

## Private motor insurance

A call for evidence on  
the private motor insurance market  
in Great Britain and Northern Ireland

September 2011

### Questions to insurers

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#### Introduction

On 8 September 2011 the Office of Fair Trading (OFT) issued a call for evidence on the UK private motor insurance market. Background information about this work and the OFT's powers is provided in Part 1 of this document (below) for information.

We are very interested in motor insurers' views and experiences of the motor insurance market. We have prepared a list of questions (see Parts 2 and 3 below) which we very much hope you will take the time to complete. The information that you provide will be of great assistance to us in understanding market practices in the UK.

Part 4 sets out how we may use information provided and how we deal with confidential information.

Please could you return your answers to us by **12 October 2011**. You can send your response by email to [motorinsurance@oft.gsi.gov.uk](mailto:motorinsurance@oft.gsi.gov.uk) or by post to:

Motor Insurance Call For Evidence  
Fourth Floor  
Office of Fair Trading  
Fleetbank House

2-6 Salisbury Square  
London EC4Y 8JX

If you choose to respond by post, please could you also include a CD-ROM (or similar) with any tables of data in a format compatible with Microsoft Word or Excel so that we can analyse the data provided.

If you wish to discuss how to answer the questions, require any clarification on them, or would like to discuss the call for evidence further please contact either Louise Bailey (020 7211 5819)/ [louise.bailey@oft.gsi.gov.uk](mailto:louise.bailey@oft.gsi.gov.uk)), Jon Riley, Team Leader of Motor Insurance Team (020 7211 8143) / [jon.riley@oft.gsi.gov.uk](mailto:jon.riley@oft.gsi.gov.uk)) or the Project Director, Claire Hart (020 7211 8782) / [claire.hart@oft.gsi.gov.uk](mailto:claire.hart@oft.gsi.gov.uk)).

## **Part 1: Background**

### **What is the purpose of this call for evidence?**

The OFT issued a call for evidence on the UK private motor insurance sector on 8 September 2011. UK comprehensive car insurance premiums are reported to have risen by 40 per cent in 2010-11 and the OFT is interested in gathering market participants' views on:

- whether the reported increase in motor insurance premiums is accurate
- the factors that are responsible for contributing to an increase in premiums, and
- whether there is work that the OFT or other parties could be doing to improve the way that the market is currently functioning.

We will also focus on why private motor insurance premiums are reportedly higher in Northern Ireland than they are in Britain.

### **What are the potential outcomes?**

If the call for evidence highlights any concerns, the OFT will work with the Government and the FSA to decide which organisation is best placed to address them.

Options open to the OFT could include launching a market study into specific aspects of the market, undertaking consumer or competition enforcement action, seeking voluntary action from the industry, or undertaking further work to consider referring the market to the Competition Commission for in-depth analysis.

### **What is the timetable for the study?**

The next steps for the study involve gathering market participants' views on the UK private motor insurance market and then considering the information provided.

We will publish our findings in December 2011.

## Part 2: Request for evidence

Please provide the following information by 12 October 2011.

### Section 1: Private motor insurance premiums in the UK

1. According to the AA's British Insurance Premium Index, annual comprehensive car insurance premiums quoted have risen by over 40 per cent in 2010-2011. Have the private motor insurance premiums that **you charge** increased in line with this estimate? Please provide evidence to support your answer.<sup>1</sup>
2. If the average private motor insurance premiums that you charge have risen, what are the key factors that have contributed to this increase? Please provide evidence to support your answer.<sup>2</sup>
3. Are there any factors, relating to risk, regulation or other issues, that are present in certain geographical areas of the UK but not in other parts of the UK that contribute to higher premiums in the private motor insurance market? If so, please highlight these and explain their impact, providing evidence to support your answer.<sup>3</sup>
4. Are there any factors that exist for particular types of consumers (such as younger drivers) that contribute to higher premiums overall? If so, please highlight these and explain their impact, providing evidence to support your answer.
5. Is there action that could be taken to address the factors that you have identified as contributing to higher car insurance premiums and/or to improve the way the market is currently functioning? Please identify what action is required and which organisation may be best placed to take this action.

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<sup>1</sup> We have requested further information that you may wish to use to support your answer at Annex 3.

<sup>2</sup> We have asked for further information at Annexe 3 about the costs you incur and revenue you generate from your motor insurance business that you may wish to refer to.

<sup>3</sup> Section 2 (below) deals specifically with motor insurance premiums in Northern Ireland

## Section 2: Private motor insurance premiums in Northern Ireland

6. Private motor insurance premiums are reported to be higher (sometimes significantly higher) in Northern Ireland than in other parts of the UK. Is this the case in your experience? Please provide evidence to support your answer.<sup>4</sup>
7. If premiums charged are higher in Northern Ireland than in other parts of the UK, what are the key factors that contribute to this difference? Please provide evidence to support your answer. You may wish to consider the following factors:
- Factors that influence the number of claims such as accident rates, road infrastructure, driver demographic factors, crime rates etc
  - Factors that influence the costs to insurers associated with claims such as increases in the number and value of personal injury claims, costs associated with the legal framework in Northern Ireland (such as access to courts, court costs, legal fees), the proportion of uninsured drivers in population, vehicle characteristics etc
  - The size of the market making it harder to achieve economies of scale
  - Access to the market/risk data necessary to operate efficiently
  - General business operating costs (rates, the labour market, etc)
  - Fraud
  - Any other relevant features
8. Are there particular aspects of providing private motor insurance in Northern Ireland that create greater barriers to entry and expansion or could lead to companies withdrawing from the market? You may wish to consider the following factors in your answer:
- Factors that influence the number of claims such as accident rates, road infrastructure, driver demographic factors, crime rates, etc
  - Factors that influence the costs to insurers associated with claims such as increases in the number and value of personal injury claims, costs associated with the legal framework in Northern Ireland (such as access to courts, court costs, legal fees), the proportion of uninsured drivers in population, vehicle characteristics, etc

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<sup>4</sup> If you currently provide or have previously provided motor insurance in Northern Ireland we have requested further information at Annex 3.

- The size of the market making it harder to achieve economies of scale
- Access to the market/risk data necessary to operate efficiently
- General business operating costs (rates, the labour market, etc)
- Fraud
- Any other relevant features

### **Section 3: Price comparison websites**

9. How have price comparison websites affected the private motor insurance market? Please provide evidence to support your answer. We are particularly interested in:
- The effect that price comparison websites have had on the level of private motor insurance premiums
  - The effect that price comparison websites have had on the extent of the cover afforded by private motor insurance policies
  - The effects that entry and exit of price comparison websites have had on the market
  - Whether there are any barriers to the entry and expansion of price comparison websites
  - The effect of price comparison websites on the likelihood that consumers will supply misleading information when requesting quotes
10. How do you decide which price comparison websites to quote on, if any? If there are price comparison sites that you do not quote on please explain your reasons.
11. Is there a level playing field between different private motor insurance companies that quote on price comparison websites? When answering this question please comment on the following:
- The impact of relationships between price comparison websites and particular insurance providers - please describe how these relationships originally developed and the advantages these relationships might confer upon the parties involved. (By such 'relationships' we mean anything that extends beyond arrangements reached with all the other insurance companies quoting on those websites, for example ownership or loan arrangements.)
  - Whether you have any such relationships with price comparison websites

- Whether any such relationships that you have with price comparison websites enable you to access data relating to other private motor insurance providers' historic or real-time quotes to customers. If so, please describe who the relationship is with, what data you obtain and how you use it
- Whether the way that price comparison websites charge insurance companies commission has any impact on competition between them? If so, please describe how

#### **Section 4: Credit hire**

12. How has the credit hire market developed over the past five years? Please describe what has driven these developments and the impact they have had on your business. You may wish to consider the following in your answer:
  - The cost of providing credit hire services to no-fault drivers
  - The demand for credit hire vehicles from no-fault drivers
  - The length of the average credit hire period
  - Rates charged for credit hire
  - The number, size and type of organisations providing credit hire services
13. What impact has the Association of British Insurers' (ABI) General Terms of Agreement (GTA) had on the credit hire market since its introduction in 1999? We are particularly interested in its impact on credit hire rates and the duration of credit hire agreements. Please provide evidence in support of your answer.
14. How do the replacement vehicle services provided to at-fault drivers differ from credit hire services provided to not-at-fault drivers, for example in terms of demand for the services, choice of service provider, the average hire rates, the length of average hire periods and who pays for the services?
15. Are you aware of any arrangements between participants in the credit hire sector (such as motor insurance providers, credit hire organisations, recovery firms, repairers, accident management companies, claims management companies) that may be increasing costs in this market or reducing competition? If so, please provide details of these arrangements and their impact on the market.

## **Section 5: Ancillary products and services**

16. How has the way that you provide ancillary services – services offered as optional extras alongside a standard private motor insurance policy, such as motor legal protection – developed over the past five years<sup>5</sup>? In answering the question please make reference to the following:
- a. The selection of ancillary services offered to customers
  - b. The price of these services
  - c. The way that these products are sold – for example, does the consumer choose to ‘opt in’ or ‘opt out’?
17. Consumers sometimes find it difficult to understand or assess the value of financial services products. Are there particular ancillary services that consumers might find it difficult to understand or assess the value of? What do you do to ensure consumers understand these types of products before they buy them?
18. Are consumers able to shop around for ancillary services, rather than always buying them from the provider of their standard motor insurance policy at the same time they buy standard cover, and if so how frequently do consumers shop around? For example, do you sell these products to consumers who have their standard motor insurance policy with another insurer and, if so, how frequently do you sell these products in this way?

## **Section 6: Policy renewal and switching**

19. We are interested in the way that the type of cover and the price offered for that cover might be tailored to particular types of consumer. Please explain whether you do the following, and if so, how and why:
- Charge different premiums to consumers with identical risk profiles depending on whether they are being offered a new policy as opposed to a renewal quote (for example, do you use propensity to renew algorithms or other business retention strategies)
  - Charge different premiums to a consumer with an identical risk profile depending on the way the product is sold - for example via a price comparison website, via a broker, or direct from a website

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<sup>5</sup> We have requested further information on the ancillary services that you sell at Annexe 3.

- Offer different levels of cover to a consumer depending on the way the product is sold - for example, does the level of cover of the policies that you sell alter depending on whether they are sold via a price comparison site or directly from your website?
20. Do the private motor insurance policies you sell renew by rolling-over at the end of 12 months? If yes, please provide the following details:
- What your customers need to do to opt out of rollover renewal
  - The information that you send to customers prior to the renewal date to inform them of a rollover renewal and how far in advance this information is sent to customers
  - The cost of any cancellation charges that apply on a 12 month insurance contract, when:
    - a. a policy which is renewed by rollover is cancelled within the 14 day cooling off period
    - b. a policy which is renewed by rollover is cancelled within 12 months of renewal
  - How cancellation charges relate to the administration or other costs that you incur when cancelling a policy

### **Section 7: Insurer approved repairers**

21. What are the benefits and disadvantages of operating an approved repairer scheme? In answering the question please tell us:
- Whether you operate such a panel, and if not what alternative scheme you use and the reasons for your decision
  - Any impact of using a panel on the price, speed and quality of repair
22. How do approved repairer schemes work? If you operate an approved repairer scheme, please explain how it functions, making reference to the following:
- The process followed to recruit repairers and the criteria for selecting repairers (for example, do you tender for these positions?)
  - Whether approved repairers have to re-apply for 'approved' status once they have become a member, and whether and how repairers can lose their 'approved' status
  - How you assign work to approved repairers

- Whether you pay approved repairers a fee, such as a retainer, or whether repairers pay you for membership of your approved panel, by, for example, giving you a percentage of earnings made through your referrals

23. If you operate an approved repairer scheme, how do you ensure approved repairers provide a good service? You may wish to refer to the following in your answer:

- Whether you perform regular inspections of panel members' work
- Whether you investigate complaints against panel members
- The consequences of poor service quality

### Part 3: Company data

Please provide the following information by 12 October 2011.

1. What is the total number of standard private motor insurance policies you have sold in the UK in each of the past five calendar years?
2. What was the average gross written premium level and the gross earned premium level charged by your company in the UK in each of the past five calendar years?  
Please provide an answer for each of the following:
  - The UK
  - Great Britain (ie excluding Northern Ireland)
  - Northern Ireland
3. Please provide your incurred **claims ratio** and your **expense ratio** for your UK private motor insurance business for each of the past 5 calendar years. Please provide an answer for each of the following:
  - The UK
  - Great Britain (ie excluding Northern Ireland)
  - Northern Ireland
4. Please describe how the costs that you have incurred due to UK motor insurance claims have changed over the past 5 calendar years (providing evidence to support your explanation). In your answer please provide details of trends in the following costs and where applicable trends in the number of instances of claims:
  - Claims payable – theft
  - Claims payable – motor vehicle repairs – accidental damage
  - Claims payable – credit car hire
  - Claims payable – other replacement vehicles
  - Claims payable – personal injury
  - Fees paid to lawyers
  - Referral fees paid (please describe for what service(s) referral fees were paid)
  - Advertising costs attributable to motor insurance
  - Any other significant relevant cost.

5. Please describe how the revenues you have generated from your UK private motor insurance business have changed over the past 5 calendar years (providing evidence to support your explanation). In your answer please provide data on the following revenue streams:
- Revenue from the sale of standard private motor insurance policies
  - Extra revenue from consumers paying the finance charges associated with opting to pay their premiums monthly
  - Revenue from ancillary services sold in addition to standard private motor insurance cover
  - Revenue from investments of private motor insurance premiums
  - Referral fees received relating to private motor insurance
  - Any other significant revenue streams associated with your private motor insurance business
6. Please provide the information set out in Tables 1 and 2 below on the ancillary services that you provide.

**Table 1**

	Do you provide this product?	What is the average price of this product?	Is this product a compulsory element of a standard policy or an optional extra?	Can consumers shop around for these products? <sup>6</sup>
Legal protection cover				
Breakdown cover				
Protected no claims bonus				
Courtesy car				
European cover				
Windscreen cover				
Key cover				
Handbag cover				
Car contents				
Wrong fuel cover				
Physiotherapy cover				
Uninsured driver cover				
Other (please state)				

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<sup>6</sup> By shopping around for these products we mean that consumers can, for example, buy these services from an insurer other than the one with which they have their standard motor insurance policy, and add these services to their standard motor insurance cover at a later date or cancel their cover after purchase.

**Table 2**

	Please provide the claims ratios (or, if more appropriate, the difference between the price you charge for the product and cost to you of providing the product) for:		
	2008	2009	2010
Legal protection cover			
Breakdown cover			
Protected no claims bonus			
Courtesy car			
European cover			
Windscreen cover			
Key cover			
Handbag cover			
Car contents			
Wrong fuel cover			
Physiotherapy cover			
Uninsured driver cover			
Other (please state)			

## **Part 4: Use of information**

1. Please note that we may choose to refer to comments received in your submission in our published findings. In deciding whether to do so, we will (among other considerations) have regard to the need for excluding from publication, so far as that is practicable, any information relating to the private affairs of an individual or any commercial information relating to a business which, if published, would or might, in our opinion, significantly harm the individual's interests or, as the case may be, the legitimate business interests of that business ('confidential information').
2. If you consider that your submission contains such information, that information should be marked 'confidential information' and an explanation given as to why you consider it is confidential.
3. The OFT must reserve the right to disclose any information provided by you (including confidential information) for the purposes set out in sections 170 and 240 to 243 of the Enterprise Act 2002, where it considers such disclosure to be appropriate. In particular, the OFT may choose to put information provided by you to third parties, such as other government departments and other parties providing information to the OFT, for the purpose of facilitating this examination of the motor insurance market. Prior to any such disclosure, the OFT would have regard to (among other considerations) the need for excluding, so far as that is practicable, any confidential information.
4. The OFT is also bound by the Freedom of Information Act 2000 (the 'FoIA'). Where a person makes a request in accordance with the FoIA the OFT may have to disclose whether it holds the information sought and the information itself (including confidential information). The FoIA contains exemptions (including one which may exempt confidential information) and the OFT will not have to make those disclosures if an exemption applies. If you consider that any information you provide may be exempt from such disclosures you should say so and explain why. Similarly, to the extent that information you provide constitutes personal data under the Data Protection Act 1998, the OFT will process such data in accordance with that Act.