

AA British Insurance Premium Index Quarter 4 2012

30 January 2013

The AA British Insurance Premium Index (Index) has been tracking the quarterly movement of car and home insurance since 1994. It measures the market average premium (an average of all quotes on a UK-representative basket of 'customers') as well as the five cheapest quotes for each 'customer' to provide the Shoparound index.

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Media contact

Ian Crowder

01256 492 844 ian.crowder@theAA.com

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Motor insurance premiums – Quarter 4 2012

Downward premium trend masks car insurance gender extremes

- Average premiums continue to fall – men show greatest falls
- Scotland remains the cheapest place to insure a car

The latest benchmark British Insurance Premium Index from the AA shows that the downward trend in average quoted premiums for an annual comprehensive car insurance policy continued over the fourth quarter of 2012.

The Shoparound premium, which is an average of the cheapest five quotes from a range of insurers against a nationwide basket of risks, fell by 2.9% over the three months to 31 December to £789 – the lowest average since October 2011.

Similarly, the average quote on price comparison sites also fell, by 2.6% to £596, using the same basket of risks.

However, during the quarter the car insurance landscape significantly changed with the advent of a gender-neutral market from 21 December, following the European Court of Justice ruling that ended the use of gender to calculate premiums.

Simon Douglas, director of [AA Insurance](#), says: “Never has an average been so meaningless. Certainly, average premiums are falling but they mask considerable extremes for individual groups.

“Many commentators – indeed some from the industry – have made unhelpful generalisations. Headlines saying premiums have increased by 50% for young women don’t paint a true picture of what is actually happening.”

The AA Index suggests that the average premium increase for women aged 17–22 is just 4.7%, while men in the same age group have seen an average reduction of 1.9%.

“Some young women may see premium increases of 30% or more, although others will find that their premiums fall,” Mr Douglas points out.

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Unknown territory

Mr Douglas says that insurers have stepped into unknown territory: "They have gone back to square one in calculating risk. Legitimate proxies for gender, such as occupation or the type of car driven, will significantly influence premiums, but each insurer could calculate quotes based on their own interpretation. As a result, some men are seeing unexpected premium increases and some women decreases."

To illustrate the point, here are specific examples of BIPI Shoparound premiums:

- Female student, age 23 – up 4.9%
- Female secretary, age 24 – down 5.2%
- Female nurse, age 26 – down 2.5%
- Female PA, age 49 – up 10.8%
- Male bank clerk, age 21 – up 5.5%
- Male factory worker, age 27 – up 20%
- Male maintenance engineer, age 34 – down 21.1%
- Male househusband, age 42 – down 12.8%

Older female drivers have seen average premiums fall, although at a lesser rate than for men. For example while Shoparound premiums for women aged 40–49 have dropped by 3.2%, those for men in the same age group have fallen by 5.5%.

Mr Douglas points out that there is a host of factors that influence premiums although he expects the average downward trend to continue.

"There are winners and losers following the gender directive," he says.

"Some of the more extreme predictions, that young women will be 'priced off the roads', have simply not come to pass. Many drivers won't see the effect of the changes for weeks or months, when their premium becomes due for renewal, and a lot can change over that time.

"Insurers will be watching how the balance of their business moves following re-pricing of premiums, so I expect further adjustments over coming weeks.

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“The gender directive doesn’t mean that young male drivers are any less likely to suffer collisions. Young men represent just 8% of all drivers, yet account for 23% of all those killed or seriously injured on Britain’s roads.¹ Pitching premiums too low could attract too many young male drivers, while those with premiums that are too high won’t be doing any business,” adds Mr Douglas.

Telematic insurance

The most certain way to measure the risk that young drivers particularly present is by ‘pay how you drive’ telematic insurance, such as [AA Drivesafe](#).

This uses a ‘black box’ wired into the car that provides data on speed, cornering, acceleration and braking, providing an accurate score based on a user’s driving pattern.² Those who score well attract significant premium discounts.

Mr Douglas points out that all drivers can drive well or irresponsibly, regardless of gender.

“Young drivers using this type of telematic insurance are up to 40% less likely to make a claim than those with conventional cover.³ Since the gender directive, providers of telematic insurance, including AA Insurance, have seen a sharp increase in the number of people opting for this type of cover.”

Regional differences

All regions of the UK have seen premiums falls. The greatest drop is in Northern Ireland (UTV) where on average quoted Shoparound premiums dropped by 5.4%, followed by the Central (Midlands) at 4.0%.

The smallest fall was in London, with an average drop of just 0.7%, followed by Wales and the West Country at 1.5%.

Scotland continues to be the cheapest region to insure a car with an average quoted Shoparound premium of £580, followed by £665 for South. The most costly region to insure a car remains the north-west (Granada), £1,165, followed by Northern Ireland at £1,095.

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¹ Department for Transport data.

² AA Drivesafe was launched in February 2011. More recently AA has launched its free [Drivescore app](#), which is an iPhone download (Android to follow) that mimics AA Drivesafe telematic cover. It can provide an indication of the discounts that a careful driver might expect if the opt to buy the insurance.

³ AA Insurance claims statistics.

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Motor insurance premiums – Quarter 4 2012

Summary tables

Direct insurer: Market summary

Average Premium	Jan-13	Oct-12	Percentage Change	Jan-12	Percentage Change
Comprehensive	£1,143.76	£1,190.43	-3.9%	£1,199.31	-4.6%
TPFT	£1,527.90	£1,566.86	-2.5%	£1,592.60	-4.1%

Direct insurer: Shoparound summary

Average Premium	Jan-13	Oct-12	Percentage Change	Jan-12	Percentage Change
Comprehensive	£789.16	£812.92	-2.9%	£811.69	-2.8%
TPFT	£1,155.73	£1,142.53	1.2%	£1,125.57	2.7%

Price comparison sites: Market summary

Average Premium	Jan-13	Oct-12	Percentage Change	Jan-12	Percentage Change
Comprehensive	£1,180.03	£1,126.94	4.7%	£1,127.52	+ 4.7%
TPFT	£1,532.69	£1,442.93	6.2%	£1,512.67	+ 1.3%

Price comparison sites: Shoparound summary

Average Premium	Jan-13	Oct-12	Percentage Change	Jan-12	Percentage Change
Comprehensive	£595.66	£611.87	-2.6%	£651.32	- 8.5%
TPFT	£790.29	£826.55	-4.4%	£834.08	- 5.2%

Notes. The market summary is an average of all quotes received from all providers in the AA Index basket of risks. The Shoparound is an average of the five cheapest premiums for each risk and is thus a more accurate reflection of quotes that might be accepted by customers. The same basket of risks is used for both the direct market (ie insurers, brokers and schemes) and price comparison sites.

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Annual movements by age and gender

Gender	Age	Jan-12	Jan-13	Percentage Change
Male	17–22	£1,865.98	£1,858.15	-0.4%
	23–29	£1,342.78	£1,338.73	-0.3%
	30–39	£860.41	£795.59	-7.5%
	40–49	£735.19	£683.75	-7.0%
	50–59	£608.41	£523.94	-13.9%
	60–69	£516.60	£487.24	-5.7%
	70 +	£719.83	£669.19	-7.0%
Female	17–22	£1,304.18	£1,463.69	12.2%
	23–29	£929.20	£953.75	2.6%
	30–39	£721.99	£687.68	-4.8%
	40–49	£620.92	£603.09	-2.9%
	50–59	£540.82	£497.68	-8.0%
	60–69	£468.48	£432.42	-7.7%
	70 +	£479.20	£464.57	-3.1%
All	17–22	£1,575.81	£1,651.28	4.8%
	23–29	£1,128.79	£1,136.96	0.7%
	30–39	£792.58	£742.56	-6.3%
	40–49	£679.36	£644.59	-5.1%
	50–59	£572.45	£509.68	-11.0%
	60–69	£494.32	£462.06	-6.5%
	70 +	£598.06	£566.17	-5.3%

Note. Gender differences still appear given other underwriting factors such as occupation and type of car driven. On a like for like basis for a specific risk, assuming all factors are identical other than gender, insurance premiums would be identical following the implementation of the ECJ gender directive on 21 December 2012

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Download the Index (csv file) for motor insurance

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

Motor insurance charts – direct market

Quarterly movements for car insurance

Motor insurance average premiums January 2013 (table)

Motor insurance summary – region, gender and age January 2013 (table)

Premium changes by region

Premium changes by age and gender

Motor insurance – comprehensive Shoparound premium trends

Motor insurance – TPFT Shoparound premium trends

Motor insurance charts – price comparison market

Motor insurance average premiums January 2013 (table)

Motor insurance summary – region, gender and age January 2013 (table)

Premium changes by region

Premium changes by age and gender

Home insurance premiums – Quarter 4 2012

Small premium increase for home cover, says AA Index

- Both buildings and contents insurance see small rises
- AA concern about future flood cover
- Uncertain outlook – will premiums go up or down?

Home insurance premiums showed little movement over the last three months of 2012, according to the latest AA British Insurance Premium Index.

The Shoparound premium, an average of the cheapest five quotes for an annual home insurance policy in the Index basket of risks, shows that the cost of both buildings and contents insurance rose by 0.2% to £176 and 0.5% to £90 respectively. The average quote for a combined buildings and contents policy fell by 0.6% to £230.

However, the market average of all quotes for each ‘customer’ in the nationwide basket of risks points to an underlying upward trend. For buildings cover, this shows a 1.7% increase to £232; for contents 1.4% to £117, and for a combined policy 1.3% to £306.

Simon Douglas, director of [AA Insurance](#), says that flooding during 2012, which is estimated to be costing the insurance industry around £1bn, has yet to be reflected in premiums.

“The year ended with widespread floods, and there are diverse views in the market on how much effect they will have on premiums.

“Home insurance has certainly performed better than the car insurance sector. And while the number, and severity, of weather-related claims has been increasing, it has not been on the scale of the 2007 floods,” he says.

Nonetheless, many insurers believe rates need to increase. That’s because trends based on climate change are expected to bring a greater likelihood of damaging weather.

“Some insurers are pointing to a need to build reserves further to meet potentially significant claims. Others believe that rates already take this into account,” Mr Douglas points out.

“As recent severe weather claims come in, coupled with the January snowfalls, I believe premiums are likely to rise in the early part of the year.”

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And while Mr Douglas believes that the competitive nature of the market is likely to keep premium increases to a minimum, uncertainty still surrounds any discussions between the insurance industry and the government on a replacement of the current 'statement of principles'. The current agreement helps to ensure that homes in flood-prone areas can continue to obtain cover, but it expires in less than six months time on 30 June.

"Any flood cover agreement is likely to have an impact on premiums – some estimates suggest around £8 per policy – for all homeowners, not just those in flood risk areas," he points out.

Homes that have suffered flooding more than once are likely to find the policy excess for flood claims increases more steeply than their premiums, the AA suggests.

Mr Douglas urges the industry to take a sympathetic approach to families who put in their own [flood-defence measures](#), such as flood boards and drainage valves.

"Insurers should also build in flood resilience when they are restoring homes that have suffered flooding, in order to reduce the impact of future claims."

Mr Douglas points out that while the discussions focus on homes at high risk of flooding, many claims last year were for homes that had never been flooded before.

"It is vital that there is continued investment in flood defences and alleviation schemes, while local authorities and water companies must keep maintenance of existing flood management systems at the top of their agendas.

"Over the past couple of months the AA has dealt with home flood claims where the cause turned out to be blocked drainage systems, in one case a shopping trolley left in a gully."

Mr Douglas also wants the government and local authorities to take decisive action to prevent new building that doesn't also properly plan for water run-off that could otherwise put existing homes and businesses at risk.

"There's no doubt that severe weather threats are here to stay and must be taken into account. The insurance industry can't be held to account for inappropriate development that leads to flood claims," he says.

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Home insurance premiums – Quarter 4 2012
Summary tables
Direct insurer: Market summary

Average Premium	Jan-13	Oct-12	Percentage Change	Jan-12	Percentage Change
Buildings	£232.41	£228.48	1.7%	£231.12	0.6%
Contents	£116.81	£115.18	1.4%	£118.49	-1.4%
Combined	£305.92	£301.85	1.3%	£305.49	0.1%

Direct insurer: Shoparound summary

Average Premium	Jan-13	Oct-12	Percentage Change	Jan-12	Percentage Change
Buildings	£175.95	£175.57	0.2%	£172.12	2.2%
Contents	£89.73	£89.26	0.5%	£90.17	-0.5%
Combined	£229.70	£231.03	-0.6%	£221.80	3.6%

Download the Index (csv file) for home insurance:

[750 risks for home insurance](#)

Continued

AA British Insurance Premium Index

Home insurance charts – direct market

Quarterly movements for home insurance

Home insurance average premiums January 2013 (table)

Home insurance – buildings average premiums January 2013 (table)

Home insurance – contents average premiums January 2013 (table)

Home insurance – combined average premiums January 2013 (table)

Premium changes by region

Premium changes by age

Premium changes by property type

Premium changes by year built

Home insurance – buildings Shoparound premium trends

Home insurance – contents Shoparound premium trends

Home insurance charts – price comparison market

Home insurance average premiums January 2013 (table)

Home insurance – buildings average premiums January 2013 (table)

Home insurance – contents average premiums January 2013 (table)

Home insurance – combined average premiums January 2013 (table)

Premium changes by region

Premium changes by age

Premium changes by property type

Premium changes by year built