

Car insurance

'UNPRECEDENTED' PREMIUM INCREASES HIT DRIVERS HARD, AA INDEX FINDS

Car insurance premiums are rising faster than at any time over the past 15 years, according to the latest AA British Insurance Premium Index.

The Index, which tracks the quarterly movement of car and home insurance quotes, recorded a 5.6 per cent jump for comprehensive car insurance, over the three months ending 30th September.

This is the biggest single quarterly jump since the Index started in 1994. The index has also shown the greatest-ever annual increase with 14 per cent added to the average comprehensive premium.

The Index analyses quotes from over 90 insurance companies, brokers and schemes for 1,000 'customers' nationwide. The average quoted premium for an annual comprehensive car insurance policy now stands at over £821, compared to £778 in July 2009 and £721 in October 2008.

"Most drivers will be seeing sharp increases when they renew their annual insurance premiums," says Simon Douglas, director of AA Insurance. "The Index suggests that 89 per cent of insurers have increased their premiums by more than £5 over the past quarter. Only 2.5 per cent reduced them."

The Shoparound index, which is an average of the cheapest three quotes for each 'customer' in the Index and closer to the price customers would pay after shopping around, showed a slightly lower increase of 4.8 per cent, to just under £552.

Young drivers hardest hit: But it's young drivers who appear to have taken the brunt of the rises. Third party, fire & theft (TPFT) premiums typically bought by young drivers (on a like-for-like basis, TPFT is cheaper than comprehensive cover), rocketed by 9.3 per cent this quarter (17.6 per cent over the year), to an average quoted premium of £1,059. The Shoparound index similarly rose by 8.3 per cent (20.7 per cent over the year) to £725.

Douglas described the premium increases over the past as 'unprecedented',

"Last year one industry commentator* said that premiums must increase by at least 20 per cent if the car insurance sector was to return to profitability. At the time I thought this unlikely but it looks as if that prophecy might be fulfilled.

"Car insurers are facing fast rising costs, reserves for paying claims are depleted and investment income has fallen, largely because of the recession.

"I estimate that across the industry, up to £110 is being paid in claims for every £100 taken in premiums – a situation that is clearly unsustainable. "Despite motor insurance being one of the most competitive markets in the UK, insurers have little choice but to put premiums up."

AA British Insurance Premium Index

Third quarter 2009



Douglas says that the greatest pressure from rising premiums is coming from personal injury claims and fraud, while more people seem to be risking driving without insurance despite the increasing success of police in stopping them and confiscating uninsured cars.

Theft of upmarket cars – especially by robbery and burglary of keys – has also increased sharply with AA’s own claims up 15 per cent over six months. “Last year, 20,000 cars worth at least £600 million disappeared in this way and that number appears to be rising fast,” he says.

Douglas is also concerned that young drivers appear to be faring worst in the rate increases.

“I’m worried that premiums are fast becoming unaffordable for young drivers and that might encourage them to risk taking to the road without insurance,” he says.

“Many insurers are withdrawing TPFT cover and more than half won’t insure under 20-year-olds. In addition, young drivers, who shop around on the internet for their cover, are least likely to remain with their first provider so companies are less likely to offer introductory discounts. With some cheaper insurers moving out of this market, the average quoted premium has increased.”

Key factors fuelling premium increases

- Personal Injury claims and associated legal costs are rising, topping £9.6bn last year, of which 40 per cent was legal costs
- Fraud cost the industry £1.9bn, equivalent to £44 for every household’s insurance costs. AA Insurance has seen a 30 per cent rise claims refused because of false information
- Around 1 in 20 drivers is uninsured. Police success in prosecuting uninsured drivers and confiscating their cars (around 185,000 last year) doesn’t seem to be discouraging people from risking driving without cover to save money, despite the likelihood of being caught
- Car thefts are rising, especially expensive models, by first stealing the keys with 15 per cent more claims over the past year
- Insurance underwriting losses, about £110 paid out for every £100 taken in premiums coupled with depleted reserves and poor investment returns

* Datamonitor report: UK Private Motor Industry published 13th March 2008

Car insurance market summary							
	Third quarter 2009 changes			12 month changes		1994 base	
Average Premium	Oct-09	Jul-09	% Change	Oct-08	% Change	Jul-94	% change
Comprehensive	£821.41	£778.13	+5.6	£720.83	+14.0	£328.25	+150.2
3rd Party Fire & Theft	£1058.64	£968.22	+9.3	£900.42	+17.6	£374.24	+182.9

Shoparound Premium	Oct-09	Jul-09	% Change	Oct-08	% Change	*	*
Comprehensive	£551.74	£526.42	+4.8	£488.48	+12.9	*	*
3rd Party Fire & Theft	£725.12	£669.67	+8.3	£600.60	+20.7	*	*

* Shoparound was not calculated during early Indices

Home Insurance

HOME INSURANCE PREMIUMS RISING, SAYS AA INDEX

The cost of an annual home buildings insurance policy rose again for the sixth successive quarter, while the cost of contents cover has bounced up following recent falls according to the latest AA British Insurance Premium Index.

The average quoted premium for a buildings insurance policy rose by 1.6 per cent over the quarter, and 9.8 per cent over the year, to over £227: its highest level since the Index began in 1994. Contents premiums also rose just 1.8 per cent to £125 but this is still a few pence less than this time last year. The cost of a combined buildings and contents policy remains almost unchanged at £298.

The AA Index has been tracking home and car insurance premium movements every quarter since 1994, taking premium quotations from 85 insurance providers for a representative basket of 800 'customers' throughout the UK.

The Shoparound index, which averages the lowest three premiums for each 'customer' and is closer to what most people are likely to pay for their cover after shopping around, showed small falls for all three types of cover, suggesting that the market remains highly competitive. Average Shoparound premiums were: buildings, £130 (down 2.1 per cent); contents £67 (down 0.4 per cent and combined £192 (no change).

"Home insurance offers remarkable value for money despite the nearly 10 per cent rise in the cost of buildings cover over the past year," says Simon Douglas, director of AA Insurance.

"Many commentators believed that the recession would see significant rises in theft and accidental damage claims, and thus premiums, but this hasn't proved to be the case. Although insurers are reporting increased claims, these only now seem to be affecting contents premiums which, over recent months, had been falling.

"So far as home buildings insurance is concerned, a rising number of sporadic severe weather events such as including storm damage and localised flooding, is forming an increasingly disproportionate share of claims costs.

AA British Insurance Premium Index

Third quarter 2009



“The industry is also concerned that more funding is needed to improve drainage systems and flood defences and expects the value and frequency of storm claims to continue increasing – insurance premiums have been reflecting that.”

Home insurance market summary							
	Third quarter 2009 changes			12 month changes		1994 base	
Average Premium	Oct-09	Jul-09	% Change	Oct-08	% Change	Jul-94	% change
Buildings	£227.41	£223.92	+1.6	£207.08	+9.8	£193.78	+17.4
Contents	£124.59	£122.34	+1.8	£125.00	-0.3	£122.61	+1.6
Combined	£298.26	£298.40	-0.0	n/a	n/a	n/a	n/a

Shoparound Premium	Oct-09	Jul-09	% Change	Oct-08	% Change	*	*
Buildings	£130.33	£133.13	-2.1	£123.60	+5.4	*	*
Contents	£66.62	£66.87	-0.4	69.87	-4.7	*	*
Combined	£191.88	£191.90	-0.0	n/a	n/a	*	*

* Shoparound was not calculated during early Indices

Ends/more

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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GRAPH FOLLOWS

AA British Insurance Premium Index

Third quarter 2009



AA British Insurance Premium Index Market average trends since 1994

