

3 November 2010

Mr M Egan  
Transport Committee  
House of Commons  
7 Millbank  
London  
SW1P 3JA

Dear Mark

**Transport Select Committee inquiry into the cost of Motor Insurance.**

The British Insurance Brokers' Association (BIBA) is the UK's leading general insurance organisation representing the interests of insurance brokers, intermediaries and their customers.

BIBA membership includes 1,700 regulated firms. Insurance brokers and intermediaries distribute nearly two-thirds of all UK general insurance. BIBA believe that approximately 50% of the UK's private motor insurance is sold through insurance brokers. This could be direct with brokers or through broker led affinity schemes or broker products on comparison sites.

BIBA would like to thank the Transport Select Committee for the opportunity to respond to inquiry.

**Executive Summary**

BIBA has been anticipating increases in private motor insurance rates for some time, with insurers making **significant underwriting losses** during the last 14 successive years. The soft market could not continue ad infinitum because of the reduction in **investment income**, rapid **claims inflation**, the intense competition and **unsustainable rates from comparison sites**. This is combined with aggressive pricing strategies such as dual pricing and illegal activities including **fraud** and **uninsured driving**. Customers have benefited from cheap premiums for many years but now the bubble has burst.

BIBA has outlined an eight point plan where we believe the Government can help.

This document is split into two parts. Part one is our general commentary on the issues. Part two is specific responses to the Transport Select Committee questions.

## Part 1 BIBA commentary

### 1. The state of the motor insurance market increases

1.1 BIBA believes that motor insurance price rises have been inevitable due to the financial losses being made by motor insurers. The key numbers are:

- £1.5billion underwriting loss in 2009 \*<sup>1</sup>
- 14 successive years of underwriting losses \*<sup>2</sup>
- For every £100 collected in premium £122 is paid in claims\*<sup>3</sup>
- Expected £1billion underwriting loss in 2010 \*<sup>4</sup>

### 2. Cause of increases

#### Claims inflation

2.1 BIBA members have reported significant claims inflation. For example, a large BIBA broker reports that seven years ago the **propensity to claim** for a non-fault injury following a motor accident was 20%. In 2010 this major broker now reports this has increased to 60%. Insurer Esure have also reported to us a 300% sudden increase in personal injury claims in the B31 postcode despite there being no increase in accidental damage claims. For every £1 Esure collect in premium they are now paying out £3 in personal injury claims in B31.

2.2 Not only has the propensity to claim increased but the **amounts awarded** are also at a record level with awards of £13 million recently being highlighted in the press and the average bodily injury claim award increasing at at least double the rate of inflation.

2.3 Change to the claims culture in the UK has been dramatic ever since Claims Direct and many others in the legal profession started major TV and media campaigns to encourage people to try to claim at every opportunity with a no win no fee offer. There is now a very high willingness to pursue a claim in the UK and the inevitable effect of this is an increase in premium to cover these extra costs.

2.4 The growth of **Claims management companies/accident management companies** has also been a significant development in recent years and we estimate they add at least £1 billion to the cost of motor claims in the UK. Although these claims management companies can offer important services to help customers with credit hire vehicles and help in pursuing recovery of uninsured losses they have also added a new level of costs, some of which our members believe are exaggerated and unnecessary.

#### Reduced investment income

2.5 There are three main reasons why insurers can no longer afford to run at an underwriting loss and rely instead on their investment returns, these are:

- The **Economic Downturn** – The worldwide financial crisis has seen the returns on investments reduce dramatically.

- **Capital adequacy solvency II** – Greater capital adequacy requirements from Europe mean that insurers must have a more conservative balance sheet and therefore are not able to invest as much as they have in the past.

- **Fewer reserves** - insurers reserves have been under pressure and rather than continuing to use dwindling reserves they must now charge a higher premium that better reflects the risks on their books.

\*1 ABI

\*2 ABI

\*3 ABI

\*4 Deloitte

## Competition/Commoditisation

2.6 **Comparison sites** – Insurance comparison sites have seen incredible growth, however this phenomenon has only recently come to prominence, since the introduction of the Financial Services Authority (FSA) insurance regulatory rules in 2005. We feel that more appropriate rules should apply.

2.7 For example, BIBA believes that where prices are reported by a comparison site they must reflect the product criteria searched for. Unfortunately this is not what is always happening as many sites return quotes that do **not** reflect the customers requested cover and instead may introduce a high excess in order to generate the lowest possible premium (so they can get the business). This reduces the premium 'pool'.

2.8 The effect that comparison sites have had on the market has been huge with some of our major brokers making 80% of their sales through comparison sites. They have proven to be a popular medium for buying insurance with customers. However, the **premiums being charged on comparison sites are below the level of what is reasonable and profitable for an insurer in many instances. Competition is good but comparison sites have created what many BIBA brokers believe to be unsustainable pricing** and the customer has been persuaded to purely search for the cheapest price due to continued television advertising and the sites being marketed as 'price comparison sites' as opposed to 'insurance comparison sites'.

2.9 Comparison sites have also introduced another level of cost to the industry but insurers are compelled to use them as they are powerful and control a large amount of volume/turnover. Another negative side effect from the comparison site is that some insurers have felt they are not prepared or are unable to compete and have withdrawn some products from the market.

2.10 **Some insurers have withdrawn** certain products or withdrawn completely from the market. These include: NIG, AXA Premier 35, Quinn, QBE Motor, Zenith (now Markerstudy). Equity motor has reduced market share by a high percentage and withdrawn delegated schemes KGM has significantly reduced capacity. Many Aviva Delegated Schemes have been withdrawn: other withdrawals or reduction in capacity include Corinthian (HSBC), RSA has withdrawn most delegated schemes, Highway (have been acquired by LV), Paragon, Brit Insurance Schemes, Prestige and Europa (underwriting Agency) have all reduced capacity.

2.11 There are some major motor insurers up for sale as well which could reduce the competition. Other insurers have increased their rates by more than 40% but say that they are still prepared to write private motor business (our members give the examples of Zurich and Brit).

## Crime

2.12 **Uninsured drivers** cost the innocent motorist more than <sup>\*5</sup> £500 million a year and this cost is passed on to motor insurance policies at approximately £30 per policy. The UK has the highest levels of uninsured driving in western Europe but this is somewhere we believe the Government can act, please see section 3.1. Continuous Insurance Enforcement.

2.13 **Fraudulent claims** have been on the increase with fraudulent motor claims costing up to £930 million a year<sup>\*6</sup>. There are many more staged accidents than there used to be as criminal gangs see the insurance industry as a soft target.

2.14 **Fraudulent misrepresentation** is another worrying side effect that has been flourishing following the success of internet sales and comparison sites. BIBA believes that the lowest levels of fraudulent misrepresentation occur when there is a face-to-face sale e.g. with an insurance broker. Misrepresentation increases when people buy from a call centre, but the highest level of misrepresentation occurs, when people buy from the internet.

2.15 Some comparison sites prompt people to get cheaper premiums by making changes to their proposal and some personal finance websites such as 'Money Saving Expert' have even encouraged people to change their job title to seek a lower quote via his 'job picker' tool. It is far easier for a customer to lie or fail to include a fact on a comparison site that makes assumptions about people and does not even ask them all the questions directly.

### **3. Steps that the Government can take to help:**

#### **Continuous Insurance Enforcement (CIE)**

3.1 The Government must press ahead with the introduction of CIE to reduce uninsured driving costs. (CIE is the new enforcement system that will systematically compare the DVLA registered keepers database with the Motor Insurance Database (MID) and industry, uninsured drivers and ensure they obtain insurance by an escalating system of penalties. It is also important that the Government support DVLA and the insurance industry with an effective CIE awareness campaign so that DVLA can fulfill their duty to make vehicle keepers aware of changes in the law. This should ultimately reduce uninsured driving and the Motor Insurers Bureau (MIB) levy.

**Signpost people to relevant broker where they can find competitive cover** (particularly young or non standard drivers)

3.2 Signposting is an important industry solution at no cost to Government. There are important benefits to consumers, particularly those in the more vulnerable age groups with more people being able to find insurance, meaning fewer are left uninsured and unprotected. The Government will benefit with an increased IPT income to Treasury.

3.3 Research carried out as part of the insurance industry 'stay insured' campaign demonstrated that young drivers have a poor insurance record as research suggests that 20 per cent or 243,000 of the 1.2 million people, aged between 17 to 20 years old on Britain's roads, do not have motor insurance.

3.4 These drivers are often rejected by comparison sites, banks or supermarkets due to their higher risk profile but they are often unaware that there are specialist insurance brokers who would be able to cater for them.

3.5 To resolve this problem we need to signpost young, inexperienced drivers to suitable insurance providers. Professor Greenaway recommended among other things in his report, 'uninsured driving in the UK' that the Department for Transport should have an easily navigable portal on the Driver and Vehicle Licensing Agency and Driving Standards Agency website, and that this should provide rapid access to information. Signposting from these sites is therefore important.

3.6 BIBA believes that signposting drivers, and particularly signposting uninsured drivers to a suitable insurance broker which can offer cover and an instalment facility will have a very positive effect on the rate of uninsured driving.

3.7 Most importantly there are road safety benefits as insured drivers are less likely to leave the scene of an accident.

3.8 Therefore by signposting more consumers to appropriate sources of insurance the financial burden will be spread across the wider insurance industry that is benefiting from the additional premium of insured clients.

3.9 BIBA sits on the HM Treasury Signposting steering group and the opportunity exists for Government to write into the Equality Act regulations a requirement for the insurance industry to

signpost rejected customers to a more suitable source. We strongly urge the Government to put through their regulations. BIBA already helped more than 340,000 people a year find suitable cover from a broker via our *Find a Broker* website [www.biba.org.uk](http://www.biba.org.uk) and our call centre 0870 950 1790.

### **Regulate comparison sites to the appropriate standard**

3.10 BIBA has sent a detailed response to the Office of Fair Trading and the FSA about appropriate regulation of comparison sites but BIBA does not wish to burden this committee with all of these issues. However we do believe comparison sites are so powerful that they must be more appropriately regulated and the prices reported by the sites must reflect the product criteria searched for, the quotes should be guaranteed, excesses should be clear, "check with insurer" must no longer be allowed, and assumptions must no longer be permitted. This would lead to a cleaner, clearer and more appropriately priced motor insurance market.

### **Review Pass Plus**

3.11 The Pass Plus system is a good idea and BIBA supports post test training. However the system is in need of an update as the claims costs to insurers of those that have undertaken the scheme do not appear to differ much from those that have not. Therefore we would recommend a root and branch review of post test training.

### **Review the Driving Test**

3.12 The current driving test has some gaps which if attended to could improve the high claims frequency and severity experienced by young drivers. In particular better attention could be paid to:

- Hazard Perception
- Attitude awareness
- Situational Judgement

### **Lord Justice Jackson's review of civil litigation costs.**

3.13 Claims costs are spiralling and BIBA believes that the report on civil litigation costs by Lord Jackson should be progressed, although we do not believe a ban on referral fees is appropriate. The personal injury claims portal helps reduce the cost of legal fees and we believe that the use of this could be expanded by allowing higher value claims to be dealt with in this way. This should reduce the cost to the industry and provide a swifter settlement of claims to the customer.

### **Insurance premium tax**

3.14 On 4<sup>th</sup> January 2010 **Insurance Premium tax** increases to 6%, we would suggest a delay to this or even an IPT "holiday" could ease the pressure for motorists while the market adjusts to the harder rates.

### **Access to driving licence records.**

3.15 BIBA has been working with the DVLA, DFT, MIB and the ABI with a view to agreeing secure access to driving licence records from the DVLA database. By verifying licence types, lengths held, dates of birth, address, convictions and penalty points a great deal of fraud could be prevented and the fair and correct premium applied to the risk. If the Government can agree to this access the cost of fraud could be reduced.

## **Part 2 – BIBA response to Transport Select Committees questions:**

### **4. The reasons and consequences of recent increases in the cost of motor insurance?**

4.1 As detailed in our part 1 response, there is no single reason for the increase, it is purely a case of claims costs outweighing the income. The main reasons are:

4.2 **Claims inflation** – The increase in the propensity to claim, the increase in the amounts awarded, the impact of claims management companies and the increases in the number of whiplash claims.

4.3 **Reduced investment income** – The economic downturn reducing return on investments, the impact of solvency II and reduction in reserves.

4.4 **Competition** - While there is a short term gain for consumers with low prices on comparison sites these prices have proven unsustainable.

4.5 **Commoditisation** – Comparison sites have effectively commoditised motor insurance but due to insufficient regulation are offering low level cover and premiums that are often below burning cost.

4.6 **Insurer withdrawals** – some insurers have withdrawn from the market or have reduced their capacity/schemes/products due to the high losses and unsustainable low prices.

4.7 **Uninsured driving** – A £500 million annual cost

4.8 **Fraudulent claims** – staged accidents and fraudulent misrepresentation have increased rapidly.

### **5. The impact on young people of the high costs of motor insurance?**

5.1 Young people represent the highest proportion of uninsured drivers in the UK with 20% of the drivers aged 17-20 expected of being uninsured. Insurance brokers are developing new products like the GPS telematics systems that charge a higher rate under certain circumstances per mile to encourage risk management with young drivers, e.g. there is a greater risk of younger drivers having an accident in an evening and therefore the rate per mile is higher, this should hopefully discourage younger drivers from driving at the most dangerous times and rewarding them with a lower premium.

5.2 The average claim for a 17-19 year old male is £3,433 compared to £1,380 for an over 50 year old male. The AA also say that the under 21 male is ten times more likely to have an accident than the over 35's. Therefore it is plain to see why the premiums are higher for younger drivers although we believe that circumstances could be greatly improved with revision of the driving test, improvements to pass plus and the introduction of telematics.

5.3 It is important to note that **there is NOT a market failure for younger drivers as there are many insurance brokers who specialise in young driver motor insurance**, it is simply a case that the young drivers need to be signposted to a suitable provider rather than be rejected by comparison sites or direct insurers and left without knowledge of where to access an appropriate broker.

### **6. The extent to which the cost of motor insurance is influenced by the prevalence of road accidents, insurance fraud, legal costs and the number of uninsured drivers?**

6.1 Motor insurance premiums are massively influenced by the effects of road accidents, insurance fraud, legal costs and the number of uninsured drivers. These elements make up the main costs of claims to the insurance industry and if tackled by Government could relieve the current situation.

## **7. Whether there are public policy implications of the rise in the cost of motor insurance and, if so, what steps the Government might take in response to them**

7.1 The rise of the cost of motor insurance was inevitable because of the issues outlined in our report above. A recent statement by Deloitte does state that if motor insurers are successful at increasing premiums whilst maintaining their customer base they could return to profitably as early as 2011 and therefore the rise in premiums should slow dramatically.

7.2 However, many insurers are failing to maintain their customer base as clients seek cheaper alternatives when they receive their increased renewal and they avoid being caught in any dual pricing situation. There are many things that the Government can do to help:

1. Introduce Continuous Insurance Enforcement (CIE) to reduce the cost of uninsured driving.
2. Introducing signposting regulations in the Equality Act in order to Signpost people to the most appropriate insurance provider where they can find competitive cover.
3. Regulate Comparison sites to the appropriate standard.
4. Review the Pass Plus system.
5. Review the driving test.
6. Implement many of Lord Justice Jackson's recommendations.
7. Give an IPT 'holiday' on motor business.
8. Provide the insurance industry access to DVLA driver licence records to reduce fraud.

7.3 Full details of our reasons for these eight points are contained in the text of this report.

## **8. Conclusion**

8.1 Renewal increases are often due to the practice of dual pricing (where new business is a cheaper rate than renewals) but customers can still use an insurance broker to find them a competitive quotation which we confidently believe would minimise the AA's 40% reported rise. We hope the Transport Select Committee can give full consideration to our eight recommendations above and particularly the signposting solution that we can help with as there is no cost to Government or the consumer and is a win win for everybody and should help motorists with standard or non standard records access suitable and competitive motor insurance.

Yours Sincerely

Graeme Trudgill ACII  
Head of Corporate Affairs  
0207 397 0218  
[trudgillg@biba.org.uk](mailto:trudgillg@biba.org.uk)

British Insurance Brokers' Association  
8th Floor  
John Stow House  
18 Bevis Marks  
London  
EC3A 7JB