



Insurance News Release

Tuesday, 15th July 2008

INSURANCE PREMIUMS RESUME UPWARD TREND, AA INDEX FINDS

Young drivers hardest hit

Hard-pressed car owners can expect to find the search for cheap insurance premiums more difficult as premiums resume their upward trend, following a brief respite over the previous quarter, according to the latest release of the AA's quarterly British Insurance Premium Index.

At a time when motorists are struggling to meet car running expenses the rising cost of insurance is adding to the burden. The Index, which has been tracking industry-wide car and home insurance premiums since 1994, shows that over the three months ending June 2008 more than £20 has been added to the average quoted premium for comprehensive car insurance, which now stands at over £700.

Young drivers, who typically buy third party, fire and theft insurance and already pay the highest car insurance premiums, are hardest hit because they are the most likely to make a claim. Since the last Index in March 2008, more than £45 has been piled on to the average premium they can expect to be quoted, which is now £884.

Simon Douglas, director of AA Insurance, says: "Car insurance costs are spiralling. While the number of casualties on Britain's roads is falling¹ the cost of accidents is rising and young drivers are taking an increasing share of the toll². Insurers are also concerned about rising legal costs and personal injury claims and I expect the upward trend in premiums to continue.

"These findings are not good news for those with Third Party, Fire & Theft (TPFT) insurance, typically young drivers struggling to pay their first insurance premiums. But young men aged 21 or under are 10 times more likely to be killed or seriously injured on our roads than those aged 35 or over. The figures speak for themselves: the average insurance claim made by young drivers is nearly four times greater than claims made by drivers aged 30 or over³.

more

Simon Douglas adds: “It’s vital that the industry and road safety groups work together to find ways of getting young drivers on the road safely and responsibly – and with affordable insurance premiums. The AA is exploring ways to do just that.”

An end to cheap home insurance?

One year on from last summer’s disastrous floods, the latest release of the AA’s British Insurance Premium Index has recorded a modest £1 (0.5%) rise in the average quoted premium for buildings insurance to £209.52, over the quarter ending 30th June 2008. Over the 12 months since July 2007, the average quoted premium rose by 4.3 per cent.

But the most dramatic change is a 22 per cent annual rise in the Shoparound index (an average of the lowest three premiums for each risk quoted in the Index) for Buildings cover. Since last year’s floods, the average quoted Shoparound premium rose to £126.29 from £103.60 in July 2007.

The average quoted premium for contents cover rose by just 12p over the same period to £128.69 while for combined buildings and contents policies, the premium rose 2.2 per cent to a few pence under £300.

Says Simon Douglas, director of AA Insurance: “Although home insurance premiums are not rising quickly, it appears that the days of cheap home insurance deals may be numbered. I believe the sharp rise over the past year indicated by the Shoparound index for buildings cover suggests that those insurers offering the lowest premiums have revised their rates to take account of predictions of more frequent flash flooding events.”

Simon Douglas points out that the Environment Agency⁴ is introducing new mapping that takes into account the risk of sudden flooding as a result of heavy rainfall that can overcome local drainage systems and could affect thousands of homes, a risk that the industry will need to manage. “Last year, the insurance industry dealt with 180,000 flood claims in 23 counties, paying out £3bn in claims. Around half of those were in areas not known to be prone to flooding⁵.”

He adds: “I welcome the announcement⁶ from the Government and the ABI that the Government is promising long-term flood defence investment, which means that the insurance industry will continue to cover families at risk. However, I believe that for many people, home insurance premiums will continue their upward trend.”

Home insurance market summary							
	Second quarter 2008 changes			12 months changes		1994 base	
Average Premium	Jul-08	Apr-08	% Change	Jul-07	% Change	Jul-94	% change
Buildings	£209.52	£208.51	+0.5	£200.80	+4.3	£199.62	+5.0
Contents	£128.69	£128.57	+0.1	£124.54	+3.3	£120.88	+6.5
Combined	£299.42	£293.11	+2.2	n/a	n/a	n/a	n/a

Shoparound Premium	Jul-08	Apr-08	% Change	Jul-07	% Change	*	*
Buildings	£126.29	£120.70	+4.6	£103.6	+21.9	*	*
Contents	£72.41	£70.29	+3.0	£71.53	+1.2	*	*
Combined	£192.87	£183.80	+4.9	n/a	n/a	*	*

Car insurance market summary							
	Second quarter 2008 changes			12 months changes		1994 base	
Average Premium	Jul-08	Apr-08	% Change	Jul-07	% Change	Jul-94	% change
Comprehensive	£702.47	£681.93	+3.0	£664.15	+5.8	£328.05	+114.1
3rd Party Fire & Theft	£883.96	£838.50	+5.4	£790.02	+11.9	£372.15	+137.5

Shoparound Premium	Jul-08	Apr-08	% Change	Jul-07	% Change	*	*
Comprehensive	£476.70	£459.44	+3.8	£449.87	+6.0	*	*
3rd Party Fire & Theft	£583.71	£549.35	+6.3	£516.35	+13.0	*	*

* 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 85 insurers, brokers and insurance schemes and a basket of 750 risks for each of home buildings, contents and combined from 77 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

© Automobile Association Insurance Services Limited 2008. All rights reserved.

References:

- 1 Department for Transport Road Casualties in Great Britain 2007, 30,720 people killed or seriously injured in 2007, 4% down on 2006
- 2 In 2006, 29% of drivers killed or seriously injured were aged under 25, in 2000, that figure was 25% (Department for Transport)
- 3 17-19 year old male, average claim size £4,473; 30-50 year old, average claim size £1,450 (ABI)
- 4 As reported in *The Times* 6 July 2008
- 5 The Summer Floods 2007: One year on and beyond (ABI June 2008)
- 6 ABI / Defra agreement 11 July 2008

more

AA British Insurance Premium Index Market average trends since 1994

