

Subject: Insurance referral fees

Attendees:

Chris Shaw, Commercial Director of Ai Claims Solutions (UK) Ltd	Jonathan Evans MP Lord Hunt Heather Wheeler MP John Woodcock MP	David Worsfold David Morey (PwC)
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Note of key matters:

Background

The Chairman introduced the meeting and confirmed the keen interest by Parliament in referral fees in the insurance market and recent debate as regards the possible banning of such fees.

1. Presentation by Chris Shaw

- Ai is an Accident Management Company (AMC). It is the 3rd largest in the sector, dealing with some 180k referrals per annum; it is involved in personal injury as well as Credit Hire, Car repair and uninsured losses. Ai has a turnover of £118m, with only some £400k relating to personal injury (1600 claims)
- AMCs provide a valuable service to consumers; there are professional operators and more scrupulous market participants
- The sector is seeing increasing insurance premiums, an economic pinch and increasing volumes of unsolicited text messages sent to consumers designed to elicit referrals
- Ai is not convinced that a ban on referral fees for personal injury incidents will necessarily flow through to lower insurance premiums
- Any such ban is more likely to lead to a changes in the structure of the market with solicitors looking to increase their share of the market, and AMCs looking at business combinations with firms of solicitors
- There has been a rise in personal injury claims driven by organisations, some legitimate and other not, undertaking data mining (leading to both solicited and unsolicited contacts); however, the increased volume has probably peaked as data sources relating to previous years are increasingly mined
- Ai believe it is appropriate to diffuse the amount of money made through referrals

2. Discussion

A number of points were raised during discussion:

Portal fees

- Ai supports the idea that the £1200 portal fee is excessive (and generally not warranted by the underlying costs involved)

Credit hire / credit repair

- Regarding credit hire and credit repair businesses (providing car hire and car repair services), it was recognised that there are instances when the current system encourages delays in the repair process. Some AMCs adopt tactics which increase average hire periods. Ford now operates a 6 day deadline; others in the market may operate to durations 3 times as long. The GTA¹ has published a centralised framework and standards for the settlement of claims under the scheme for repair periods and payment terms in the market, although adoption varies. The GTA Technical Committee has started a programme of audits of Credit Hire Organisations
- Ai noted that there was likely to be a relationship between longer hire periods and AMCs experiencing financial distress
- Ultimately, insurers should monitor claim periods and put pressure on those market participants which are outliers and only pay out on what is reasonable
- Focus should be turned on the rogue elements of the market; most Credit Hire businesses are professionally run

Fraud

- Parliament is very concerned about fraud in this market. It was noted that unsolicited texts which go out to a wide range of recipients, even children without cars, tend to increase capacity for fraudulent claims. It was also noted that there were cases whereby accident victims were actively encouraged to make claims even where there was no injury (e.g. whiplash, as difficult to disprove)
- Ai agreed that there was a need to respond to the rise in unsolicited calls/contact organisations

Market corrections

- Recognition that the market needs correcting, but without an unwanted over correction which would reduce consumer rights for access to justice. A key challenge is identifying the illegal and unscrupulous market participants
- Ai suggested that in looking at the portal fees, a tiered approach might be sensible (lower a fee for incidents involving only two vehicles; a higher fee for more complex cases)
- Ai pointed out the emerging fixed fee model, which would drive efficiencies at AMCs

3. The Group's view

The Group remains concerned about referral fees driving up insurance premiums and increasing the scope for spurious and fraudulent personal injury claims in the marketplace. The current market includes many organisations which are not regulated and abuses are therefore unchecked.

DL Morey
28 October 2011

¹ The General Terms of Agreement launched by the Association of British Insurers