



Insurance News Release

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CAR INSURANCE PREMIUMS RISING WHILE HOME INSURANCE STALLS AA INDEX FINDS

- UPWARD CAR INSURANCE TREND SET TO CONTINUE

The latest figures from the AA's benchmark British Insurance Premium Index offer little relief for car owners as the upward trend in the cost of car insurance premiums continues.

The UK average premium quoted for an annual comprehensive insurance policy rose 3.1 per cent or £22 over the past quarter, a similar rise to the previous three months. Over the year, quoted premiums have risen by £50 or 7.6 per cent, to an average of £724.28.

The Shoparound index, which better reflects the premiums paid after buyers shop around, has also risen. Buyers can now expect to shell out £486 for their annual comprehensive cover: £10 (2 per cent) more than three months ago and a rise of £39 (8.7 per cent) since this time last year.

The average quoted premium for Third Party, Fire and Theft (TPFT) cover, typically bought by young drivers, has reduced fractionally (by just 0.6 per cent to £879). Young and inexperienced drivers are finding fewer insurers prepared to quote for TPFT risks and Allianz is the latest to withdraw from this market. However, the underlying trend is still upwards with the Shoparound index recording a rise of 1.2 per cent (£7) over the past quarter to £591. This is more than £62 higher than the typical premium paid at the same time last year, a massive 11.6 per cent increase.

The AA Index has tracked industry-wide car insurance premiums for 1,000 different risks throughout the country, averaged to provide a benchmark index figure, since 1994. The Shoparound index is an average of the lowest three premiums quoted for each risk.

Simon Douglas, director of AA Insurance, says: "Despite these rises the car insurance industry continues to make an underwriting loss: for every £100 taken in premiums, more than £105 is paid in claims.* Insurers are particularly concerned about increasing legal costs and personal injury claims which last year rose by 22 per cent.*"

But he points out that the greatest insurance losses are amongst young inexperienced drivers, particularly men. Although they pay premiums that are typically up to twice that of women of the same age they also make by far the largest claims.

“The average car accident insurance claim for a young male driver is nearly £4,500 compared with £2,700 for their female peers. For drivers aged over 30, the average claim is £1,400 for men and £1,200 for women.*

“The withdrawal of another insurer from this arena suggests that companies are carefully looking at their costs.”

Simon Douglas says that he is encouraged by the latest casualty figures from the Department for Transport which show that the number of people killed or seriously injured on Britain’s roads continues to fall. “But sadly, young drivers are taking an increasing share of that toll: it is believed that 17 per cent of drivers are aged under 25 yet they account for nearly a third (29.1%)** of casualties. The insurance premiums they pay reflect that.”

He adds: “I believe that despite competitiveness of the car insurance market, all these factors mean that premiums will continue to rise.”

*Source: Association of British Insurers

**Source: Department for Transport Road Casualties September 2007

Car insurance market summary							
Average Premium	Second quarter 2008 changes			12 months changes		1994 base	
	Oct-08	Jul-08	% Change	Oct-07	% Change	Jul-94	% change
Comprehensive	£724.28	£702.47	+3.1	£673.10	+7.6	£328.05	+120.8
3rd Party Fire & Theft	£879.06	£883.96	-0.6	£818.25	+7.4	£372.15	+136.2

Shoparound Premium	Oct-08	Jul-08	% Change	Oct-07	% Change	*	*
Comprehensive	£486.45	£476.70	+2.0	£447.44	+8.7	*	*
3rd Party Fire & Theft	£590.60	£583.71	+1.2	£529.12	+11.6	*	*

* Shoparound was not calculated during early Indices

- **HOME INSURANCE PREMIUMS EASING, AA INDEX SAYS**

The latest benchmark AA British Insurance Premium Index of home insurance premiums recorded a small quarterly rise in the average quoted premium for an annual buildings insurance policy, which now stands at £213.32, about £3 or 1.8 per cent higher than the previous quarter.

Since the flooding of July last year, the average premium quoted for buildings cover has risen by only about £13, or 6.7 per cent, considerably less than some commentators predicted.

However, average quoted premiums for both contents and combined (buildings and contents) insurance fell. Contents premiums dropped by nearly £5 or 4.2 per cent over the past quarter while £6 (1.9 per cent) was wiped from the average quoted premium for combined buildings and contents policies.

The Shoparound index, which is an average of the lowest three premiums quoted for each of the 750 home insurance risks in the Index and a better measure of what buyers would pay after shopping around, fell over the quarter for all three types of home policy. The Shoparound premium

for buildings cover dropped by 2.2 per cent to £123.47; for contents by 3.8% to £69.66 and combined by 3.6 per cent to £185.94.

Simon Douglas, director of AA Insurance, says: “I expected both buildings and contents cover to continue their upward trend so I am a little surprised that the Index is showing these falls.

“However, home insurance has become an extremely competitive market with some compelling offers over the past quarter and the quoted premiums reflect that.

“We have also seen some insurers looking carefully at which risks they are willing to cover or are asking customers to refer for a bespoke quote, particularly those in areas where claims for flooding or theft are most likely and premiums would therefore be high. At the same time, we’re seeing premiums reducing for safer risks and this has had an effect on the Index result.”

Simon Douglas points out that although flood risk and other consequences of climate change continue to concern insurers, there is considerable competition for new business which helps to keep premiums in check.

He adds: “For most people, home insurance continues to offer remarkable value for money as average premiums are little higher than they were when the AA Index began in 1994.”

Home insurance market summary							
Average Premium	Second quarter 2008 changes			12 months changes		1994 base	
	Oct-08	Jul-08	% Change	Oct-07	% Change	Jul-94	% change
Buildings	£213.32	£209.52	+1.8	£205.98	+3.6	£199.62	+6.9
Contents	£123.24	£128.69	-4.2	£126.75	-2.8	£120.88	+2.0
Combined	£293.70	£299.42	-1.9	n/a	n/a	n/a	n/a

Shoparound Premium	Oct-08	Jul-08	% Change	Oct-07	% Change	*	*
Buildings	£123.47	£126.29	-2.2	£109.60	+12.7	*	*
Contents	£69.66	£72.41	-3.8	£72.12	-3.4	*	*
Combined	£185.94	£192.87	-3.6	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 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

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

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Graph here

AA British Insurance Premium Index Market average trends since 1994

