

AA British Insurance Premium Index

Second quarter 2009



Summary:

The AA's benchmark British Insurance Premium Index for the second quarter of 2009 shows that average quoted premiums for **car insurance** continue to rise steeply. Average quote for an annual comprehensive policy rose by 3.5 per cent to £778.13.

Home insurance buildings premiums are also going up: the average quoted premium standing at £223.92, a rise of 2.5 per cent over the quarter. But the cost of contents cover continues to follow a falling trend, with average quoted premiums dropping by 3.2 per cent over the quarter to £122.34, which is slightly less than in 1994 when the Index started.

Car Insurance

Car insurance premiums are rising at their fastest rate for nearly a decade and increased by more than 1 per cent per month over the past quarter, according to the latest benchmark AA British Insurance Premium Index released today (30 July 2009).

Between April and June the average quoted premium for an annual comprehensive car insurance policy increased by 3.5 per cent to £778.13 and, for the year ending June 2009, premiums rose by more than 11 per cent.

The Index tracks average quoted premiums from 96 car insurers, brokers and insurance schemes across a representative basket of 1,000 'customers' throughout the UK.

The Shoparound index, which is an average of the lowest three premiums quoted for each Index risk, and is more typical of the premiums most people will pay, also rose sharply: by 4.4 per cent to £526.42.

Simon Douglas, director of AA Insurance, says recent comments that premiums are static, based on quotes from aggregator websites, are misleading. "The fact remains that underlying premiums are rising more steeply than they have since 2000 because of rising costs. There's no getting away from the fact that the industry continues to suffer underwriting losses, which are predicted to be in excess of £240 million this year.

"Customers are being tempted by cheaper quotes that offer lower levels of cover with high excesses so it is really important that they talk to their insurer to make sure that the cover meets their needs before they buy.

"Unusually, the Shoparound index rise is steeper than the underlying Index trend. This suggests that insurers and brokers who have been discounting most to gain market share through comparison sites are recognising the need for rates to rise to return the sector to profitability," he says

This trend is reinforced in the 2009 Mintel Motor Insurance report, which pointed out that large premium increases are necessary to resolve lack of profitability, especially in the aggregator sector. Douglas agrees and says that price competition encouraged by comparison sites, at a time when costs continue to increase, isn't sustainable in the longer term.

“Although the number of accidents on Britain’s roads is thankfully falling, the cost of claims continues to rise – particularly personal injury claims and legal expenses. During the current downturn, fraudulent claims are also putting pressure on premiums and I’m concerned that this is leading to an increase in the number of people who drive without insurance, currently estimated to be 1.6 million. The burden of claims involving uninsured drivers unfortunately falls to honest drivers, to the tune of £30 per policy.”

The Index also suggests that young drivers once again appear to be shouldering a greater share of premium increases.

“The average quoted premium for third party, fire and theft (TPFT) insurance, typically bought by young and inexperienced drivers, rose by 4.6 per cent over the quarter to £968.22. The Shoparound premium rose 5.3 per cent to £669.67,” Douglas says.

He points out that a growing number of insurers are withdrawing TPFT cover and only around half will quote for drivers aged under 21, who make 10 times more claims than drivers aged 35. Nevertheless, I believe the industry must do more to help young drivers get on the road safely and responsibly, rather than shutting the door on them or making premiums unaffordable.”

Douglas concludes: “I don’t see the pressure on premiums easing. Over the past three months more than 90 per cent of quotes in the AA Index added £5 or more to their premiums and only 2 per cent fell. During the previous quarter, 20 per cent had reduced their premiums.

“Last year I predicted that we would see premium increases of 10 per cent or more and current evidence supports this”.

Car insurance market summary							
	Second quarter 2009 changes			12 month changes		1994 base	
Average Premium	Jul-09	Apr-09	% Change	Jul-08	% Change	Jul-94	% change
Comprehensive	£778.13	£751.60	+3.5	£699.13	+11.3	£328.25	+137.1
3rd Party Fire & Theft	£968.22	£925.53	+4.6	£905.45	+6.9	£374.24	+158.7
Shoparound Premium	Jul-09	Apr-09	% Change	Jul-08	% Change	*	*
Comprehensive	£526.42	£504.38	+4.4	£478.70	+10.0	*	*
3rd Party Fire & Theft	£669.67	£636.05	+5.3	£593.60	+12.8	*	*

* Shoparound was not calculated during early Indices

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Home Insurance

Home buildings insurance premiums continue to rise, according to the latest quarterly AA British Insurance Premium Index released today (30 July 2009). But the latest figures in the quarterly benchmark study of insurance premium trends shows that home contents premiums are falling.

The Index tracks the movement of premiums quoted from 79 insurers, brokers and schemes for a basket of 750 UK home insurance 'customers'. It shows that the average quoted premium for an annual buildings insurance policy rose for the sixth successive quarter. It now stands at £223.92, a 2.5 per cent rise over the past quarter and 10.1 per cent over 12 months.

The rise is even more marked in the Shoparound Index, which is an average of the lowest three quotes for each customer and closer to the premium most people would pay, with a 4.2 per cent rise to £133.13.

Conversely, the average quote for a home contents insurance policy fell by 3.2 per cent to £122.34, which is just a few pence cheaper than when the Index was established in 1994 and is at its cheapest since 2001. The Shoparound price fell by an unprecedented 5 per cent to £66.87.

However, the cost of a combined buildings and contents policy rose by 2 per cent to £298.40 – which is more than the average quoted premium for separate buildings and contents policies added together. Simon Douglas, director of AA Insurance, says: "This underlines the fact that even if you get a great price on buildings, the same insurer won't necessarily offer the best deal for contents (or vice versa)."

Commenting on the upward trend in the cost of buildings cover, Douglas says that insurers are beginning to reflect concern about climate change in their premiums. "The industry is expecting rising cost and frequency of claims for flooding, subsidence and storm damage.

"Such claims aren't simply confined to areas prone to flooding – for example, compared to the first six months of 2008 there has been a 15 per cent rise in the number and cost of payments for buildings damaged by flash floods and storms in areas with little or no previous record of such claims.

"Meanwhile, tighter building regulations means that structural repairs must meet modern standards for such things as electrical wiring and insulation. As a result, the cost of meeting a claim – particularly for older properties – has been rising steadily.

Douglas says that that isn't the case with contents where the cost of claims simply reflects the cost of replacing such things as carpets and furniture. And, despite the recession, the number of theft claims has fallen slightly although the average claim cost has increased.* He adds that insurers are becoming better at pricing risk which is exaggerating the difference in premium between high and low crime areas.

"The number of fraudulent claims detected has also gone up by 30 per cent this year,* suggesting that insurers are becoming more skilled at identifying and dealing with potential fraud. This is good news for honest customers because, as we are seeing, it contributes to falling premiums."

Nevertheless, Douglas believes that contents premiums are unlikely to fall much further while buildings premiums will continue to rise. “Even so, home insurance is very good value and remains competitive. Homeowners can benefit by carefully choosing the cover they need – buying cheap doesn’t necessarily mean buying savvy. This is where brokers such as AA Insurance can play a vital part by identifying the best and cheapest buildings and contents cover.”

* Source: Association of British Insurers

Home insurance market summary							
	Second quarter 2009 changes			12 month changes		1994 base	
Average Premium	Jul-09	Apr-09	% Change	Jul-08	% Change	Jul-94	% change
Buildings	£223.92	£218.53	+2.5	£203.38	+10.1	£193.78	+15.6%
Contents	£122.34	£126.34	-3.2	£130.53	-6.3	£122.61	-0.2
Combined	£298.40	£292.54	+2.0	n/a	n/a	n/a	n/a

Shoparound Premium	Jul-09	Apr-09	% Change	Jul-08	% Change	*	*
Buildings	£133.13	£127.82	+4.2	£126.42	+5.3	*	*
Contents	£66.87	£70.40	-5.0	£72.63	-7.9	*	*
Combined	£191.90	£189.32	+1.4	n/a	n/a	*	*

* Shoparound was not calculated during early Indices

NOTES FOR EDITORS

The AA British Insurance Premium Index has been tracking both home and car insurance premiums since July 1994 and has become an industry benchmark for measuring premium trends. The Index now tracks a basket of 1,000 motor risks (800 comprehensive and 200 TPFT) against premiums from 81 insurers, brokers and insurance schemes and a basket of 750 risks for each of home buildings, contents and combined from 75 insurers, brokers and insurance schemes. Where a provider typically offers the cheapest premium from a panel of insurers, the cheapest is tracked (rather than all of them) which provides a more realistic comparison. The Shoparound premium is arrived at by averaging the cheapest three premiums for each risk.

Source: AA Insurance – British Insurance Premium Index

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Media contact: Ian Crowder, 01256 492 844 or ian.crowder@theAA.com

AA British Insurance Premium Index Market average trends since 1994

