of the policy life cycle);
- Design and implement the digital experience for each distribution channel, e.g. desktop, tablets and mobile devices;
- Documentation re-specification and layout to include the additional disclosures and information; and
- Design and rolling out of back office process and scripts for sales and service staff, as well as training of staff and amendments to quality assurance checks.

- 2.3. Taking into account the above processes, which software houses will need to undertake in relation to numerous insurers, the CMA cannot reasonably expect implementation by 1 September 2015. To reiterate the comments of the ABI and BIBA at the CMA meeting, it is preferable to have an Order with which it and the industry can reasonably comply. AXA also agrees that it is not practical for parties to commence implementation of changes until there is clarity on the requirements of the Order. Accordingly, AXA agrees with the views of the software houses and urges the CMA not to require implementation any earlier than 16 months from the date of the Order (i.e. no earlier than 1 July 2016).
- 2.4. Although, in theory, insurers could implement the disclosure requirements in the Order in a shorter timeframe than brokers, it is important that the CMA does not set separate implementation deadlines for insurers on the one hand and brokers on the other. Not only would this create an additional layer of complexity for the implementation of the Order for AXA and other insurers which offer policies via direct and indirect channels, AXA is concerned that this would create an uneven playing field. This is because a large share of the market for new business for both brokers and direct insurers originates from price comparison websites, meaning that in practice the distinction between direct and indirect channels is less apparent as these two channels have converged. Furthermore, AXA is concerned that different implementation deadlines will result in different information being provided to policyholders for a period of time, depending on whether the policy was sold by a broker or insurer. This would undoubtedly lead to increased customer confusion, which is the antithesis of what the CMA's remedies are intended to achieve. Different implementation deadlines are therefore not in the interest of consumers.
- 2.5. If the CMA does not increase the timescale, it is likely that insurers and brokers will not be able to comply with the Order. Accordingly, insurers and brokers would likely have to stop offering NCD protection products, which obviously goes beyond the object of the remedy and represents an unintended and adverse consequence to the detriment of consumers.

- 2.6. Additionally, within the Draft Order at Schedule 2, Section 4 effectively gives insurers just one month to calculate and publish the previous year's average NCD. This timeframe is not sufficient to allow for calculations for AXA's intermediated business and to permit the publishing of the data. To provide the CMA with an indication of what is involved in calculating the average NCD, the following process will need to occur:
- 2.6.1. AXA will calculate the average NCD for the year and provide this to AXA's broker partners or software house;
 - 2.6.2. The broker or software house will receive all NCD scales from all insurers or brokers and will implement them on their sales platforms and documentations. For AXA alone, this will involve amendments to its two schemes (but as explained above, this may increase if brokers decide to set common rules for their panels); and
 - 2.6.3. The brokers and software houses will then require a period of time for testing to make sure that the changes have been correctly implemented.
- 2.7. AXA is unable to advise precisely the CMA on the appropriate timescales for this process to occur but expects that a minimum of three months will be required to ensure data is processed accurately. However, AXA recommends that the CMA liaises with BIBA and the software houses on what would be a more realistic timeframe.

3. FCA Requirements

- 3.1. As AXA has previously outlined to the CMA in the attached Appendix, AXA maintains that it (and most likely other insurers and brokers) will be unable to comply with the Draft Order without risk of being in breach of ICOBS. Although the data disclosed to the CMA within our response of 29 December 2014 was in relation to AXA's direct business, AXA expects it would find itself in a similar position in respect of AXA's intermediated business. It is in part for this reason that AXA's strong preference would be for the FCA to take the lead from the outset in developing and monitoring disclosure requirements in relation to NCB Protection.

4. Disclosures

- 4.1. AXA has identified that the following amendments to the Draft Order will be required:
- 4.1.1. Within Schedule 1b, paragraph 1(a) to the Draft Order, the text refer to the NCB Protection Statement being '*...on the insurer's website*'. In the cases where insurers are not the distributor or provider of the product, (where the policies are written through intermediaries) the information will not be on the insurer's website. AXA believes that this should instead be '*...on the provider's website*'.
 - 4.1.2. Additionally Schedule 2, paragraph 1(a) to the Draft Order, the wording states '*You have a current NCB of...*'. AXA is concerned that this could suggest the insurer is accepting the declared NCB, which would not be accurate until the

claim is validated. Instead AXA would suggest that the wording be amended to state '*You have declared a current NCB of...*'.

- 4.2. Finally, AXA notes that if different brokers adopt different approaches to disclosure of the Average NCB Discount in accordance with paragraph 4 of Schedule 2, AXA is concerned this will result in an uneven playing field and could lead to greater customer confusion. This is because it may not be clear whether the customer was seeing NCD data which was specific to that particular broker brand, or whether it relates to another larger selection of policies. Furthermore, it is not clear, where each broker uses its own brand, whether AXA will have to complete compliance reports for each of these brands (in which case AXA estimates that it would have to prepare approximately 300 reports).

APPENDIX

**AXA'S INFORMAL SUBMISSION TO THE CMA DATED 10 DECEMBER 2014 AND 29
DECEMBER 2014**

**CMA MARKET INVESTIGATION
INTO PRIVATE MOTOR INSURANCE**

AXA UK PLC

RESPONSE TO CONSULTATION ON DRAFT ORDER

10 December 2014

1. Introduction

- 1.1. This is AXA's submission on the CMA's Private Motor Insurance Draft Order dated 26 November 2014 (the "**Draft Order**"). AXA has opted to concentrate its response on the proposals in Article 3 of the Draft Order, which pertain to the obligation to provide information about no claims bonus discount ("**NCB Discount**") and no claims bonus protection ("**NCB Protection**"), and the corresponding schedules.
- 1.2. AXA reiterates the concern raised in its Submission on Provisional Decision on Remedies dated 4 July 2014 ("**Remedies Submission**") that the prescribed additional disclosures, particularly as currently proposed, are unworkable, disproportionate and will provide no additional benefits to customers. In fact, AXA is concerned that the requirement to publish an NCB scale could ultimately be misleading to some customers.
- 1.3. AXA is also concerned that the proposals do not align with FCA requirements and therefore could result in AXA falling foul of existing regulatory requirements in order to comply with the order. Accordingly, AXA cannot support the implementation of the Draft Order as currently drafted. AXA welcomes a meeting with the CMA to discuss its concerns in more detail if this would be of assistance.
- 1.4. AXA believes it would be sensible for this issue be referred to the FCA, but in the absence of this occurring, AXA would expect at the very least for the FCA to be consulted to ensure that market participants are not forced to breach one requirement in order to comply with another.
- 1.5. AXA notes that even if it were required to implement the Draft Order as drafted, it would not be able to do so by 1 September 2015. AXA requires a minimum 18 month implementation period to implement remedies of this nature. Additionally, there are some areas within the Draft Order which require clarification or further explanation.

2. Effectiveness of Draft Order in relation to NCB Protection

- 2.1. AXA is fully supportive of providing customers with sufficient information to ensure they are well-informed. However, AXA is very concerned that the content of the Draft Order will neither provide the customer with a clear explanation of how NCB Protection works, nor lead to an improved understanding of NCB Discount or NCB Protection products.

- 2.2. As previously submitted in its Remedies Submission, AXA remains unconvinced that the additional disclosure proposed will be helpful to consumers. There is a risk that making generalisations about NCB scales and how a policyholder's premium may increase following an accident will leave the consumer less informed and more confused, particularly as different insurers have different approaches to calculating NCBs.
- 2.3. AXA believes that the current proposal risks creating a misalignment between the consumer's understanding of the product and how the product actually works. This is possible if customers are led to believe that the only factor in determining the level of discount is the number of claim-free years. As the CMA is aware, this is not the only factor that is taken into account. As previously advised to the CMA, the level of NCB Discount is calculated for an individual and takes into account a vast range of factors.
- 2.4. It is therefore AXA's view that it is very unlikely that the majority of consumers will, in practice, obtain the Average NCB Discount. At present, the Draft Order does not stipulate any wording that should be adopted by insurers to explain to customers that the Average NCB Discount may not be representative of the discount the individual customer receives. Accordingly, AXA is concerned that a requirement to provide the NCB scales is over simplistic, promotes a misalignment of consumers' views of the product and the product itself and therefore has the potential to be misleading.
- 2.5. To support this preliminary view, AXA is currently carrying out some data analysis to determine whether the NCB discount range from customers will be diverse, and therefore whether to present an average would be misleading on the basis that not many customers would achieve the average discount. To provide such misleading information would be in breach of ICOBS and the CMA cannot reasonably impose a requirement that breaches other regulatory rules and ultimately misleads the customer. While AXA has been unable to complete the analysis within the timeframe for responding to the Draft Order but once completed, AXA intends to share this data with the CMA (as well as the FCA).
- 2.6. The CMA should also be aware that AXA, like other insurers, may have cause to change their rating model from time to time to reflect risk factors as well as new legal requirements, such as the European Court of Justice's *Test-Achats* decision which ruled the discrimination based on gender when setting premiums contravenes EU law. Therefore, when AXA changes its rating model, it will be aware that the NCB scales that are disclosed to its customers might become very inaccurate as to the level of discount that will be given in any certain circumstance. This means that every time AXA makes material changes to its base rate, AXA will need to seek derogation from the CMA, otherwise it will breach the order and be forced to breach ICOBS. It is very concerning to AXA that the CMA is contemplating imposing a remedy which appears to be at odds with the FCA's rules around protecting and not misleading consumers. AXA would welcome an opportunity to discuss its concerns with the CMA in person.
- 2.7. With this in mind, AXA strong preference is that this issue be referred to the FCA for consideration now (not in two years time) as the FCA is in a better position to understand these types of products, especially in light of the FCA's review of add-on products. At the very least, AXA would expect the CMA to consult with the FCA to ensure the remedies are workable, effective for consumers and proportionate.

- 2.8. If the Draft Order is implemented in its current format, AXA considers the cost of providing such information may lead to many insurers no longer providing NCB Discount or NCB Protection. AXA believes that there will be no customer benefit generated from the proposed additional disclosure; in fact, AXA maintains that increased transparency in the manner proposed will result in a detriment to customers. The significant costs of implementing the disclosure requirements therefore greatly outweigh any benefit, making this remedy disproportionate.

3. Implementation Date

- 3.1. Putting aside AXA's fundamental concerns about the effectiveness of the NCB Protection remedy, AXA would be unable to apply the order for the 1 September 2015 as anticipated in the Draft Order. This will give the industry only around six months from the date of the order to implement the requirements prescribed by the order. As suggested in its Remedies Submission, AXA expected that it would require a minimum of 12 months from the making of the enforcement order to enact the requirements of the order. Now that AXA has visibility over the specific requirements of the order and has had the opportunity to consider the changes required, AXA has assessed that it will require a minimum 18 month implementation period from the commencement of the enforcement order.
- 3.2. Not only will the Draft Order will require changes to AXA's standard wording for documents such as quotations, policy wording and sales scripts, AXA will need sufficient time to carry out change projects to ensure its IT systems are ready to allow AXA to comply with the requirements of the order. AXA is concerned that the CMA has underestimated the time required to test the system changes, in particular, those systems that will generate the 'Step-back Formula' and calculate the Average NCB Discount.
- 3.3. Based on AXA's recent experience implementing changes for the FCA disclosures, which involved more simplistic changes but still took 12 months to implement, eight months implementation period is insufficient. The FCA disclosures only required text changes, not new calculations and material changes to AXA's sales processes, which is what the Draft Order is proposing and is a much more complex exercise.
- 3.4. AXA will of course endeavour to implement the requirements as soon as practicable, but it will not be in a position to comply with the order unless a minimum 18 month implementation period is allowed for. AXA notes that other industry members have previously indicated that as little as six months from the commencement of the order may be sufficient, but AXA believes that these parties have severely underestimated the work involved. To push through changes in this short time period would compromise and distract from ordinary day to day operations and would risk implementation errors (for example, as a result of insufficient system tests). To ensure insurers are able to comply with the order and to avoid the risk that changes are made without adequate testing and proper care, AXA strongly encourages the CMA to consider extending the implementation period to a minimum of 18 months from the date of the order.
- 3.5. Finally, it is important that the implementation period starts to run from the date of the commencement order. While AXA can start making preliminary plans on how the implementation of the Draft Order may be rolled out, AXA is very cautious about committing significant resources and funding to an initiative the details of which are still to be determined, particularly as premature changes can result in significant additional costs. AXA therefore believes that it is not unreasonable that

requirements of the Draft Order be certain and finalised before parties are required to expend significant costs and take material steps to implement the changes.

4. Clarity of the Draft Order

4.1. AXA has several specific comments regarding the Draft Order:

- a. As drafted, the definition of "PMI provider" would exclude those brokers which offer a single product but that product is actually underwritten by a panel of insurers. While AXA can appreciate that it will be difficult for such brokers to implement the CMA's proposed requirements, it is not clear to AXA why such brokers are excluded from the Draft Order. AXA would be grateful for an explanation from the CMA on this point.
- b. AXA wishes to note that it does not have material concerns with the content or timings of the text set out in Schedule 1a, but does wish to reiterate that if materials are too exhaustive customers will be less inclined to read them.
- c. In Schedule 2, paragraph 1(a), it is not clear what calculation should be used to calculate the 'amount' that the NCB Protection will cost at the time of a written NCB Protection Offer.
- d. Where the NCB Protection Information, if provided after an oral NCB Protection Offer, has been accepted the Implied Price of NCB Protection must be referenced (this being the difference in price between PMI Product with, and without, NCB Protection). However, no such guidance is required to be given when it is a written NCB Protection Offer. AXA sees no justification for an inconsistent approach depending on whether the offer is made orally or in writing.
- e. Further, as has been previously explained to the CMA during the oral hearings, the consumer will pay a price for the NCB protection add-on, but then the premium may be adjusted up or down depending on how this affects the risk profile of the customer. It may be the case that, in some circumstances, the purchase of the NCB Protection would decrease the premium, even when taking into account the cost of the add-on itself. Therefore, the reference to 'would increase' or 'has increased' as set out in Schedule 2, paragraph 1 (a) may not be appropriate in all cases.
- f. It is not clear when the calculation set out in Schedule 2 paragraph 4 (b) would apply. The "PMI Product to which the NCB Protection Offer relates" would not have already been supplied as this paragraph is suggesting, as the NCB Protection Offer would relate to a new PMI Product. AXA requests that the CMA clarifies the intention of this paragraph, in particular, in what circumstances it expects this calculation to apply.

10 December 2014

CMA MARKET INVESTIGATION INTO PRIVATE MOTOR INSURANCE

AXA UK PLC

ADDITIONAL RESPONSE TO CONSULTATION ON DRAFT ORDER

1. Introduction

- 1.1. Further to AXA's response to Consultation on Draft Order dated 10 December 2014, AXA is now in a position to share the data AXA has collated in relation to no-claims-discounts ("NCD").
- 1.2. This data has confirmed AXA's preliminary view that the range of NCD per NCD year is very wide and to provide the average data as set out in the Draft Order would be misleading and in breach of ICOBS.

2. Calculation

- 2.1. This data was calculated by processing data from a batch of quotes that were issued on 22 September 2014 for 100,000 comprehensive motor insurance quotations for Swiftcover and AXA direct policies. These quotes were then processed for a second time with the NCD years' value being reduced to zero. This was compared to the original quotation to calculate the discount.
- 2.2. In producing the graph AXA has excluded approximately 2% of quotes which are the extreme outliers, in order to show a representative data range.
- 2.3. AXA would expect a similar range of results if this was applied to 12 months' worth of quotation data as set out in the Draft Order.
- 2.4. Although this data is as accurate as possible within the timeframes it was compiled, AXA would like to emphasise that in order to accumulate this data a number of changes were undertaken to complex algorithms. The data has not been subject to the normal testing requirements that AXA would need to undertake to share the data with customers.

3. Data Results

The graph at the Appendix 1 shows the results of this calculation.

Key to graph

1. The orange dot represents the average NCD percentage discount for the corresponding year.
2. The blackline within the grey box represents the median value.

3. The grey box represents the interquartile ranges showing the 25% of customers who are closest to the median but have a discount above the median value and 25% of customers closest to the median that have a discount less than the median value.
4. The vertical black lines represent the range for the other 48% of customers.

4. Observations from Data

AXA makes the following observations about this data.

4.1. The level of NCD that a customer can achieve per NCD year is diverse. Although it seems that the average discount for each NCD year is relatively close together, this is deceptive as the range of discounts for each NCD year is wide.

4.2. AXA is very concerned that customers could be very misled by the disclosure of the average NCD, and make a decision not to purchase NCD protection when it would be of value to them. An example of this, based on the data AXA has compiled could be as follows:

4.2.1. [Redacted]

4.2.2. [Redacted].

4.2.3. [Redacted].

4.2.4. It is worth noting that this example is for demonstrative purposes to show the wide range of the NCD when compared to the average discount. A single claim may not have the relevant characteristics to cause a customer to go from the top of a range to the bottom of another range.

4.3. As very few customers would receive the average NCD, AXA would not be able to disclose this data in the manner set out in the Draft Order, without being in breach of ICOBS. AXA would suspect that many other insurers and brokers will be in similar positions and will also not be able to publish such data. This will mean the effect of the CMA's remedy is minimal.

4.4. In order to not be misleading AXA would suggest that the discount ranges would need to be provided to customers. The table at Appendix 2 sets out the format which could be disclosed to customers to show the full range of potential discount.

4.5. Although the table at Appendix 2 would not be misleading and would be compatible with ICOBS, it would still not be helpful for the consumer to understand the value of the NCD product. This is because there is considerable overlap between the ranges, and the table would need to be accompanied by a number of warnings to ensure that the consumer understands this data. AXA is concerned that the more disclosures made during the sales process the less customers will read or understand.

4.6. It is worth noting that the NCD calculation is part of the overall calculation of the premium to represent the risk of each customer. For example, if the customer has 10

years NCD, but only 2 years claims free, it is likely that they will be at the bottom of the NCD range due to the risk profile that customer represent.

5. Conclusion

- 5.1. The data in Appendix 1 shows that consumers will not be given any greater transparency as to the value of the NCD protection product by AXA providing the NCD averages. The ranges are so diverse that the consumer would not be able to make an accurate choice when considering whether to buy NCB protection.
- 5.2. As indicated previously, AXA believes that this issue should be referred to the FCA for consideration now. The FCA is in a better position to understand these types of products and implement any industry-wide changes which may go beyond the draft Order to ensure that the product continues to benefit consumers.
- 5.3. AXA has a meeting with the Supervisory Team at the FCA on 15th January and it is AXA's intention to share the data with the FCA at this meeting.

Appendix 1

[REDACTED]

Appendix 2

[REDACTED]