



Executive Summary

On 1 December 2014 the Hungarian Competition Authority (Gazdasági Versenyhivatal, hereinafter GVH) initiated a market analysis aimed at investigating the new passenger car and LCV distribution and repair markets and the related assurance market in Hungary. In the course of the analysis the GVH analysed the formation and changes to the distribution systems of motor vehicles; furthermore, the frames and possible restraints of competition on the motor vehicle aftermarket (servicing, warranty repair, spare parts necessary to provide aftermarket services). The market analysis was also extended to the examination of the insurance market in connection with the motor vehicle aftermarket services.

The market analysis was primarily initiated due to the changes made to the rules of the block exemption regulation. Several market signs (which were received by the GVH) alluded that certain chief representatives had renewed their distribution systems, partly due to the initiation of the new rules on block exemption, and partly as a result of the economic downturn that had taken place in the motor vehicle market. Consequently, it was necessary for the GVH to acquire overall knowledge about the sector concerned.

In the course of the market analysis, the GVH gathered information from a number of sources. It primarily relied on the information it received from concerned parties via its request for information, but it also made use of the data of the Hungarian Central Statistical Office and other publicly available data, and the information it was able to obtain from other authorities and state organisations that possess information about the market relations. Additionally, the GVH also held personal consultations. The outcome and the findings of the market analysis were influenced by the fact that only approximately half of the motor vehicle importers and chief representatives, and only a small fraction of motor vehicle traders and servicers responded to the request for information.¹ As a result of the market analysis, the following findings were made in each sector:

The **motor vehicle distribution sector** is characterised by mixed type selective distribution systems. The chief representatives do not only impose quality requirements on their partners, but they may also determine the number of undertakings that can take part in the distribution. It is by applying selective distribution systems the chief representatives can ensure that their partners make returns on investments. The chief

¹ In the course of a market analysis, responding to a request for information works on a voluntary basis.

representatives are not planning substantive changes in their distribution systems in the near future. Despite the changes in the block exemption rules related to the notice period, the two-year notice period provided for by the the chief representative continues to be applied in the agreements which the distribution systems is composed of. Since the economic crisis ² the distribution systems have suffered a reduction in their sizes, and many distributors have fallen out of the distribution chain. By 2015 the number of new motor vehicles that had been registered had not even reached the level that it was before the crisis. The motor vehicles in use show an ageing tendency, their average age is above 13 years and this rate keeps growing. Even the average age of used motor vehicles imported from abroad is way above 10 years; the number of used motor vehicles and their proportion within the motor vehicles in use also keeps growing. This can be explained by the fact that certain costs relating to new motor vehicle registration and their maintenance are high. Compared to other Member States of the European Union, in Hungary the VAT rate imposed on new motor vehicles is high. Purchasers often seek to circumvent this high rate – especially when the buyers are undertakings – by registering the motor vehicles abroad or by applying permanent rental constructions.

The **service market** is composed of authorised repair workshops, independent repairer chains and private repairers. Compared to the data in 2008, there had been an increase by 2014 in their revenues. This may be related to the ageing motor vehicles in use, since ageing motor vehicles need more service. The number of authorised repair workshops has decreased since the economic crisis. This tendency can be explained by the fact that the number of motor vehicle owners who turn to authorised repair workshops even with non-warranty repair work has decreased. Loyalty to authorised repair workshops keeps decreasing with the age of the motor vehicle. Due to the increased price sensitivity of consumers, a part of the repair jobs and spare part trade is completed at those market actors who bypass the law³. For this reason consumers often prefer aftermarket parts. Illegal purchasing of software and the tools necessary for repairs results in a further distortion of market competition, since those repairers that purchase these items legally have to apply higher prices and as a result may lose clients on this highly price sensitive market. Since 1 January 2017 repairers and spare part traders have been obliged to use online cash-registers, which may contribute towards reducing illegal trade on the market.

On the **motor vehicle insurance market (compulsory motor vehicle liability insurance and voluntary insurance)** the premium income from products experienced an average annual 10% decrease until 2013 as a result of the tariff decrease

² This is referring to the economic world crisis of 2008.

³ By 'market actors who bypass the law' it means those repairers and spare part traders who perform their activities by bypassing certain legal obligations, e.g. fail to register or pay taxes.

implemented in the campaign period. Since 2014, partly because of the abolition of the campaign period, the trend seems to have reversed, with the average tariffs experiencing an increase, and also consequently the premium income. 60% of the compulsory motor vehicle liability insurance market is covered by five main insurance companies. The market of compulsory vehicle liability insurance products is characterised by price competition among the dimensions of competition, while in the case of reparatory services based on the compulsory motor vehicle liability insurance system a lack of price competition can be observed.

While in its findings on the conclusion of the market analysis, the GVH did not identify any market distortion that could be cured by a competition supervision proceeding, it did detect a number of problems on the market that may affect competition.

The GVH recommends a decrease of certain tariffs related to new motor vehicle registration and maintenance and the differentiation of certain tariffs related to used motor vehicle registration. In addition to the information of the Ministry for National Economy, the GVH recommends the consideration of the return of the campaign period in the compulsory motor vehicle liability insurance market (possibly by involving the supervisory authority).

Beside the above mentioned, the GVH also makes recommendations to the market players: it recommends a closer follow-up concerning the decisions of the GVH and the competition law practice.