



## AA British Insurance Premium Index Quarter 1 2011

April 2011

The British Insurance Premium Index (Index) records premium movements for 2,800 car insurance 'customers' throughout the UK, from around 50 providers. 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 AA Insurance.

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## AA British Insurance Premium Index



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### Motor insurance premiums – Quarter 1 2011

#### Shoparound average for car cover jumps 40% in 12 months – biggest annual rise

The latest benchmark AA British Insurance Premium Index brings no joy to motorists as premiums continue to go up at record rates. Over the first quarter of 2011 – a period when premiums usually show little movement – the typical Shoparound premium for a comprehensive car insurance policy rose by 5.9% to £892.08; and by 40.1% for the 12 months ending 31 March 2011.

The average quote for a third party, fire and theft (TPFT) policy went up by 10.7% to £1,532.62 (12-month increase 82.1%) – but this reflects the typical young driver profile of TPFT insurance buyers. Many insurers no longer offer this type of cover. The AA's Index analyses quotes from over 50 insurance companies, brokers and schemes against a basket of risks that is typical of the UK driving population. The Shoparound premium is an average of the cheapest three quotes for each 'customer'.

Simon Douglas, director of [AA Insurance](#), says: "The record rises in fuel costs coupled with spiralling car insurance premiums is making driving unaffordable for many, especially for cash-strapped young drivers. This is leading to more people withholding information when taking out a policy or exaggerating personal injury claims to try to reduce their costs.

"But this simply piles on costs for insurers and results in yet higher premiums for honest motorists. Despite the sharp premium increases, insurers are still making losses although the large underwriting deficits of 2009 have probably now been halved.

"The main drivers of premium inflation remain fraud and injury claims," Simon Douglas explains. These were identified by the Commons Transport Committee as being among the chief causes of rising premiums.<sup>1</sup> Kenneth Clarke MP, Lord Chancellor and Secretary of State for Justice, announced on 29 March a number of measures to curb the high costs associated with the UK's 'no-win, no-fee' claims culture,<sup>2</sup> which, according to some estimates,<sup>3</sup> is piling up to £80 on every honestly bought car insurance policy.

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<sup>1</sup> The Transport Committee published its first report from its inquiry into the cost of car insurance on 11 March 2011.

<sup>2</sup> Kenneth Clarke MP announced proposals for the first major reform of the civil justice system and the 'no win no fee' claims culture for consultation on 29 March 2011.

<sup>3</sup> Fitch Ratings, October 2010.

Douglas points out: "Although the number of collisions on Britain's roads is falling, the number of claims for whiplash injury is rising. It's tempting to make such claims with the huge number of 'accident management' law firms using cold-call marketing techniques. According to the Association of British Insurers, for every £1 paid in compensation, a further 87p is paid in legal costs. Every day over 200 such claims are made, often for accidents that happened up to three years previously, for which no mention of personal injury was made at the time. The proposals made by the Lord Chancellor should help to control these costs if they become law."

### **Young drivers**

Drivers aged 17 to 22 have again taken the brunt of the increases with a typical premium of £2,431 being paid: more than 64% higher than 12 months ago. Young men continue to pay much higher premiums (average Shoparound quote £3,052) than young women (£1,767).

Douglas points out that "Young men are 10 times more likely to suffer a catastrophic crash than older drivers. More than half of insurers won't insure teenage drivers, so there is less choice and premiums increase at a faster rate than average. Last year, we said that premiums quoted for young drivers were becoming unsustainable – and that now seems to be happening with many quotes for 17- or 18-year-olds being simply unaffordable."

From December 2012, insurers will no longer be able to take gender into account when calculating premiums. Gender is currently one of the most important factors influencing premiums, so the cost of insurance for young women is likely to rise substantially.

However, Simon Douglas believes that this might provide the impetus needed to make telematics or 'black box' pay-as-you-drive policies more acceptable. Such systems typically measure driving performance. "They reward careful drivers, typically women, by reducing premiums and penalise those who take risks," he says.

The AA is expected to launch its own pay-as-you-drive policy later this year [2011].

### **Premium increases reaching their peak?**

Simon Douglas says that while it appears that price increases have continued into 2011, he believes that rises over the rest of the year will be much smaller. "I'd be surprised if they exceed 20% over the year," he says.

"As we enter 2012 I think we'll also see new measures starting to take effect, such as Continuous Insurance Enforcement (which became law on 1 April); improved fraud controls such as access to the DVLA database for insurers and measures to control costs associated with personal injury claims, all of which will help to keep the lid on premiums."

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**Motor insurance premiums – Quarter 1 2011**

**Summary tables**

**Car insurance direct providers**

	Apr-11	Jan-11	% change	Apr-10	% change	Jul-94	% change
<b>Market average</b>							
Comprehensive	£1,416.27	£1,332.13	6.3	£998.59	41.8	£384.50	268.3
TPFT	£1,565.61	£1,452.18	7.8	£980.84	59.6	£333.39	369.6
<b>Shoparound</b>							
Comprehensive	£892.08	£842.69	5.9	£636.55	40.01	n/a	n/a
TPFT	£1,538.62	£1,389.97	10.07	£845.04	82.1	n/a	n/a

**Car insurance comparison sites**

	Apr-11	Jan-11	% change	Apr-10	% change
<b>Market average</b>					
Comprehensive	£1,011.52	£949.99	6.5	696.39	45.3
TPFT	£1,212.37	£1,142.87	6.1	815.38	48.7
<b>Shoparound</b>					
Comprehensive	£677.49	£618.59	9.5	475.62	42.4
TPFT	£921.66	£761.87	21.0	597.94	54.1

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## AA British Insurance Premium Index



### Shoparound quarter movements by age and gender

	Average premium	Shoparound %				
	Apr-11	Jul-10	Oct-10	Jan-11	Apr-11	Annual
<b>Male</b>						
17-22	£3,052	14.7	13.5	11.93	11.01	61.76
23-29	£1,435	11.2	10.7	12.57	7.03	48.32
30-39	£743	11.1	7.3	5.66	8.16	36.23
40-49	£663	7.9	10.3	6.9	6.78	35.86
50-59	£533	8.4	8.1	6.57	5.74	32.05
60-69	£467	7.8	11.8	6.2	4.68	33.75
70+	£592	11.4	11.7	8.69	4.9	42.0
<b>Female</b>						
17-22	£1,767	16.9	15.5	18.23	5.01	67.63
23-29	£912	11.4	10.5	9.49	5.04	41.57
30-39	£564	7.3	8.7	6.31	3.6	28.47
40-49	£576	6.9	12.2	6.53	8.16	38.21
50-59	£495	8.1	11.4	6.53	7.04	37.31
60-69	£387	6.9	8.2	6.04	3.0	26.33
70+	£437	9.0	2.3	3.59	8.99	26.94
<b>All</b>						
17-22	£2,431	15.4	14.4	15.1	7.98	64.07
23-29	£1,164	11.3	10.6	11.01	6.02	44.87
30-39	£653	9.4	7.9	5.99	5.88	32.46
40-49	£620	7.5	11.1	6.72	7.47	36.98
50-59	£512	8.2	9.8	6.55	6.44	34.74
60-69	£429	7.4	10.2	6.03	3.92	30.41
70+	£509	10.7	7.1	6.02	7.1	34.62

**Download the Index (csv file) for motor insurance**

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

### Home insurance premiums – Quarter 1 2011

#### Home insurance increases reflect record winter claims

Both buildings and contents home insurance premiums rose during the first quarter of 2011, according to the AA.

The Shoparound Index of the AA's benchmark AA British insurance Premium Index shows that over the first quarter of 2011, the average premium for an annual buildings policy increased by 2.7% to £147.29 (an increase of 13.6% over the 12 months to end March 2011), and for a contents policy, by 5.5% to £76.39 (an increase of 11.9% over 12 months).

The AA's Index analyses quote from over 40 insurance companies, brokers and schemes against a basket of risks that is typical of the UK home owning population. The Shoparound premium is an average of the cheapest three quotes for each 'customer'.

Simon Douglas, director of [AA Insurance](#), says that home insurance represents very good value for money despite the steady rise over two years in the cost of buildings cover. He says that given record claims over the recent winter, he is surprised that premiums haven't increased more.

"During December 2010 alone insurers dealt with claims amounting to around £900 million for snow and ice damage,<sup>4</sup> and the AA's own experience saw a sharp rise in claims for burst pipes, ice damage to roofs and gutters and damage from melt water, compared with the previous winter.

"Given industry concern about the increasing severity and frequency of severe weather, the premium increases we are seeing are quite modest, which is welcome news," he says, adding that the market remains competitive with discounts often given by insurers for combined policies.

He added that for many families who have been tempted not to renew their home cover, the winter will have brought an unwelcome reminder of the value of insurance. "Government statistics suggest that up to a third of households have no buildings or contents cover,<sup>5</sup> which, given that the average winter damage claim amounts to over £2,200,<sup>6</sup> means some families will have had unwelcome repair bills to meet out of their own pockets."

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<sup>4</sup> Association of British Insurers, February 2011 statistics.

<sup>5</sup> Office for National Statistics Family Survey.

<sup>6</sup> Average claim during the winter of 2010/2011 for ice and snow related damage was £2,204.

However, Mr Douglas warned that the impact increasing numbers of fraudulent claims, which some estimates suggest adds at least £44 to every household's insurance costs, as well as weather-related damage claims, is likely to lead to continued premium rises.

Douglas says "Over the past two years, buildings insurance premiums have risen steadily but not spectacularly, unlike car insurance which has seen extremely sharp premium rises. Last year brought a number of flood claims in areas with little or no previous history of flooding, brought about by increased urban development and greater weather extremes. Insurers are concerned about this trend and are likely to seek to build their reserves to enable future claims to be met."

## Home insurance premiums – Quarter 1 2011

### Summary tables

#### Home insurance direct providers

	Apr-11	Jan-11	% change	Apr-10	% change	Jul-94	% change
<b>Market average</b>							
Buildings	£226.72	£224.75	0.9	£209.05	8.5	£165.15	37.3
Contents	£111.96	£113.59	-1.4	£110.52	1.3	£105.02	6.6
Combined	£286.13	£286.77	-0.2	£287.00	-0.3	n/a	n/a
<b>Shoparound</b>							
Buildings	£147.29	£143.36	2.7	£129.64	13.6	n/a	n/a
Contents	£76.39	£72.43	5.5	£68.24	11.9	n/a	n/a
Combined	£199.51	£200.25	-0.4	£193.53	3.1	n/a	n/a

#### Home insurance comparison sites

	Apr-11	Jan-11	% change	Apr-10	% change
<b>Market average</b>					
Buildings	£172.27	£165.60	4.0	£157.82	9.2
Contents	£109.83	£104.51	5.1	£96.07	14.3
Combined	£246.81	£230.74	7.0	223.44	10.5
<b>Shoparound</b>					
Buildings	£119.07	£114.16	4.3	112.06	6.3
Contents	£68.16	£66.52	2.5	£58.95	15.6
Combined	£164.53	£163.46	0.7	£162.44	1.3

### 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](#)