

PRIVATE MOTOR INSURANCE MARKET INVESTIGATION

Notice of provisional findings made under Rule 10.3 of the Competition Commission Rules of Procedure

1. On 27 September 2012, the Office of Fair Trading, in exercise of its powers under section 131 of the Enterprise Act 2002 (the Act) referred to the Competition Commission (CC) for investigation and report the supply or acquisition of private motor insurance (motor insurance) and related goods or services in the UK.

Provisional findings

2. The Group appointed to consider this reference has provisionally found that there are features of the UK market for private motor insurance and related goods or services that, either alone or in combination, prevent, restrict or distort competition such that there are adverse effects on competition (AECs). Paragraphs 3 to 6 below set out each of the AECs the Group has provisionally found.
3. The Group has provisionally identified the following two features of the supply of motor insurance and related services¹ which have, in combination, an AEC:
 - separation—that is, that the insurer liable for the non-fault driver's claim as insurer to the at-fault driver is often not the party controlling the costs; and
 - various practices and conduct of the other parties managing such non-fault drivers' claims which (i) were focused on earning a rent from control of claims rather than competing on the merits; and (ii) gave rise to an inefficient supply chain involving excessive frictional and transactional costs.

We provisionally concluded that these features distorted competition in the motor insurance market.

4. The Group has provisionally identified the following two features of the supply of motor insurance and related services² which have, in combination, an AEC:
 - insurers and claim management companies do not monitor effectively the quality of repairs; and
 - there are significant limitations to claimants' ability to assess the quality of car repairs.

We provisionally concluded that these features distorted competition between repairers to obtain business from insurers and other managers of drivers' claims.

¹ The provision of claims services to non-fault drivers is related to the supply of motor insurance in a number of ways. It is the insurer to the at-fault driver which ultimately bears the costs of providing these services. Further, the party managing the provision of these services is often the insurer to the non-fault driver or a third party the non-fault driver is referred to by their own insurer or broker.

² The procurement of repair services by parties managing claims on behalf of drivers is related to the supply of motor insurance in a number of ways. It is an insurer which ultimately bears the costs of providing these services—either the driver's own insurer or the insurer of the at-fault driver involved in the accident. Further, the party managing the provision of these services is typically the insurer of the claimant or the insurer of the at-fault driver which has 'captured' their claim or a third party the claimant is referred to by their own insurer or broker.

5. The Group has provisionally identified the following two features of the supply of motor insurance³ which have, in combination, an AEC:
- information asymmetries between motor insurers and consumers in relation to the sale of add-ons; and
 - the point-of-sale advantage held by motor insurers when selling add-ons.

We provisionally concluded that these two features distorted competition in the motor insurance market. This is because they mean it is more difficult for consumers to identify the best-value offers in the market and may lead to consumers purchasing products at an inflated price.

6. The Group has provisionally identified the following feature in the supply of motor insurance and related services⁴ which has an AEC:
- wide most-favoured nation clauses in contracts between motor insurance providers and price comparison websites (PCWs) and practices having equivalent effect where a PCW takes advantage of single homing to prevent a provider of motor insurance and PCWs from competing on price.

We provisionally concluded that this feature distorted competition between PCWs, and thus ultimately restricted entry to the PCW market, reduced innovation by PCWs and increased premiums for motor insurance to the retail customer.

7. The Group's reasons are set out in full in the provisional findings report, a summary of which is attached to this notice. A full copy of the provisional findings will be published on the CC website (see note below).

The next steps

8. The Group now invites interested parties to submit their reasons in writing as to why these provisional findings should not become final (or, as the case may be, should be varied).
9. These reasons should be received by the Group no later than **Friday, 7 February 2014**.
10. The Group will have regard to any such reasons in making its final decisions in this investigation.
11. The Group is today also publishing a Notice of possible remedies which it considers might be taken by the CC to remedy the AECs provisionally identified, comments upon which should be received in writing by no later than, **Friday 17 January, 2014**.

(signed)
ALASDAIR SMITH
Group Chairman
17 DECEMBER 2013

³ The supply of motor insurance includes the supply of add-ons. We did not find it necessary to define a separate market for any add-on product and therefore include them in the motor insurance market.

⁴ The PCW market is a two-sided market where PCWs provide motor insurance price comparisons to consumers and sales opportunities to insurers and brokers. Both services are directly related to the supply of motor insurance to consumers.

Notes

- (i) A copy of this notice and the summary of the provisional findings report will be placed on the [CC website](#) on 17 December 2013. The CC proposes to publish the provisional findings report on its website in due course. The published version of the provisional findings report will not contain any information which the Group considers should be excluded from the report, having regard to the three considerations set out in section 244 of the Act.
- (ii) Comments should be made in writing to:

Inquiry Manager, Private Motor Insurance Market Inquiry
Competition Commission
Victoria House
Southampton Row
London
WC1B 4AD

Or by email to: PMI@cc.gsi.gov.uk.