

AA British Insurance Premium Index Quarter 4 2013

23 January 2014

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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Motor insurance premiums – Quarter 4 2013

Over £100 sliced off car premiums in just two years

- Another record fall as premium plunge continues, AA Index finds
- Premium falls a boon for motorists: but will soon end AA predicts

The latest benchmark AA British Insurance Premium Index shows further record falls in the cost of car insurance, continuing the downward plunge that started during the first half of 2012.

Over the last three months of 2013, the AA's Shoparound quote – an aggregate of the five cheapest premiums for both price comparison sites and the direct and broker market – fell by a further 4.6%. And at 14.1% over the year this is the biggest annual fall ever recorded by the Index.

The average quoted Shoparound premium for an annual comprehensive car insurance policy is now £533, down from £559. This compares with £663 two years ago.

Simon Douglas, director of [AA Insurance](#), says: "These record falls come despite continuing rises in the cost of personal injury claims and reinsurance costs.

"The falls are a combination of both the fiercely competitive nature of the market as well as the anticipation that law changes will weed out costly fraudulent whiplash injury claims."

Mr Douglas also points out that over recent years court awards for those seriously injured in car crashes have increased.

"The industry is seeing more multi-million pound lump sum payments for those who have suffered life-changing injury as well as periodic payment orders [PPOs] which guarantee regular payments for life.

"These have led reinsurers to increase their rates by up to 30% and some of that will find its way to premiums paid by motorists."

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Shoparound summary – all channels*

	Jan-14	Oct-13	Change %	Jan-13	Change %
Comprehensive	£533.35	£559.21	-4.6	£620.69	-14.1
TPFT	£741.92	£789.88	-6.1	£825.51	-10.1

Note: TPFT appears to have a higher premium than comprehensive because the basket of risks reflects the type of driver that buys such cover, typically young drivers.

* Aggregate of price comparison site and direct/broker markets.

Flooding

The heavy rain which flooded many roads throughout the UK in December resulted in thousands of cars being seriously damaged by flood water. Pointing out that 70% of cars affected by floods are written off by insurers, the cost could run to tens of millions of pounds.

The AA's Special Operations team, whose crews are trained in flood rescue and who use specially adapted Land Rovers, attended around 2,500 cars that had come to grief in flood water over the past month.

Mr Douglas says that many cars had been driven past 'road closed' signs or against advice to drive through flood water. "Under such circumstances an insurer could refuse to meet a claim for a car wrecked by flood water," he says.

Gender directive

The first anniversary of the European Court of Justice ruling that stopped insurers from using gender as a rating factor passed on 23 December; warnings that premiums for young women could increase by as much as 40% did not realise.

"Falling premiums have masked any increase by young women, while those who bought their insurance prior to the ruling coming into effect would additionally have benefited from a year's no claim bonus, typically amounting to 30%. As a result, assuming they had made no claim, young women are likely to have seen little change, or even a small fall, in the cost of their cover.

"On the other hand, young men will have seen a fairly significant drop," says Mr Douglas.

Insurance industry changes

Later this year, 'My Licence' will be introduced, a joint insurance industry and DVLA initiative. It means motorists renewing their insurance will be asked to provide their driving licence number (DLN) in future. This will enable insurers to populate a car insurance application with details of the driver's experience, convictions, date of passing their test and other information.

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"Up to a quarter of insurance applications get some of this information wrong and there's no doubt that many may 'forget' that they have points on their licence," says Mr Douglas

"It's estimated that cutting out errors and streamlining the application process will contribute on average a £15 reduction in the cost of cover."

In addition, the insurance industry is subject to a Competition Commission inquiry, which is likely to result in a more efficient accident management process that could also deliver premium reductions.

Will premiums continue to fall?

However, while these initiatives are good news, Mr Douglas fears that premiums have been falling too fast and too far ahead of benefits that might be brought by much-anticipated changes to car insurance claims and the application process.

"The past year has seen premiums fall by the largest quarterly percentage since our Index began 20 years ago in 1994: the 4.6% fall over the past quarter beat the previous quarter's record by 0.1%.

"It's as if premiums are on a helter-skelter slide, and I fear the downward spiral will end with a bump.

"Yet while I expect the fall to continue at a slower rate over the first quarter of 2014, I think they will then level off.

"But my biggest fear is that the falls are too great, and premiums will bounce sharply up again later in the year.

"That would not be good for the reputation of the industry. It would confound ministers who have been taking some of the credit for falling premiums. And it will perplex drivers who thought that premiums were returning to a more realistic level."

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Winners and losers

Regionally, although the North-West remains the most costly region to insure a car, it has seen the greatest fall over the past quarter with a 6.3% drop. It is followed by the South, which saw a 5.5% fall. Scotland remains by some way cheapest region to insure a car – premiums fell here by 4.9% over the last quarter of 2013.

Shoparound – winners and losers by region

Region	Jan-14	Oct-13	Change %
Anglia	£503.35	£527.35	-4.6%
Border & Tyne Tees	£515.63	£541.87	-4.8%
Central	£557.66	£577.91	-3.5%
North-West	£809.62	£864.03	-6.3%
London	£629.69	£661.41	-4.8%
Scotland	£389.68	£409.66	-4.9%
South	£452.90	£479.19	-5.5%
Wales	£492.45	£506.61	-2.8%
West & West Country	£430.49	£451.65	-4.7%
Yorkshire	£619.20	£647.97	-4.4%

Source: AA British Insurance Premium Index. The number of risks in Northern Ireland is too small for meaningful data.

Shoparound – winners and losers by age

Age	Jan-14	Quarterly change %
17-22	£1,187.75	-5.4
23-29	£683.30	-5.3
30-39	£449.98	-3.4
40-49	£428.56	-4.0
50-59	£357.25	-4.9
60-69	£302.66	-4.1
70+	£360.38	-4.0

Source: AA British Insurance Premium Index.

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Summary tables and charts

Download the Index (csv file) for motor insurance

[2800 risks for car insurance](#)

Motor insurance charts – direct market

Quarterly movements for car insurance

Motor insurance average premiums October 2013 (table)

Motor insurance summary – region and age October 2013 (table)

Premium changes by age

Premium changes by region

Motor insurance – comprehensive Shoparound premium trends

Motor insurance – TPFT Shoparound premium trends

Motor insurance charts – price comparison market

Motor insurance average premiums October 2013 (table)

Motor insurance summary – region and age October 2013 (table)

Premium changes by age

Premium changes by region

Home insurance premiums – Quarter 4 2013

Premiums still falling despite floods

- Market average home contents insurance at a ten-year low, AA Index finds
- December floods have not stopped downward premium trend
- Flood Re – questions remain

Despite the gales that battered Britain's homes towards the end of 2013, home insurance premiums have continued to tumble.

The latest AA British Insurance Premium Index shows that the cost of buildings, contents and combined home policies all fell during the last quarter of 2013. They have either remained static or fallen every quarter for the past two years.

The average Shoparound quote for a buildings policy was down 2.6% over the last three months of 2013, to £125 (down 8.3% over the year); contents down 2.0% to £65 (6.6% over the year); and down 3.0% to £165 for a combined policy (8.5% over the year).

In fact, the market average quote for a home contents policy is at a ten-year low, and is less today than when the AA's Index launched in 1994.¹

Shoparound summary – all channels*

	Jan-14	Oct-13	Change %	Jan-13	Change %
Buildings	£124.89	£128.19	-2.6	£136.20	-8.3
Contents	£65.34	£66.71	-2.0	£69.99	-6.6
Combined	£165.34	£170.54	-3.0	£180.63	-8.5

* Aggregate of price comparison site and direct/broker markets.

Simon Douglas, director of [AA Insurance](#) says: "Homes have felt the full force of the elements over recent weeks, with insurers expected to meet claims in the order of £400 million. But over the year as a whole the number and cost of severe weather claims are, according to some estimates, about 12% lower than in 2012, and significantly lower than the 2007 flood disaster."²

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¹ The market average is the average of all quoted premiums on the direct/broker market.

² Source: Deloitte home insurance trends 2013.

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"This has benefited householders with the average Shoparound quote for home cover falling. Indeed, home insurance continues to represent extremely good value for money with premiums in some cases at an all-time low."

Mr Douglas points to the market average quote (the average direct/broker quote of all 'customers' in the basket of risks) for contents cover, which averaged £103 when the AA's index was launched nearly 20 years ago but today is £2 cheaper.

Flood protection

The recent storms have shown the benefit of government and local authority investment in flood defences.

Mr Douglas points out that around 220,000 homes were protected in December 2013 which would otherwise have been inundated by tidal surges, or flooding from rivers and other watercourses.

"To my mind, that represents extremely good value for money given the high cost of flood damage. Not just to homes and businesses that are protected by insurance, but damage to roads and infrastructure, agricultural land, business interruption, tourism and local economies. And quite apart from the emotional damage and lost work days suffered by those affected.

"This underlines the importance of ensuring that flood alleviation must continue to be a top priority for the government, given overwhelming scientific evidence that severe weather is no longer an exceptional feature of the British climate," he says.

Flood Re – protection for all?

Many homes in flood-prone areas have been flooded more than once in recent weeks. This underlines the importance of ensuring that the Flood Re proposals, which are expected to become enshrined in the Water Bill by mid 2015 at the earliest, ensure that the maximum number of families are protected.

Flood Re is the new legislation designed to ensure that homes at greatest risk of flooding can continue to obtain affordable home insurance, linked to their Council Tax band. It replaces an informal 'statement of principles' between the insurance industry and the government which has been in force since 2000. Flood Re will be funded by a levy equivalent to around £10 on every home insurance policy.

But Mr Douglas points out that there are still areas of disagreement on the extent of cover that Flood Re will provide.

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"At present small businesses – and that could include families offering bed-and-breakfast accommodation – homes built after 2009, those not lived in by the policyholder, for example homes that are let, and homes on the highest council tax band are excluded.

"Bizarrely, it also means that some properties at a real but lower risk of flooding could pay higher premiums than high risk homes protected by Flood Re."

Will premiums continue to fall?

Mr Douglas expects the downward premium trend to continue.

"The market continues to be competitive. This is good news for policyholders and means that there are deals to be done for those who shop around for their cover.

"But it is important not to confuse cheap premiums with value for money – make sure that the cover you buy does what you need it to."

Summary tables and charts

Download the Index (csv file) for home insurance:

[750 risks for home insurance](#)

Continued

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Home insurance charts – direct market

Quarterly movements for home insurance

Home insurance average premiums October 2013 (table)

Home insurance – buildings average premiums October 2013 (table)

Home insurance – contents average premiums October 2013 (table)

Home insurance – combined average premiums October 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 October 2013 (table)

Home insurance – buildings average premiums October 2013 (table)

Home insurance – contents average premiums October 2013 (table)

Home insurance – combined average premiums October 2013 (table)

Premium changes by region

Premium changes by age

Premium changes by property type

Premium changes by year built