

## Credit hire and insurance add-ons in the spotlight

LEGAL NEWS | 24 September 2014

### Competition authority report finalises proposed changes to car insurance

The Competition and Markets Authority (CMA) has published measures that it expects to increase competition in the car insurance market and reduce the cost of premiums for drivers.

However, the CMA said that it had been unable to find a way to resolve the issue of high car hire and repair charges for drivers not at fault in an accident.



Alasdair Smith, chairman of the private motor insurance investigation group and CMA deputy panel chairman, said: "We have looked very hard at resolving the problem with the cost of post-accident services to drivers who are not at fault in an accident, in particular temporary replacement cars.

"Reluctantly we have had to conclude that we cannot see an effective way of addressing this problem fully short of a fundamental change in the law and, whilst this problem does increase premiums for motorists, the extent of the problem is not as high as was at first envisaged and does not warrant such a radical measure.

"However, we do wish to challenge the benchmarks typically used in awards for non-fault replacement cars, which do not reflect the cost of the services provided and which we think should be lower," he added.

### 'No remedy'

Having looked at possible remedies to address the problem, the CMA concluded that there was no 'effective' and 'proportionate' remedy to the issue.

Despite investigating several possible options, the CMA found that any remedy would require a significant change in the law, which, in its opinion, was not warranted since credit hire amounts to an increase of £3 per year on the average insurance premium.

However, the CMA is encouraging action by those with the ability to make the market work better within the existing legal framework. This includes a reconsideration of the benchmarks used when making awards for damages in non-fault temporary replacement vehicle claims. The CMA claims the current benchmarks appear both 'artificial' and 'high'.

The CMA is also encouraging insurers to consider providing insurance cover for a replacement car when their customer is not at fault in an accident, while ensuring that claimants' legal rights are preserved.

The report's conclusion was welcomed by the Credit Hire Organisation (CHO). Director general of the CHO, Martin Andrews, commented: "We welcome the fact that, after a three-year investigation,

the CMA has concluded that non-fault customers do indeed require our assistance in their hour of need, and their legal right to a replacement vehicle while their car is off the road has again been reinforced."

### **'Missed opportunity'**

Commenting on the report on behalf of the [Forum of Insurance Lawyers \(FOIL\)](#), Nigel Teasdale, who is also a partner and head of the motor, fraud and claimant teams at DWF, said: "After a two-year investigation, the CMA has concluded that the amount at-fault insurers pay for temporary replacement vehicles is significantly more than the cost of provision, yet has been unable to come up with an effective and proportionate remedy. This is despite the report's assertion that the total increased cost due to credit hire amounts to £183m per year.

"Given the amount of time and effort that has gone into the report across the whole industry, and the sheer cost involved, it is disappointing to say the least and has to be viewed as a missed opportunity to streamline an unnecessarily adversarial area of motor insurance claims."

Teasdale continued: "The development of a credit hire portal will be beneficial in reducing frictional cost debating who sent what where and when. The CMA clearly hopes that following this report the insurers and credit hire organisations (CHOs) will work together to improve the system themselves through the General Terms of Agreement (GTA) and bi-laterals. While that may be the case, there is also a concern that the lack of any real bite following such a lengthy investigation could lead to the parties becoming more adversarial in their approach and ultimately see costs increase further."

### **'Add-ons'**

Taking a different view of the CMA report, Parabis group commercial director, Tim Roberts, said: "Leaving aside the findings relating to agreements between price comparison websites and insurers it is interesting to see the recommendation that the FCA should look at how insurers inform customers about other products sold as add-ons to car insurance policies.

"One of those add-ons is legal expense cover. In June 2013 the FCA published its Motor Legal Expenses Insurance Report on the thematic project which found that customers had a high awareness of Motor LEI (MLEI) but little understanding of the benefits or the scope of the cover and that they were unable to distinguish between the cover provided by their motor policy and that of their MLEI policy."

Roberts added: "In my view it is not how insurers inform customers about add-ons that is the issue. Insurers need to be able to explain policy coverage in terms of the service the customer can expect to receive. In the case of LEI add-on, the service proposition would be more readily understood if the policy was associated with an ABS Law Firm so the customer can make the connection between the cover and the service. This lack of connectivity between cover and the service lies at the heart of the customer confusion over add-ons."

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