



AA British Insurance Premium Index Quarter 2 2010

July 2010

The British Insurance Premium Index (Index) records premium movements for 2,800 car insurance 'customers' throughout the UK, from more than 80 insurers, brokers and schemes. The premiums are averaged to provide a market 'average quoted premium', while the **Shoparound** premium is an average of the cheapest three premiums returned for each 'customer' in the basket of risks, and is thus closer to what customers pay for their cover. For home insurance, average premium movements are calculated from 750 customers in the basket of risks and from about 75 insurers, brokers and schemes.

The same basket of risks is used to calculate average premiums from price comparison sites.

The Index started separately racking for **comparison sites** (aggregators) from the fourth quarter 2009. The same basket of risks for both home and car insurance is used to obtain prices from selected comparison sites, and works in the same way as the main Index.

Raw data was provided by Premium Research Ltd and Experian.

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AA British Insurance Premium Index



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Motor insurance premiums – Quarter 2 2010

AA Index shows fraud pushes biggest car premium rise

Fraud is helping to push car insurance premiums up at their fastest-ever rate, according to the latest AA British Insurance Premium Index.

During the quarter ending 30 June premiums rocketed by more than 11% – the biggest increase recorded by the benchmark study since it started tracking quarterly car and home insurance premium trends 16 years ago.

The **Shoparound** premium – an index of the cheapest quotes – topped £704 for an annual comprehensive car policy, up 11.5% in just three months. The previous biggest increase was only six months ago.

The Shoparound index for policies sold through **price comparison sites** rose even more sharply, by 12.7%.

Shoparound premiums for third party, fire and theft cover (TPFT), often bought by young drivers, climbed by 15.9%, and by 17.1% on the price comparison site index.

Edmund King, President of the AA, says: "The latest bulletin of the British Crime Survey [published July 2010] suggests that crime levels are falling, but crucially it misses a new 21st-century wave of fraud, such as providing false information and claiming for non-existent personal injuries, which just isn't being picked up."

He points out that premiums on price comparison sites have been rising fastest: "It's now much easier to get an insurance quote online. For example, comparison sites can enable dishonest individuals to manipulate information to get a lower premium. Insurers are increasingly charging higher prices to these people to cover the increased fraud risk."

"This quarter's record increase comes on top of previous record rises. For those shopping on comparison sites, average premiums have climbed by an eye-watering 32.8% – or £193 – in just nine months. Even those taking the cheapest prices have typically seen them rise by £98."

"Last year the cost of meeting claims exceeded premium income by 22%, and the spiralling increases we're seeing show that insurers are trying to fill that chasm."

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Car insurance premiums spiralling

Index findings quarter 2 2010

- comprehensive car insurance up 12.1% to £980.05
- Third party, fire and theft (TPFT) cover up by 15.8% to £1,224.99

Shoparound index

- comprehensive cover up 11.5% to £703.79
- TPFT rose by 15.9% to £963.79

Comparison sites (aggregator) price movements quarter 2 2010

- comprehensive cover up 12.6% to £783.93
- TPFT rose by 13.3% to £803.79

Comparison sites (aggregator) Shoparound index

- comprehensive cover up 12.7% to £536.13
- TPFT rose by 17.1% to £700.21

Note: the same basket of risks is used for both main and aggregator indices.

More rises in the pipeline

Simon Douglas, director of Britain's leading car and home insurance broker, [AA Insurance](#), believes that premiums still have some way to rise. For the first quarter he can recall, not a single provider reduced their average premiums, while those on the comparison sites are rising at a faster rate than the market as a whole, gradually closing the premium gap.

Douglas says: "Insurers have been making huge underwriting losses – some estimates suggesting that for every £1 taken in premiums £1.22 is being paid out in claims. The losses have been made worse by poor investment performance and the weak pound, so insurer reserves are running on empty.

"Since January last year average quoted premiums have risen by over 30%, and I won't be surprised if, by the end of 2010, we'll have witnessed an unprecedented 50% rise in just two years."

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Young drivers hit hardest

The biggest premium increases are reserved for customers buying TPFT cover, typically bought by young drivers buying cheaper, older cars.

"More and more insurers are withdrawing this type of cover because it is unprofitable. In a few years it could well disappear altogether," Douglas believes. "As it is, it's often possible to buy comprehensive insurance cheaper than TPFT. In addition, under-21-year-olds looking for cover on a price comparison site will find that fewer than half of the companies listed will offer a quote."

Douglas is concerned that many young drivers may be tempted not to insure their cars at all: "But you're unlikely to get away with it. Number-plate recognition equipment on police cars and at the roadside quickly identifies uninsured vehicles, which can soon result in prosecution and the car being confiscated and crushed.

"After that it will be extremely difficult and even more costly to obtain insurance in future."

Rising claims

Douglas says that claims inflation is largely to blame for premium increases: "Although the number of accidents on Britain's roads has thankfully been falling, the cost of repairing cars has been rising at a rate of between 7 and 10%.

"Added to that, the number and value of personal injury claims being made following car accidents have been rising. Many people who may not have bothered to make a claim for minor or even non-existent injuries in past accidents are being encouraged to do so by unscrupulous accident injury claim lawyers."

Douglas also says that despite the UK's falling crime levels, insurance fraud is increasing. He points out that it is easy to be 'economical with the truth' when buying insurance with online applications, making it easy to manipulate information such as ignoring past claims or convictions, to get the cheapest price. Fraudulent personal injury claims have also been increasing according to many insurers, and new statistics to be published shortly by the Association of British Insurers are expected to show a significant jump in the cost of detected fraud to the insurance industry.

"Ultimately, all of this fuels the cost of insurance, as the Index dramatically illustrates," adds Douglas.

Continued

Motor insurance premiums – Quarter 2 2010

Summary tables

Car insurance direct providers

	Jul-10	Apr-10	% change	Jul-09	% change	Jul-94	% change
Market average							
Comprehensive	£980.05	£874.37	12.1	£798.10	22.8	£336.67	191.1
TPFT	£1,224.99	£1,058.18	15.8	£930.54	31.6	£359.68	240.6
Shoparound							
Comprehensive	£703.79	£631.07	11.5	£537.86	30.9	n/a	n/a
TPFT	£963.79	£831.35	15.9	£645.30	49.4	n/a	n/a

Car insurance comparison sites

	Jul-10	Apr-10	% change	Jul-09	% change
Market average					
Comprehensive	£783.93	£696.39	12.6	n/a	n/a
TPFT	£803.79	£709.49	13.3	n/a	n/a
Shoparound					
Comprehensive	£536.13	£475.62	12.7	n/a	n/a
TPFT	£700.21	£597.94	17.1	n/a	n/a

Download the Index (csv file) for motor insurance

[2,800 risks for car insurance](#)



Home insurance premiums – Quarter 2 2010

Home insurance premiums moving up

Home insurance premiums have risen according to the latest benchmark British Insurance Premium Index, with the **Shoparound** price for buildings rising by 1% and contents by over 2%. However, insurers are reporting more theft claims, suggesting that premiums may come under growing pressure after several years of relatively little movement.

Index findings quarter 2 2010

- buildings insurance up 2.5% to £209.34
- contents insurance up 1.4% to £110.85
- combined home and contents up 0.6% to £283.43

Shoparound index

- buildings insurance up 1.0% to £126.86
- contents insurance up 2.3% to £68.74
- combined home and contents up 3.3% to £193.89

Comparison sites (aggregator) price movements quarter 2 2010

- buildings insurance up 1% to £159
- contents insurance up 1.2% to £97
- combined home and contents up 0.7% to £225

Comparison sites (aggregator) Shoparound index

- buildings insurance up 1.4% to £114
- contents insurance up 2.8% to £61
- combined home and contents up 1.6% to £165

Note: the same basket of risks is used for both main and comparison site indices.

Upward drift

Premiums in the home insurance market have moved little since the Index began, although over the past year the average cost of a home buildings policy has risen by nearly 13% and this shows little sign of easing. Contents cover, on the other hand, has risen slightly after previous falls. Similar patterns are shown by both the direct and broker market as well as on price comparison sites.

Continued



Simon Douglas, director of [AA Insurance](#), says: "Buildings cover has over recent years suffered from the effects of weather damage, which can occur almost anywhere. Events that were once rare or isolated are becoming more common, and insurers are concerned that they are able to meet future severe weather and flood claims.

"The severe winter also caused damage to thousands of homes with burst pipes and damage to roofs and gutters.

"I believe that we'll see premiums continue to rise, perhaps adding a further 10% to the cost of an average buildings policy by the end of the year.

"On the other hand, contents insurance has moved little over the past decade or so. Although insurers are reporting growing numbers of theft and accidental damage claims, this continues to be a highly competitive market. And although I don't think this increase marks the start of a trend, insurers are concerned that they will need to build their reserves before long."

Douglas adds that during a recession families seeking to economise often decide not to renew their contents cover: "Unfortunately, that's just when claims tend to rise so this could be a short-sighted strategy."

The average Shoparound cost of a combined home and contents policy also rose, by 3.3%, and by 1.6% on price comparison sites.

Continued

Home insurance premiums – Quarter 2 2010

Summary tables

Home insurance direct providers

	Jul-10	Apr-10	% change	Jul-09	% change	Jul-94	% change
Market average							
Buildings	£209.34	£204.21	2.5	£185.42	12.9	£160.46	30.5
Contents	£110.85	£109.34	1.4	£104.59	6.0	£104.82	5.8
Combined	£283.43	£281.68	0.6	£255.15	11.1	n/a	n/a
Shoparound							
Buildings	£126.86	£125.61	1.0	£121.10	4.8	n/a	n/a
Contents	£68.74	£67.18	2.3	£61.65	11.5	n/a	n/a
Combined	£193.89	£187.76	3.3	£175.68	10.4	n/a	n/a

Home insurance comparison sites

	Jul-10	Apr-10	% change	Jul-09	% change
Market average					
Buildings	£159	£158	1.0	n/a	n/a
Contents	£97	£96	1.2	n/a	n/a
Combined	£225	£223	0.7	n/a	n/a
Shoparound					
Buildings	£114	£112	1.4	n/a	n/a
Contents	£61	£59	2.8	n/a	n/a
Combined	£165	£162	1.6	n/a	n/a

Download the Index (csv file) for home insurance:

[750 risks for home buildings insurance](#)

[750 risks for home contents insurance](#)

[750 risks for home combined insurance](#)