

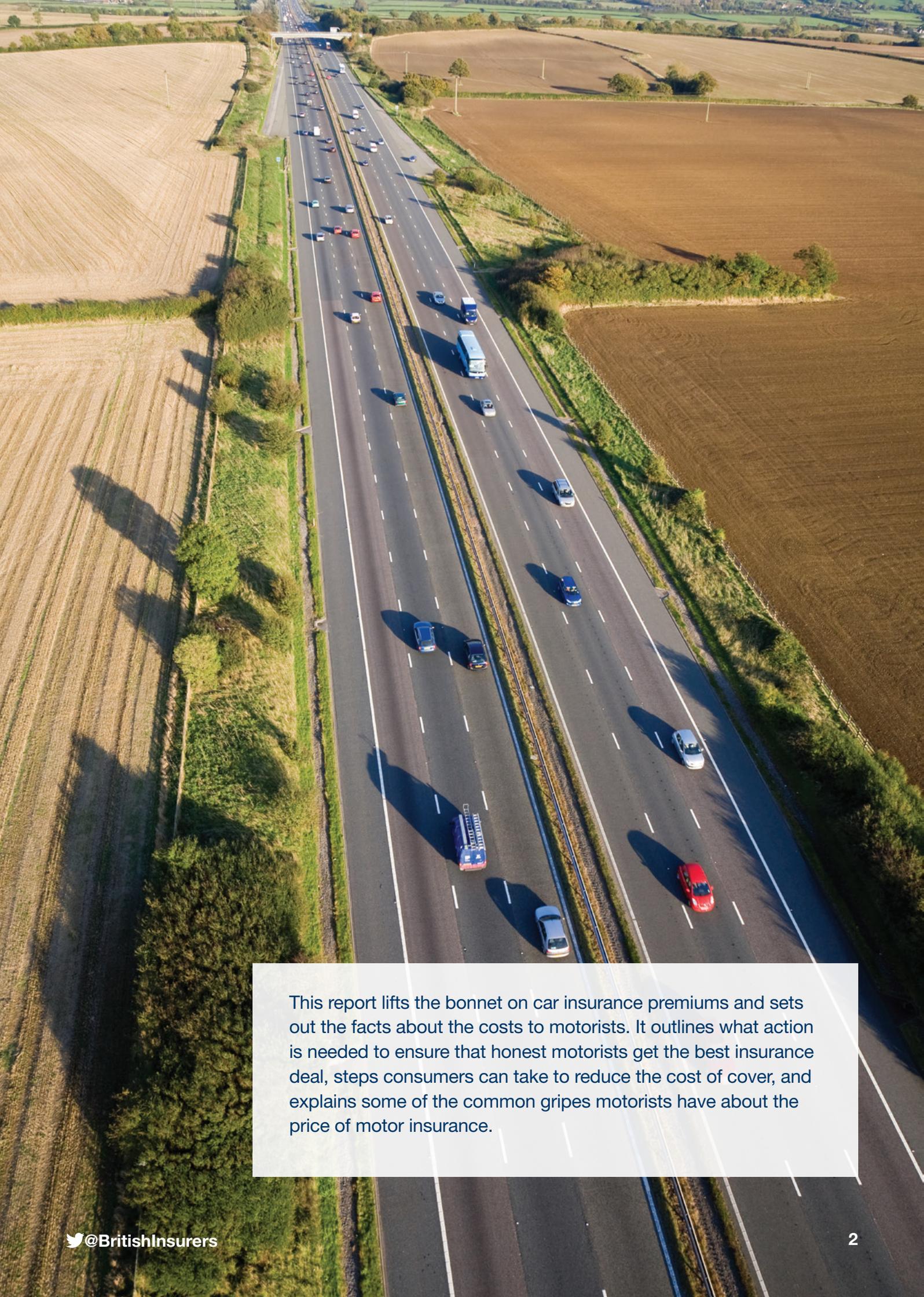
# LIFTING THE BONNET ON CAR INSURANCE

WHAT YOUR PREMIUM PAYS  
FOR - THE COST OF MOTOR  
INSURANCE EXPLAINED



Association of British Insurers

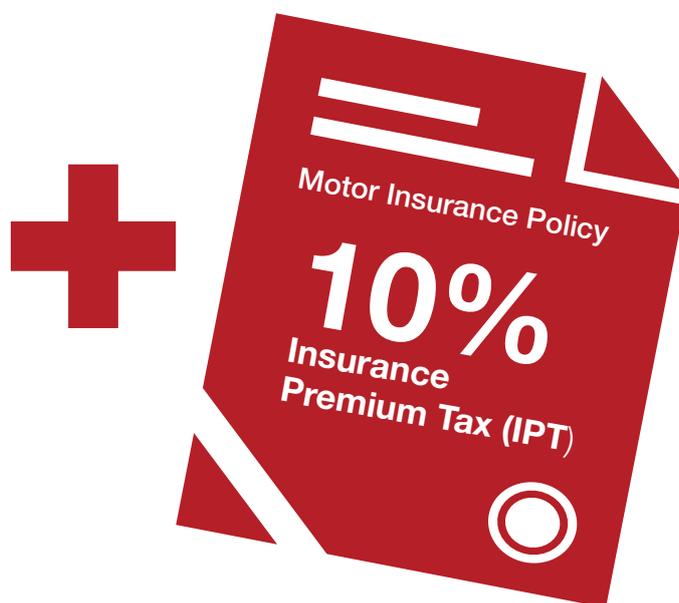
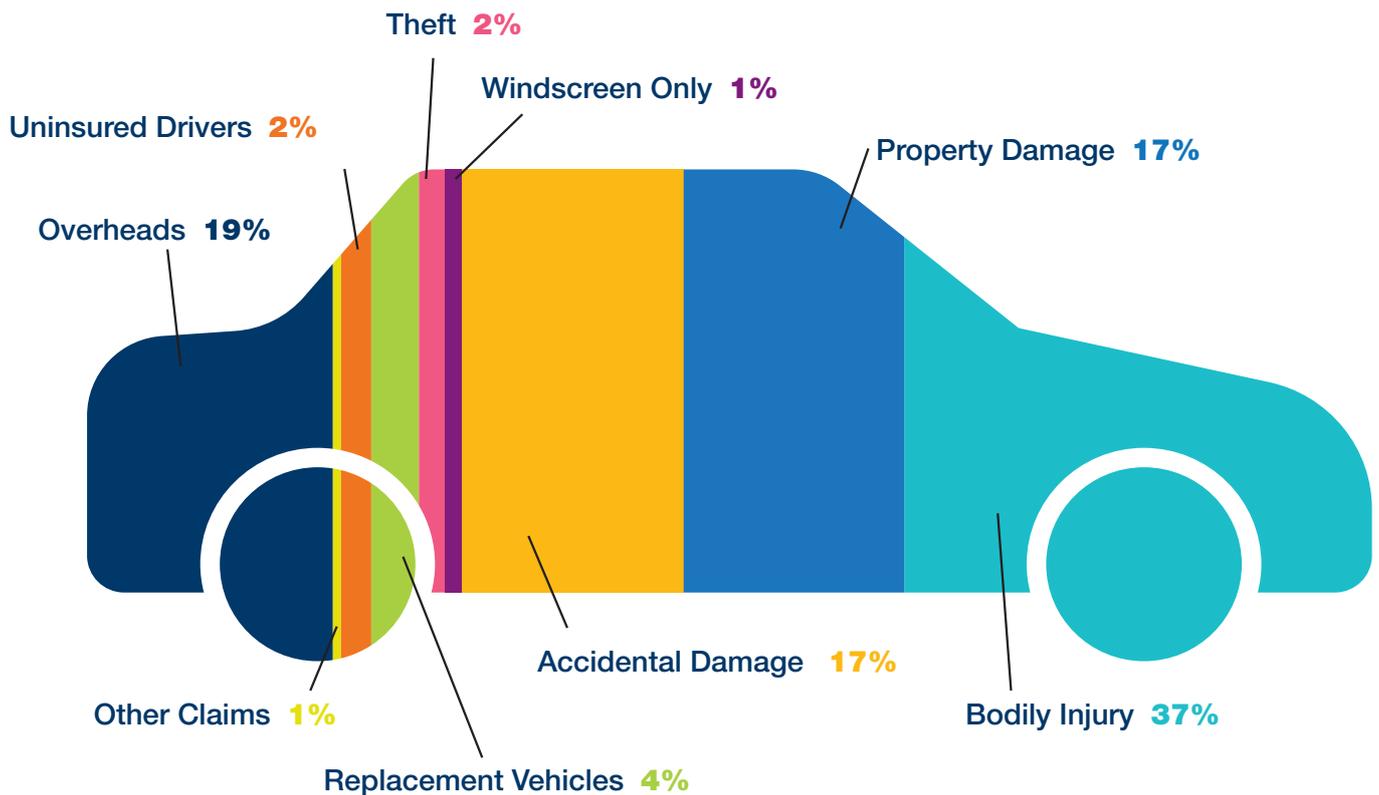
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This report lifts the bonnet on car insurance premiums and sets out the facts about the costs to motorists. It outlines what action is needed to ensure that honest motorists get the best insurance deal, steps consumers can take to reduce the cost of cover, and explains some of the common gripes motorists have about the price of motor insurance.

# Car insurance – where your premium goes

In 2015 private motor insurers paid out nearly £8bn. This is broken down by:



# Key facts



Every day insurers pay out

**£21.2m**

in private motor claims, with

**99%**

of all claims paid

The current average comprehensive motor insurance premium paid is

**£434**

(source: ABI Motor Premium Tracker, quarter 2, 2016)



The average bodily injury claim settled in Q2 2016 came to

**£10,955**

a 4% increase on the same period last year



Bodily injury claims account for

**37%**

of insurers costs, but only 9% in number

Compared to

Due to increasing vehicle technology, the average repair bill has risen by more than 25% in the last three years to

**£1,665**

in Q2 2016.

Recent rises in Insurance Premium Tax are likely to add more than

**£16**

a year to the price of the average comprehensive motor insurance policy

The motor insurance industry has worked tirelessly to reduce the cost of uninsured driving, to

**£244m**

in 2015

# Towards a fairer deal for honest customers

## ACTION 1 - FURTHER REFORMS TO THE PERSONAL INJURY COMPENSATION SYSTEM

We want motor insurance that works for everyone. The Government wants to reform the compensation system for soft tissue injuries, especially whiplash, so insurers can pass on the savings to honest motorists.

These reforms have been aimed at the worst excesses of the compensation culture, excesses driven and exploited by claimant law firms, cold calling Claims Management Companies (CMCs) and organised fraudsters.

This compensation culture is helping to drive up motor insurance premiums for honest consumers and businesses alike, and is impacting on hard-pressed public services like the NHS and the police.

The initial impact of previous reforms was positive and enabled insurers to pass on cost savings of over £1 billion to customers in lower premiums. However, that initial impact has now faded as claimant lawyers and CMCs find new ways around the reforms. That is why further action is required to tackle the compensation culture and protect honest customers.

Under Government plans, while compensation to pay for things like medical treatment or loss of earnings from injury will be unaffected, general damages – extra money for pain and suffering – will end for minor soft tissue injuries, such as whiplash. And raising the small claims track limit from £1,000 to at least £5,000 will reduce expensive legal costs.

The Government estimates that these reforms will save £1 billion, savings that could lead to lower premiums for motorists.

### WHAT STILL NEEDS TO BE DONE?

The Government should consult on the proposed Autumn Statement personal injury reforms to ensure all stakeholders have their say on the detail of the reforms and how the potential cost savings for customers can be maximised.



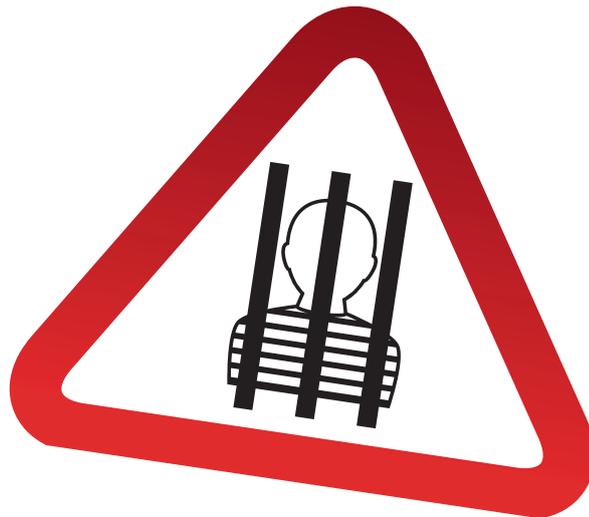
## ACTION 2 - TACKLING INSURANCE FRAUD

In 2015, insurers detected 70,000 dishonest motor insurance claims, valued at £800million. That is £800million saved for honest customers.

To protect honest customers the industry invests over £200million a year in initiatives such as the Insurance Fraud Enforcement Department (IFED), a specialist police investigation unit, and the Insurance Fraud Bureau (IFB).

### WHAT STILL NEEDS TO BE DONE?

The Government's Insurance Fraud Taskforce made a number of helpful recommendations when it published its final report in January 2016. Work should continue by all stakeholders to ensure that these recommendations are implemented for the benefit of consumers.



## ACTION 3 - IMPROVING THE SAFETY OF YOUNG DRIVERS

High motor insurance premiums for young drivers reflect their poor road safety record. Motor crashes are the biggest cause of accidental deaths among young people aged 15-24. Driving inexperience and peer pressure are the main causes of serious road crashes involving young drivers, especially at night.

The Government should introduce changes to how young people learn to drive by introducing Graduated Driving Licensing (GDL), which would include a minimum one-year learning period, restrictions on driving at the most dangerous times and restrictions on carrying young passengers.

### WHAT STILL NEEDS TO BE DONE?

The Northern Ireland Executive has recently passed legislation which will introduce a number of elements of GDL from 2018. The Government should publish a consultation on introducing GDL in the rest of the UK. Insurers estimate that if a system of GDL is implemented in full, not only would the road safety record of young drivers dramatically improve but their premiums could fall by around 15-20%.



## ACTION 4- NO FURTHER RISES IN INSURANCE PREMIUM TAX (IPT)

Following increases in the summer 2015 and spring 2016 Budgets, the Government's Insurance Premium Tax now adds 10% to the cost of motor insurance. These recent increases have added over £16 a year to the average comprehensive motor policy, at a time when other cost pressures, such as personal injury claims and rising repair bills, are already pushing up the cost of insurance. This tax impacts hardest on those least able to afford it, such as young drivers, and drivers in poorer, urban areas who often pay more for their motor insurance.

### WHAT STILL NEEDS TO BE DONE?

The Government should avoid any future increases to IPT.



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## ACTION 5 – SUPPORTING AUTONOMOUS DRIVING AND INCENTIVISING AUTONOMOUS EMERGENCY BRAKING (AEB)

While truly driverless cars will take years to become a common sight on our roads there has already been good progress with automated features which will help prevent collisions.

Insurers support autonomous emergency braking (AEB). Vehicles which have AEB fitted as standard fall into a cheaper insurance class.

### WHAT STILL NEEDS TO BE DONE?

The Government should encourage the take-up of Autonomous Emergency Braking (AEB) and consider making fitting of this technology mandatory for new vehicles. Active safety systems like AEB, are proven to reduce crash claims by a third.



# Steps you can take to cut the cost of motor insurance

Everyone wants the right policy at the cheapest price. Following these steps can help cut the cost of your cover.



**Shop around.** The cost of motor insurance varies from company to company. Compare quotes from different insurers to get the best deal. You can contact companies directly or through an insurance broker. You can also compare premiums on a price comparison website. But remember, you should not consider on cost alone – make sure that the policy covers everything you need it to.

**Secure your vehicle.** Insurers often offer discounts for vehicles fitted with security devices such as alarms or immobilizers – your insurer can tell you which devices they approve. Leaving your vehicle in a garage overnight, rather than out on the street or in your driveway, may also reduce the cost of your premium.



**Consider a higher voluntary excess.** By paying a higher excess – the first amount of any claim that you agree to pay – you may be able to get a reduced premium.

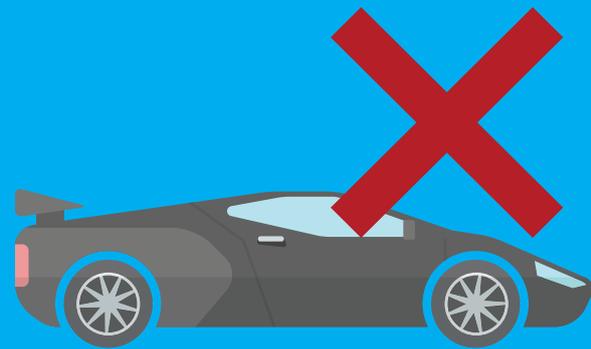


**Limit your vehicle's use.** Using your vehicle for professional purposes can push up the price of your premium. It is possible to limit your vehicle's use to domestic, social and pleasure pursuits to keep the cost of your insurance down.



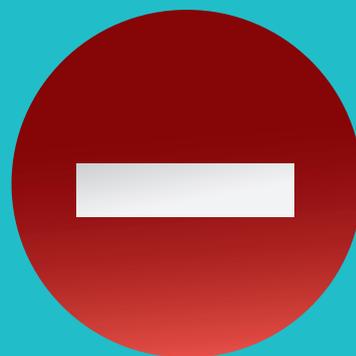
**Pay your premium up front.** Paying your premium in one go at the start of your policy period is usually cheaper than paying it in weekly or monthly instalments.

**Drive a lower powered car.** Your vehicle's engine size may be one of the factors insurers use to work out the cost of your premium. Vehicles with lower engine capacities are generally cheaper to insure than high-powered vehicles. If you are thinking about changing your vehicle, choose a smaller engine size to help reduce the cost of your insurance.



**Sign up for 'pay how you drive' insurance.** Your insurer may offer a 'pay how you drive' policy, often known as 'telematics' or 'black box' insurance. These types of insurance policies use GPS technology to measure how a vehicle is being driven – insurers then use this information to make judgements about driving performance. If you can demonstrate that you are safe and responsible behind the wheel your insurer may offer you a lower premium.

**Build up a no claims discount.** Your insurance claims history (how many claims you have made on your policy) affects your motor insurance premium. If you have a claim-free record your insurer may reward you with a no claims discount, which builds up with each claim-free year. No claims discounts vary from insurer to insurer, but they can be as much as 30% for one claim-free year and 60% for five claim-free years. Shop around to find the best deal for you.



# Common gripes about the cost of motor insurance explained

## INSURERS ARE MAKING LARGE PROFITS AT THE EXPENSE OF HONEST MOTORISTS.

Not true. Every year since 1994 private motor insurers have paid out more in claims and expenses than they have received in premiums. For many years the shortfall could be made up by insurers' investment returns. However, the economic downturn has seen these returns fall significantly.

## CAR INSURANCE PREMIUMS ONLY EVER GO UP, AND INSURERS DON'T PASS ON ANY COST SAVINGS TO CUSTOMERS

Not true. Following Government reforms to personal injury compensation, insurers passed on over £1.1 billion in lower premiums to customers.

## INSURERS CHARGE LOYAL CUSTOMERS MORE.

Motor insurance is highly competitive: ABI-commissioned consumer research has shown that motorists are more likely to shop around for their insurance than for many other products or services such as broadband supplier, mobile phone provider, or choosing a savings account. In future all renewal notices for motor insurance (and certain other insurance products) will show both the current and new premium. This will give consumers information to help them to get the best deal.

## YOUNG DRIVERS ARE BEING PRICED OFF THE ROAD BY HIGH INSURANCE PREMIUMS.

Drivers aged 17-19 make up 1.5% of licence holders, but are involved in 9% of fatal and serious crashes.

Insurers recognise and encourage young drivers to improve their driving, through increasing use of telematics (in car devices monitoring driving) policies that can help reduce the cost of cover.

## INSURERS USE GENERALISATIONS WHEN SETTING PREMIUMS, SUCH AS USE OF POSTCODES, AND DO NOT ACCURATELY TAKE INTO ACCOUNT INDIVIDUAL CIRCUMSTANCES.

Insurers always look to set premiums that reflect an individual's risk. For example, where you live can be relevant if the crime risk is above or below average, and the risk of an accident may be greater in urban areas due to the greater number of vehicles on the road. A wide range of other factors, including your age, type of vehicle, claims history, driving record, and occupation may also be taken into account.

## INSURERS PENALISE OWNERS OF LOWER VALUE CARS BY SOMETIMES CHARGING THEM MORE FOR INSURANCE THAN THE VALUE OF THE VEHICLE.

The value of the vehicle will be relevant to the price of insurance, but of greater importance will be the risk of you being involved in a serious crash which could potentially lead to a very expensive personal injury compensation claim. The premium includes this risk, not just the cost of repairing or replacing your car.

## OLDER DRIVERS ARE PENALISED BY INSURERS EVEN THOUGH THEY ARE LIKELY TO DRIVE FEWER MILES AND HAVE MORE DRIVING EXPERIENCE

The evidence shows that the cost of the average claim increases over age 65. ABI data for 2015 shows that the average motor claim for drivers aged 76-80 is £2,685. This compares to £2,260 for drivers aged 41-45.





Association of British Insurers

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**For more information**

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