AXA UK’s Written Response to the Treasury Select Committee Evidence Session on ‘High Renewal Prices and Consumer Duty’

1. **ONS inflation data shows that, across the industry, car insurance inflation has at times been running at over 50 per cent in the past 12 months, and is at present running at 35 per cent. What is justifying these price increases?**

   High inflation in the car insurance industry is being caused by a combination of factors listed below:

- The supply chain for car parts post Covid remains disrupted due to the geopolitical tensions which has meant the cost of repairs has increased due to the unavailability of parts.
- Along with cost of parts increasing, it is taking longer for parts to reach garages. Brexit and Covid have contributed to a shortage of skilled labour. These factors have resulted in both increased repair times and the cost of replacement cars provided to customers while their damaged car remains in the garage.
- Prices of new and second-hand cars have increased significantly post Covid which has put pressure on the cost of total loss claims.
- Car usage levels are now slightly higher compared to pre-Covid levels which has led to increased claims frequency and increased claims costs.
- Vehicle theft in England and Wales has significantly increased in recent years.
- Along with the increase in cost of claims, insurers like all businesses have seen an increase in operating costs due to wage inflation, suppliers/partners raising prices as they also try to cope with rising inflation. Specific to the industry there has been a significant increase in reinsurance costs which has contributed to overall high car insurance inflation.

  To put the above into context an EY study found that motor insurers’ costs had increased above inflation. In 2022, for every £1 received in premiums, £1.11 was paid out in claims and operating costs. EY forecasts that in 2023 for every £1 received in premiums £1.15 will be paid out in claims and operating costs.

2. **As part of its review of “insurers’ valuation of vehicles”,[1] the FCA has identified several areas for improvement for car insurance providers when dealing with car valuations when vehicles have been stolen or written off. What is your response to the FCA’s findings?**

- AXA are aware of the recommendations from the FCA and are considering how they could help our existing processes.
- AXA’s settlement values are above the recommended retail guides. We use a ‘blended approach’ using a range of sources to ensure values are kept as up to date as possible. Internally we use CAP and the majority of our total loss valuations are carried out by our supplier, Copart, who use CAP and the Glass guides along with online market research.

[1] FCA paper: Findings of multi-firm review into insurers' valuation of vehicles, 27 March 2024

- We and our 'suppliers' are always looking to improve customer experiences and outcomes, so the FCA's advice is invaluable where appropriate to our activity.
- Currently our data doesn't allow us to specifically identify those claims where we have made an increased offer on account of modifications or similar, however we are working to introduce changes to build this level of detail into our data and provide an enhanced audit trail for any cases where there is a specific / more material deviation from book-value in either direction.

3. **In its review[2] the FCA found that "firms would sometimes provide initial settlement offers that are below the insured vehicle's estimated market value" under the expectation "that they would then increase the offer if the customer challenged the original one or complained". Can you confirm that AXA does not engage in this practice?**

- We do not engage in this practice. AXA apply an approach whereby we always offer the customer a fair market value figure, less any applicable policy excess, finance, or VAT (where applicable).
- Our suppliers or ourselves do not attempt to control claims costs or make savings by making low or unfair value offers.
- We do not apply any financial incentives to make low offers, nor do we apply reductions in market value to achieve indemnity savings.
- We have weekly and annual audit controls in which we review cases, and we conduct Closed File Reviews with the support of our internal audit team.
- If the initial valuation is not accepted by our customer, we provide them with the opportunity to independently research the valuation and revert to us with additional evidence to support a potential uplift in the settlement value. There are varying reasons why this may result in us revisiting a valuation, for example vehicle modifications or adaptions/optional extras beyond standard manufacturer specifications, with the intention being for the settlement value being appropriate to allow the customer to source an equivalent replacement vehicle.

4. **What tangible changes have you made to the terms and conditions of your policies since the introduction of the FCA's Consumer Duty?**

- While we always strive to improve our customer experience, AXA has an effective claims handling process that provides excellent service for our customers. Our customer satisfaction score reflects this, with a Feefo rating of 4.4%.
- As part of our Consumer Duty implementation programme, a range of initiatives have been undertaken across our UK businesses to review our policy terms and conditions, identifying any changes required to ensure they are both fair and clearly explained for our customers. In addition to internal reviews, we have taken advice from external consultancy support to identify improvements required in our policy documentation e.g. the removal of Latin phrases and legalese.
- We have worked with recognised Consumer Research firms (Fairer Finance) to review and update our policy wordings, renewal invites and general communications, ensuring they meet the needs of our customers by aligning content to the average reading age of the UK population (11 years)
- Acknowledging that some customers who spread the cost of their insurance through the year may be dealing with increased financial pressures, we have improved our ability to identify, and support these financially vulnerable customers, offering more flexibility to enable them to

[2] See above

remain insured during difficult times. These additional support options go beyond the provisions currently set out in our existing Terms and Conditions.

- AXA Retail has reviewed its benchmark terms and conditions against the principles of Consumer Duty. This included a review of our complaints and voice of the customer channels, product reviews, including customer fair value assessments and customer pain points, which led to a conclusion that no changes were required in order to comply with the duty.
- We have complied with the FCA's regulations since the introduction of ICOBS in 2008, which require us to communicate information to customers in a way that is clear, fair and not misleading. As a result, we have established processes in place to review our benchmark terms and conditions annually and any material issues are updated within a year of the last review, subject to IT prioritisation.

5. What measures are you taking to make sure that customers who in good faith estimated the cost to rebuild their property when taking out buildings insurance will not be left underinsured by the rapid increases in the costs of building that have occurred since their policies were taken out?

- We have answered this question based on our Direct products, given the responsibility for the sale and service of Intermediary products sits within the control of our Broker Intermediaries.
- All of our Direct products are provided with an upper limit on buildings cover ranging from £500,000 to unlimited. This provides protection for customers who are uncertain of the rebuilding cost of their property and the lowest limit is considerably higher than the average rebuilding cost in the UK. In addition to this, we ask our customers to check their limits and remind them of the potential consequences of not keeping sum insured details up to date at each and every renewal.
- We provide support during the customer journey, for example online FAQs which direct customers to independent online calculation tools providing them with additional information allowing them to check they have the right cover in place for their circumstances.
- However, if any customers do find themselves underinsured, then we have established best practice processes in place that consider the level of underinsurance and treat customers fairly in the event of any misrepresentations. For example, as part of our best practice, we allow customers to be underinsured by up to 20% before we consider making any reductions to claims settlements, providing the misrepresentation has not been deliberate or reckless. We would never pay more than the building policy limit.
- It is worth noting there are some useful tools available to help customers establish up to date rebuild costs. Most homeowners can use the ABI/ Building Cost Information Service's free house rebuilding cost calculator, or they can get a RICS evaluation.