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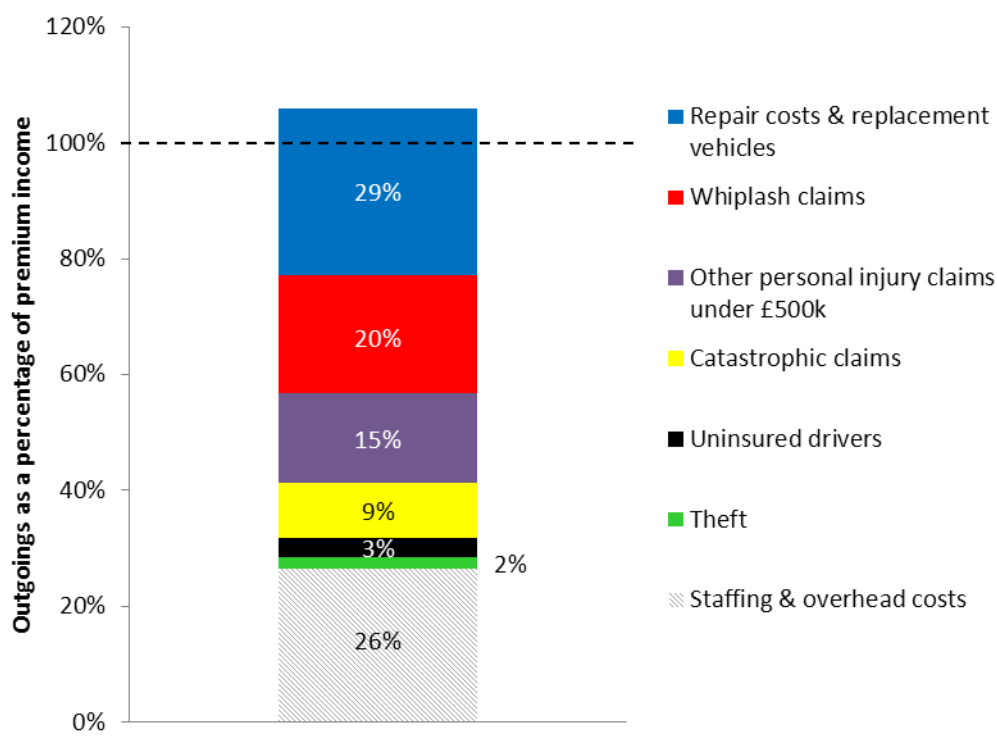
Lifting the bonnet on car insurance - what are the real costs?

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Most UK motorists have an opinion on the cost of car insurance. Many question why their insurance premium may rise at renewal despite not making a claim and being a loyal customer. Young drivers are frustrated that the cost of their insurance premium is often more than the value of their car. Some people think that car insurers are profiteering from honest motorists.

This report lifts the bonnet on car insurance premiums and sets out the facts about the costs to honest motorists while dispelling myths. It explains what the ABI is doing to push premiums down and what further action is needed to ensure every motorist gets the best possible deal on their car insurance premiums.

Car insurance – what are the real costs?



Source: ABI estimates, Department for Work & Pensions, Motor Insurers' Bureau and Credit Hire Organisation

Notes: Data is based on 23.5 million private cars, average catastrophic claims costs of £1.5 million for 2011, average cost of approximately £4,000 per whiplash claim and £350 million cost for uninsured drivers.

- The average car insurance premium in 2011 was £440
- Insurers pay out £19.4 million every day in claims
- For every £1 paid in compensation for claims worth less than £10,000 – another 76p goes in legal costs
- In 2011/12 there were 550,000 whiplash claims, an increase of 27% from 07/08 when 432,000 claims were made
- While whiplash claims have increased, in the last four years, car crashes notified to the police have decreased by 18%

Top myths of car insurance

Myth – Insurers are profiteering at the expense of honest motorists.

Fact – Not true. For the past 17 years the motor insurance industry paid out more in claims and expenses than was received in premium income. For many years the shortfall could be made up by the return on insurers' investments. However, the economic downturn has seen these returns fall significantly, which, coupled with the rising costs of personal injury claims, (particularly for whiplash), high legal fees and fraud, has meant that premium increases have been unavoidable.

Myth – Young drivers are being priced off the road by high insurance premiums.

Fact – We acknowledge that the average cost of insurance for young newly qualified drivers is too high. Sadly the cost of insuring a young driver reflects their very high crash risk. In 2011, 5419¹ people were killed or seriously injured as a result of accidents involving a young driver aged 16-25. In addition, forty percent² of 17 year old men have an accident in their first six months of driving. Improving the safety of young drivers will reduce their insurance costs, which is why we're campaigning to change the way we learn to drive.

Myth – Insurers make sweeping generalisations when setting premiums, such as use of postcodes, and do not accurately take into account individual circumstances.

Fact – Insurers always look to set premiums, as far as they can, to reflect an individual's risk. They take into account a wide range of relevant factors, including age, type of vehicle, claims history, driving record, postcode and occupation.

Myth – Whatever action is taken to reduce the costs to insurance companies it will make no difference to premiums, as the cost of car insurance only ever seems to rise.

Fact– The average annual car insurance premium paid is £440³. At the Prime Minister's motor insurance summit last year, insurers committed to passing on savings to customers if measures were introduced to strip out the estimated £1.5 – 2.0 billion of unnecessary costs in the system, including the spiralling costs of personal injury claims and reform the way young people learn to drive. **We estimate that if our proposals to improve the safety of young drivers are implemented this could see their premiums fall by 15-20%⁴.**

Progress report towards cheaper car insurance

Action 1 - Reforming the compensation system and reducing high legal costs

Our personal injury compensation system is too slow, complex, and riddled with high and excessive legal costs. As a result it currently takes too long for genuine victims of motor accidents to receive compensation. Excessive legal costs in settling claims leads to higher car insurance premiums for all motorists. For example, for every £1 paid in compensation for claims under £10,000, another 76p is paid in legal fees.

¹ DfT case level analysis

² DfT (2008) "Cohort II: A Study of Learner and New Drivers Volume 1 – Main Report" p135

³ ABI estimate, 2011

⁴ ABI members estimated the reduction in serious and fatal crashes that would arise from changes to the learning system. This would result in fewer claims. An immediate discount could apply because measures such as the minimum learning period and the restricted period will mean the young driver is exposed to less risk immediately. Furthermore, by making young drivers statistically less likely to make a claim, the ABI's proposals will create a more attractive market for insurers. Insurers will be more likely to underwrite the risks posed by young drivers and more insurers may choose to insure young drivers, increasing competition.

The industry has long called for reform to the compensation system and this is now about to change. From April 2013, a package of Government reforms (the majority of which are contained in the Legal Aid, Sentencing and Punishment of Offenders Act 2012) will ensure that the system is more streamlined resulting in quicker settlements for genuine claimants.

Alongside these changes, the Government has proposed extending the existing fast track system for dealing with road traffic accidents for claims under £10,000 to claims up to £25,000 (this is known as the Road Traffic Act (RTA) Portal). In addition, the Government has recently consulted on reducing the fixed legal fees that are attached to these claims, which we support.

What still needs to be done?

The Legal Aid, Sentencing and Punishment of Offenders Act 2012 comes into force in April 2013 and we have welcomed the recent announcement of a reduction of fixed legal fees in the RTA Portal.

Action 2 - Tackling fraudulent whiplash claims

More than 1,500⁵ whiplash claims are made in the UK every day, costing customers more than £2 billion a year and adding £90 to the average motor insurance premium. This is despite the fact that the number of accidents notified to the police is falling. That there is no objective test for whiplash, along with the activities of ambulance chasing lawyers and claims management companies encouraging claims, has led to whiplash being the 'fraud of choice' for too many people.

The Government is interested in tackling the UK's whiplash epidemic and has issued a consultation on increasing the small claims track limit for RTA Portal personal injury claims. This is a simpler and more cost effective way of settling claims. This measure could reduce costs significantly and would also allow insurers to challenge claims they think are fraudulent, without facing high legal costs. The Ministry of Justice is also consulting on changes to the medical evidence used in personal injury claims to ensure more independent evidence is used.

What still needs to be done?

The Ministry of Justice's consultation ends on 8 March 2013, after which the responses will be considered and their decisions will be published.

Action 3 - Safe young drivers

The single biggest cause of accidental death of young people aged 15-24⁶ is dying in a crash. High motor insurance premiums for young drivers are the direct result of their poor safety record, and a result of the statistically higher risk that they will cause themselves, their passengers, or other road users severe and life-changing injuries.

Drivers aged 17-24 are much more likely to be involved in crashes resulting in serious injuries than older drivers. This is the result of their age and attitude, rather than just a lack of experience, and certain factors such as driving at night, carrying passengers, wet conditions and excessive speed increase the likelihood that they will be involved in a crash. The way in which young people learn to drive is not working; it is not fit for purpose and young people are paying a heavy price for it.

We have worked with a number of road safety organisations and leading academics to develop proposals to improve the safety of young drivers. We would like to see measures introduced such as a minimum learning period and post-test restrictions, including a ban on driving during certain times

⁵ DWP CRU – 550,000 works out at around 1,500 per week

⁶ ONS Mortality Statistics

and a ban on carrying young passengers. The international evidence points to the overwhelming success of similar restrictions in countries such as the United States, Canada, Australia and New Zealand.

What still needs to be done?

We are in discussions with the Department for Transport on these proposed reforms and although the Government has shown an interest, we would like to see a firm commitment to consult on changes to the driver training and testing regime. Northern Ireland has proposed similar reforms and we urge the UK Government to do the same.

Insurers want to see premiums for young drivers come down to more affordable levels, but the only way this can happen is to make them safer drivers. If they make fewer claims, the amount insurers will have to pay out will decrease. **We estimate that if our proposals to improve the safety of young drivers are implemented in full, their premiums could fall by around 15-20%.**

Action 4 - Cracking down on fraud

Combatting fraudulent insurance activity is one of the industry's priorities and we have a simple, on-going aim: to stamp out fraud and protect our honest policyholders.

In 2011, insurers uncovered fraudulent motor claims worth £441 million⁷ and it is estimated that a further £1 billion⁸ of motor insurance fraud went undetected. Last year, the industry launched two major initiatives to catch out fraudsters:

- The Insurance Fraud Enforcement Department (IFED) is a counter fraud insurance unit funded by the insurance industry and housed within the City of London Police – the lead police force for economic crime in the UK. In its first year of operation, they made 260 arrests, secured 12 convictions and issued 76 cautions. The IFED's impact will become more marked during 2013, as more cases progress through the court system, more convictions and custodial sentences are secured and assets are recovered from fraudsters.
- The Insurance Fraud Register (IFR) is the first industry-owned register of known insurance fraudsters. It will hold details of all people who have contributed towards an insurance fraud being committed.

What still needs to be done?

Work continues in the fight to combat fraud. These two bodies represent significant tools in the industry's armoury to fight fraud and complement the excellent work that has been carried out by the Insurance Fraud Bureau since 2006.

Action 5 - Developing telematics technology

There is an increasing demand from motorists to use more sophisticated technology to help price their car insurance premiums more accurately. This has led to some insurers offering insurance products that use data to monitor and incentivise consumer driving behaviour. The ABI wants to ensure that such advancements benefit consumers and the potential of the new technology is maximised. For this reason, in late 2012 our members agreed to develop minimum standards for technology and data, as well as a voluntary claims protocol and a good practice guide for insurers.

⁷ ABI Fraud Statistics, 2011

⁸ ABI estimates, 2011

What still needs to be done?

The good practice guide is expected to be finished by the end of the first quarter of 2013, with the remaining pieces of work being developed and consulted on throughout the year.

Action 6 - Continuing to crackdown on uninsured driving

Last year uninsured driving cost honest motorists £350 million⁹. This is because all insured motorists pay towards compensating the victims of road accidents by negligent uninsured and untraced drivers. To help combat this and to drive down the cost to honest motorists, we worked closely with the Government to introduce Continuous Insurance Enforcement (CIE), a new offence for possessing a vehicle without insurance, even if it is not being driven at the time. For a vehicle to be exempt, the owner (registered keeper), must have notified the DVLA that the vehicle is being kept off the road by means of a Statutory Off Road Notice (SORN).

This new system means the DVLA and the Motor Insurance Database (MID) work together to pinpoint drivers who have not insured their vehicles and if the owner fails to act they could face a fixed penalty of £100, court prosecution with a possible maximum fine of £1,000, and having their vehicle impounded or destroyed. These measures are in addition to the powers the police already have to seize an uninsured vehicle and fine its driver.

What still needs to be done?

We have had much success in recent years in reducing the level of uninsured driving and since 2005 over One million vehicles have been seized for having no insurance. We are not complacent and continue to work on clamping down on uninsured drivers¹⁰.

Action 7 - Access to DVLA data

The Insurance Industry Access to Driver Database (IIADD) programme will give insurers access to accurate data from the DVLA on motoring entitlements, convictions and penalty points when providing quotes for insurance policies. Having access to this information will streamline the process of accepting new customers and reduce fraud by those motorists who are deliberately not disclosing relevant motoring convictions.

What still needs to be done?

The ABI and the Motor Insurers' Bureau will be working with the DVLA to ensure that the system is up and running in 2014 and that the public are aware of the changes being made.

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⁹ Motor Insurer's Bureau

¹⁰ Motor Insurer's Bureau