



AA British Insurance Premium Index Quarter 3 2010

October 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 Index started separately tracking 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 3 2010

Young drivers hit in biggest annual premium increase, says AA

The latest benchmark AA British Insurance Premium Index shows no respite from fast-rising premiums, as another record high is reached.

Over the past quarter motorists absorbed an increase of 11.5 per cent according to the **Shoparound** index, which is an average of the three lowest quotes for each 'customer' in the Index basket of risks. But over the year ending 30 September the Shoparound cost of an annual comprehensive car insurance policy had risen by 39.3 per cent to £792, the biggest annual jump recorded by the Index.

Young drivers are being hit with the biggest premium increases. Over the past 12 months the average cost of insurance has jumped by 51 per cent for those aged between 17 and 22. After shopping around for their cover, men of this age can now expect to pay an annual premium of around £2,500 and women £1,400.

Simon Douglas, director of [AA Insurance](#), says: "Recent road casualty statistics from the Department for Transport [2009] show that a third of men who are killed or seriously injured on Britain's roads are under 25, while the number of young passengers who die in car crashes exceeded the number young drivers killed for the first time in six years. Indeed, car crashes are by far the biggest threat to life amongst young people – considerably more than drugs or knife crime, for instance.*

"These are shocking statistics that underline why insurance premiums for young drivers are soaring. Multi-million pound injury claims are no longer unusual."

Douglas adds: "It's vital that the insurance industry, road safety organisations and the government work together to stem this terrible toll on young lives."

The AA already offers Drive Smart courses to newly qualified drivers to help them improve their driving skills and safety. This training is free through the AA Charitable Trust. In addition, the AA is sponsoring a new BTEC qualification in driving behaviour, while a new insurance product that rewards good driving is expected to be launched next year.

But all drivers have been affected by fast-rising premiums over the past 12 months. Douglas says that recent years have seen intense competition encouraged by the growth of price comparison sites, which had kept premiums artificially low to the point that many insurance companies were making large losses on car insurance business.

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"Five years ago we warned that sharp premium inflation would be the result of this competition but recession has added to the pain. A proliferation of personal-injury claim lawyers has also led to the number of injury claims across the board sharply increase, while fraud has eaten into insurers' costs to the extent that over the past year, for every £100 taken in premiums, £123 has been paid out in claims," he says.

Premium increases will continue through into 2011, Douglas believes. "Although the quarterly increases are a little less than the previous quarter, the annual increase was the largest since the AA Index started in 1994, I expect premium inflation to be less severe in future."

Index findings quarter 3 2010

- Comprehensive cover up 11.7% (quarter) and 29.9% (12 months) to £1,249.71
- Third party, fire and theft (TPFT) cover up 9.8% (quarter) and 32.2% (12 months) to £1,246.41

Shoparound index

- Comprehensive cover up 11.5% (quarter) and 39.3% (12 months) to £791.82
- TPFT cover up 12.1% (quarter) and 54.6% (12 months) to £1,097.72

Comparison sites (aggregator) price movements quarter 3 2010

- Comprehensive cover up 13.4% (quarter) to £888.84
- TPFT cover up 13.1% (quarter) to £909.02

Comparison sites (aggregator) Shoparound index

- Comprehensive cover up 10.3% to 592.08
- TPFT cover up 9.2% to 764.77

Comparison site premiums have only been tracked since the fourth quarter 2009, so annual figures are not available.

Commentary

Douglas believes that the insurance industry, road safety organisations and the government should work together to find ways to help young drivers become safe and responsible car drivers.

"This can partly be achieved through education, such as Drive Smart courses in safe and fuel-efficient driving offered by the AA Driving School. The courses are available free to at-risk new drivers through the AA Charitable Trust. Similarly, a new BTEC in driving science is being sponsored by the AA.

"New electronic insurance solutions are also being developed that reward safe driving technique, which could significantly bring down premiums."

Continued

He adds that despite high initial premiums the most effective way to reduce them is through claim-free driving, which after just one year will bring premiums down by up to a third. "That's a powerful financial incentive to drive responsibly," he says, but warns that those who attempt to drive without insurance or use fraudulent means to obtain a cheaper premium, such as fronting, are very likely to be caught.

* 74 per cent of all accidental deaths among young adults happen on the road, yet only 10 per cent of parents considered this to be the biggest threat to them; knife crime is believed to be the biggest threat. AA/Populus study of 18,500 AA Members, September 2010.

Motor insurance premiums – Quarter 3 2010

Summary tables

Car insurance direct providers

	Oct-10	Jul-10	% change	Oct-09	% change	Oct-94	% change
Market average							
Comprehensive	£1,249.71	£1,119.29	11.7	£962.18	29.9	£384.50	225
TPFT	£1,246.41	£1,135.46	9.8	£943.08	32.2	£333.39	273.9
Shoparound							
Comprehensive	£791.82	£709.91	11.5	£568.62	39.9	n/a	n/a
TPFT	£1,097.72	£979.66	12.1	£710.24	54.6	n/a	n/a

Car insurance comparison sites

	Oct-10	Jul-10	% change	Oct-09	% change
Market average					
Comprehensive	£888.84	£784.08	13.4	n/a	n/a
TPFT	£909.02	£803.88	13.1	n/a	n/a
Shoparound					
Comprehensive	£592.08	£536.70	10.3	n/a	n/a
TPFT	£764.77	£700.36	9.2	n/a	n/a

Continued



Shoparound quarter movements by age and gender

	Shoparound movement %				
	Jan-10	Apr-10	Jul-10	Oct-10	Annual
Male					
17-22	9.6	2.8	14.7	13.5	46.6
23-29	15.4	-1.4	11.2	10.7	40.0
30-39	8.8	0	11.1	7.3	29.7
40-49	10.3	-2.5	7.9	10.3	28.0
50-59	16	-6.1	8.4	8.1	27.6
60-69	9.0	-0.8	7.8	11.8	30.3
70+	9.4	-0.1	11.4	11.7	36.1
Female					
17-22	9.9	7.0	16.9	15.5	58.7
23-29	12.2	3.1	11.4	10.5	42.4
30-39	10.9	-0.7	7.3	8.7	28.4
40-49	13.8	-2.2	6.9	12.2	33.5
50-59	13.9	-4.0	8.1	11.4	31.7
60-69	9.2	-1.6	6.9	8.2	24.2
70+	4.2	1.4	9.9	2.3	18.9
All					
17-22	9.7	4.2	15.4	14.4	50.9
23-29	14.1	0.4	11.3	10.6	40.9
30-39	9.7	-0.3	9.4	7.9	29.1
40-49	11.9	-2.4	7.5	11.1	30.5
50-59	15.0	-5.1	8.2	9.8	29.7
60-69	9.1	-1.1	7.4	10.2	27.6
70+	7.0	0.6	10.7	7.1	27.6

Download the Index (csv file) for motor insurance

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

Home insurance premiums – Quarter 3 2010

AA Index reveals big home insurance premium increases

The latest quarterly results of the AA's benchmark study, the British Insurance Premium Index, show continuing premium increases in the average cost of home insurance.

Over the year ending 30 September premiums for both buildings and contents rose significantly, the cost of contents cover showing the biggest jump since the Index started in 1994.

Although premiums moved little over the third quarter of 2010, the year ending 30 September has seen the typical cost of a buildings policy rise by 7.5 per cent to £133 and for contents, a record 14.9 per cent to £73. The cost of a combined buildings and contents policy rose by 6.7 per cent over the year to £194.

This is according to the Shoparound index, which is an average of the three lowest quotes for each 'customer' in the Index basket of risks.

The Shoparound premiums contrast with the market average for all quotes for each 'customer' in the Index basket of risks, which showed modest falls or no change in premiums, suggesting that many insurers can no longer afford to offer cheap deals or special offers.

Prices quoted on price comparison sites showed similar increases.

Simon Douglas, director of [AA Insurance](#), points out that over the years home premiums have moved little, but increases have been more pronounced over the past two years.

"I believe this reflects growing concern amongst insurers about the effects of climate change and the risk of flooding that many UK households face.

"With the government spending review about to take place, I'm particularly concerned that investment in flood defences is not affected.

"The AA has called on the government to keep its commitment to investment in flood defences reduce the risk of future major floods like those at Cockermouth and Tewkesbury. If spending on flood defences is reduced, it puts thousands of homes at risk of being unable to insure their homes or obtain mortgages."

He adds that insurers are dealing with an increasing number of properties damaged by extreme weather and flash floods, often in places that have no previous history of flooding. "Violent weather is likely to become more frequent in future and insurers must prepare for it and inevitably, insurance premiums will rise."

Continued

He also suggests that recent premium increases can in part be accounted for by the large number of claims following the most severe winter for decades. "Many properties suffered burst pipes in the freeze while ice and snow damaged roofs and gutters, prompting a surge in claims."

However, he says that home insurance remains good value for money. "But it is important to ensure that when you choose your insurance, don't do so on price alone – check what cover is offered to make sure that in the event of a claim, it does what you expect it to do."

Home insurance premiums – Quarter 3 2010

Summary tables

Home insurance direct providers

	Oct-10	Jul-10	% change	Oct-09	% change	Oct-94	% change
Market average							
Buildings	£213.55	£214.30	-0.3	£193.80	10.2	£165.15	29.3
Contents	£112.01	£112.04	0	£106.71	5	£105.02	6.7
Combined	£279.84	£288.79	-3.1	£256.96	8.9	n/a	n/a
Shoparound							
Buildings	£133.16	£130.93	1.7	£123.87	7.5	n/a	n/a
Contents	£72.98	£69.82	4.5	£63.54	14.9	n/a	n/a
Combined	£194.45	£199.85	-2.7	£182.22	6.7	n/a	n/a

Home insurance comparison sites

	Oct-10	Jul-10	% change	Oct-09	% change
Market average					
Buildings	£162	£159	1.9	n/a	n/a
Contents	£103	£97	6.2	n/a	n/a
Combined	£224	£225	-0.4	n/a	n/a
Shoparound					
Buildings	£114	£114	0	n/a	n/a
Contents	£66	£61	8.2	n/a	n/a
Combined	£165	£165	0	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](#)