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Transport Committee

The cost of motor insurance

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Volume II

Additional written evidence

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The Transport Committee

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The Reports and evidence of the Committee are published by The Stationery Office by Order of the House. All publications of the Committee (including press notices) are on the internet at http://www.parliament.uk/transcom. A list of Reports of the Committee in the present Parliament is at the back of this volume.

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List of additional written evidence

(published in Volume II on the Committee's website www.parliament.uk/transcom)

List of unprinted written evidence

The following memoranda have been reported to the House, but to save printing costs they have not been printed and copies have been placed in the House of Commons Library, where they may be inspected by Members. Other copies are in the Parliamentary Archives, and are available to the public for inspection. Requests for inspection should be addressed to The Parliamentary Archives, Houses of Parliament, London SW1A 0PW (tel. 020 7219 3074). Opening hours are from 9.30 am to 5.00 pm on Mondays to Fridays.

1 Ian Heathfield

2 Joey Pierce

Written evidence

Written evidence from Martin Prosser (CMI 01)

Below is my personnel submission of evidence for your forthcoming enquiry into the Cost of Motor Insurance.

Cost of Motor Insurance

1.1 The terms of reference for this enquiry neglect the issue of affordability of Motor Insurance and the effects caused by the current terms of sale, used by the insurance industry.

1.2 Currently the main stream insurance providers and possibly purchasers are fixated on using policies of twelve months duration payable as a lump sum or following the addition of a premium for payments via instalments.

1.3 A certificate of insurance is issued for an annual policy following completion of the first payment. Should a policy holder fail to maintain monthly instalments the policy holder is then informed that the original certificate in no longer valid.

1.4 An alternative would be for persons currently forced to use monthly payments for reasons of affordability to purchase four periods of three months or two periods of six months with a new certificate of insurance issued for each period.

1.5 This reduces the initial outlay to one quarter or a half of the annual policy providing greater affordability to purchasers, as no premium for payments via instalments would be applicable.

1.6 The grater use of upfront payments would also reduce the cost and risks taken by the insurance industry currently in providing flexible payment terms.

October 2010

Written evidence from Cadence Driver Development (CMI 04)

1. The issues surrounding younger and less experienced drivers are extremely complex and extend far beyond the question of high insurance costs, which is the main focus for The Committee at this time. Insurers in general, base their quotation premiums on actuarial statistics and historical trends. We have had numerous discussions with insurers on the subject of young drivers, in particular cost-effective and workable proposals for reducing the disproportionately high and socially unacceptable number of incidents involving this category of risk.

2. Insurance costs have risen dramatically, particularly for young drivers, as statistically, they are the group most likely to be involved in an injury or fatal crash. These significant rises are no doubt linked with the increase in the payouts awarded through the "no win, no fee" culture, as insurers are forced to cover their inflated costs in order to protect their *exposure to risk*.

3. The focus of our submission is based on a lifetime of experience, training and coaching drivers *after* they have passed the DSA theory and practical tests. We all expect young people to take *personal responsibility* seriously but in order to develop safe attitude, firstly we have to nurture a set of values and beliefs at the developmental stage and that necessitates time. We must make every effort to guide them in the most effective way so they can make sound judgements, in order to reduce their own *exposure to risk*.

4. There are many professionals who would challenge the veracity and completeness of the current standard. The DSA considers the test fulfils the criteria of ensuring those who pass are *"careful and competent"* drivers. Statistics regrettably, provide us with contrary information. Statistics have shown that young drivers have a disproportionately greater likelihood of being involved in a crash than any other age group. In particular, young male drivers are at considerably greater risk of being killed or seriously injured in the first year of driving unsupervised than any other group of drivers; they are almost twice as likely to kill or injure their passengers—and are penalised accordingly when applying for insurance cover.

5. We fully appreciate the political obstacles that make it so difficult to create a more robust training and testing schedule for novice drivers, particularly in a period of austerity but despite the most recent changes to the driving test, we maintain that we owe it to "the next generation" to offer them complete solutions. We also have to balance the effects of governance and state intervention with the cultural and societal benefits of encouraging people to adopt safe strategies and cooperative values, attitudes and behaviours through self-discipline and motivation—and we appreciate the necessity of achieving a fine balance in regulation that does not encourage an increase in unlicensed driving.

6. Scientific research has provided evidence that young drivers are rarely lacking in mechanical proficiency—they often demonstrate remarkable reactive aptitude and could probably outperform many a highly experienced and mature driver. Where the knowledge and skills appear to be deficient is often down to age—and in most situations it is the different rates at which areas of cerebral development occur. Scientific studies have proved

that the frontal lobes are the last area of the brain to develop—and in most cases do not reach fully functional maturity until the age of 22–25—and yet this is the area of the brain we rely upon to make critical risk assessments and use for reasoning, planning and problem-solving—all of which are highly desirable qualities in the safe driver.

7. Additionally, research has revealed a tendency for new drivers to "fixate" on a point close to the vehicle, rather than scanning the distant, peripheral and rear views. The fully developed frontal lobes are also used to control emotional and impulsive behaviour. The typical teenager rarely possesses a death wish, which culminates in the typical single vehicle loss-of-control crash scenario; he actually has little natural control at this period of his development. However, to suggest that we do not allow people to drive until they are 25 would be foolish, impractical, unworkable and politically suicidal.

8. Young people perceive driving as the most effective method of removing the parental shackles and gaining freedom. It is understandable (although highly undesirable) that they wish to gain their freedom in the shortest possible time at the least cost, with little thought to the consequences of *lack of experience*—but you cannot buy experience off a shelf. We are not suggesting that we restrict young people's desires for independence. We should encourage them to have healthy aspirations but they have to be made aware that there is a direct correlation between responsibility and independence. The ability to drive is not an automatic right—it is a privilege that has to be earned and they have to be accountable for their actions.

9. There is sufficient anecdotal evidence to conclude that young drivers perceive the learning process as merely an unavoidable means of achieving their goal. They actively seek the cheapest novice instructor, rather than looking for one who is a highly skilled teacher and mentor. Often, what the instructor is forced to teach bears no relation to real-world driving but the instructor is constrained by outmoded dogma in the modular content and methodology. Because young drivers know no better, they are often unaware that the mechanical skills of driving account for only 20% of the driving process—and ignore the critical 80%, which forms the basis of sound reasoning and higher order cognitive processing, a vital element in the progression towards becoming a careful, competent and safe driver.

10. Many novices have voiced their opinion that the Theory Test can be passed through guesswork and the Hazard Perception Test is merely a road-related on-screen game. If the current teaching and testing process was actually "fit for purpose", there would be far fewer drivers taking further training—from our experience of the training and coaching world, a great number of drivers appreciate, often after a crash, that there is considerably more to safe driving than mechanical skills and a small amount of theory.

11. The most effective means of guaranteeing a sufficiently effective practice period, would be to initiate a *two-tiered licensing system*. Such a system would offer partial freedom during the formative, experiential period. Our depth of research and experience in the range of systems used in European and other countries provides us with the understanding of how best to initiate the most appropriate structure for the UK.

12. Keeping a firm guiding hand on these drivers during the period of development of their risk-assessing skills is critical and offers an acceptable solution to their welfare and alleviates the need for raising the driving age, which is politically controversial. It would be prudent to initiate a two-tier programme of driving development to gain the full licence and have an extended period of restricted driving to enable drivers to consolidate their experience in "real world" conditions. Those who break the terms and conditions of their restrictions would run the risk of losing their privileges.

13. A two-tiered approach can be implemented at little cost to central Government and has already been applied to motorcycle training and testing.

14. The current elements of the driving test—the Theory Test, Hazard Perception Test and the Practical Driving Test (to be called Part A) would effectively remain unchanged. However, instead of receiving a full licence that can last unchallenged for the next fifty-three years, at this stage, the candidate would instead receive a restricted licence, lasting for a period of up to two years.

15. In the majority of instances, the restriction would involve a two-year period during which:

- Drivers would only be permitted to drive close family members or people who have held a licence for a minimum of three years. This would significantly reduce the peer pressure and risk-taking elements and would greatly assist in learning how to manage distraction.
- Drivers would be governed by a zero or lower-alcohol level < .03% in line with the majority of all other nations. Recidivist drivers would receive substantial bans.
- It would be compulsory for drivers to display an "R" plate (of equal dimensions to the present "L" plate) at the front and rear of the vehicle they are driving at all times. (See Northern Ireland regulations.) The means of attaching the plate would be either magnetic or self-adhesive and should be removed when full licence holders are driving the vehicle (in line with current rules governing "L" plates). Use of "R", denoting "Restricted" is less confusing than use of unofficial green "L" plates or "P" plates, which could denote either probationary or provisional. As technology advances, the "R" plate could become driver-specific and linked in with the ANPR/DVLA systems.

- — Drivers would be encouraged to gain experience in lower powered, unmodified vehicles (max 1400cc) taking additional account of relevance of power-to-weight ratio—they would be rewarded by receiving lower premiums for this category. (Higher performance cars would not be excluded but would carry the highest premiums to act as a disincentive).
- — Drivers receiving six penalty points would be required to re-take all elements of Part A at their own cost (use of qualified instructors mandatory) (an extension of the current six month period).
- — Consideration should be given to restricting the maximum legal speeds for new drivers. Northern Ireland currently restricts new drivers to 45mph for one year. Although controversial, by reducing their maximum speeds for a specific period, we would be handing a lifeline to new drivers, creating the opportunity for them to develop their mental processing skills and buying them time and extra space on the approach to each potentially hazardous situation that requires intellectual evaluation.
- — At the end of the two-year period, drivers would be required to take a "signing-off" extended test (1 hour) to demonstrate their enhanced mental processing abilities. Using DSA examiners would be impractical, as they are already overloaded. As an alternative, suitably qualified advanced level driver trainer ADIs would be invited to submit themselves for the newly-created rôle of "Part B Examiner". They possess the additional skills of instructing at higher speeds in more complex environments than is required of the DSA examiner. This method of testing has no financial implication to Government as the assessment process for the advanced trainer would be self-funded.
- — In certain circumstances, those drivers who display the ability to demonstrate a level of driving competency commensurate with an "advanced driver" may opt to reduce their period of restriction by taking additional (self-funded) coaching followed by a comprehensive test (as above)—in the areas of concentration, observation, deliberation, planning, scanning, anticipation, accurate choice of suitable speed for the prevailing conditions and the ability to create time and space in which to deal with the ever-changing driving scenario. The ability to "fast-track" will appeal to many young drivers and will provide an incentive to develop their cognitive skills
- — Apprenticeship scheme employers could be encouraged to sponsor suitable candidates
- — Motivated parents could subsidise the costs of professional driver development for their children
- — A limited amount of funding could be set aside from the Department for Transport and the Department for Business, Innovation and Skills to support lower-income families who are similarly motivated (particularly useful for supporting young drivers in rural areas).

16. Consideration could also be given to restricting driving during the hours of darkness that have been statistically proven to have the highest crash incidence for younger drivers (22.00–05.00hrs). We do however appreciate this element would have a far greater social impact, particularly on country dwellers who often have no alternative transport system and would not include this element in the current submission.

17. There would be a specific fast-track mechanism (similar to the motorcycle Direct Access scheme) for new drivers over the age of 25. On production of a certificate of successful completion of an approved advanced driving course operated by post-test instructor/coaches, they could reduce the probationary period and receive their full licence (Part B) after six months.

18. Similarly, those who have recently passed the current test would have the opportunity of volunteering for inclusion in the restricted scheme and would receive insurance cost incentives to actively participate.

19. Professionals in the insurance industry with whom we have collaborated, consider a two-tier system as a most effective method of tackling the issues of reducing crash incidence. They have cooperated with the DSA in the past by offering discounts for new drivers who undertake the six hours of "Pass Plus" but their statistics have shown this small amount of post-test training as an ineffective tool and most companies will no longer offer a discount to those who take the six modules.

20. We have conducted significant research into the most effective structure and methodology of development within the two-year restricted licence period, details of which fall outside the scope of this submission. There will be a requirement for closer collaboration between post-test driver trainers and the insurance industry, based on encouragement and reward for restricted licence holders, who actively work on developing their higher order cognitive processing skills. It is entirely possible to stimulate earlier development of the frontal lobes rather than waiting for nature to take its course. The scheme will have significant effects in the area of road safety; it will create a culture of self-motivation.

21. In the short term, lower insurance premiums may not correlate with actual costs to insurers and they may have to underwrite some losses. However, in the long term there will be benefit for all. Fewer crashes will result in fewer claims. Fewer crashes will significantly reduce the related costs in emergency and hospital services. Fewer crashes will have a significant social effect and benefit.

22. Finally, in all other aspects of personal and professional development, further training is almost always compulsory. We willingly accept the need to learn more and broaden our skills in order to become more knowledgeable and achieve promotion but this culture does not extend to driving. By adopting a broader and

more challenging approach to unsupervised driving, we will enhance the quality of life for all road users. This proposal is supported by members of the insurance industry.

Cadence Driver Development—Qualifications, Experience and Expertise

DSA Approved Driving Instructor (ADI) Highest Grade

Former Police Driving School Instructor

RoSPA Examiner

RoSPA Diploma

Under 17s Driver Workshops

Driver Rectification Consultant

Special Services Consultant

Motor Industry Research Consultant

Skid Prevention Consultant

CAA Instructor Examiner (multi-engine rating)

Author and Expert Advisor (motoring periodicals; print and electronic media)

AIRSO (Association of Industrial Road Safety Officers) member

References and Further Reading:

Submission to New Zealand Government Road Safety Strategy to 2020

EU Hermes Project

CIECA International Commission for Driver Testing

Scientific Research Projects—University of Nottingham; University of Waikato

The Principles of Safe Driving (Cadence Driver Development) ©

The Common Sense Guide to Safe, Enjoyable Driving (Cadence Driver Development) ©

Selected Published Articles on Improving Road Safety (Cadence Driver Development) ©

November 2010

Written evidence from moneysupermarket.com (CMI 07)

An Introduction to Moneysupermarket.com

moneysupermarket.com is the largest price comparison website in the UK; the insurance comparison channels attracted approximately 24 million visitors in 2009. We offer consumers the ability to compare quotations across 105 car insurance providers in real time.

Our objective is to help every household to make the most of their money. We do this by providing our customers with a free online service enabling them to compare a wide range of products and to find the one most suited to their needs. Our customers can compare products by price, product features and service.

As consumers increasingly research and buy financial products online, price comparison websites continue to become increasingly relevant in the UK motor insurance distribution landscape, accounting for approximately 63% of motor insurance sales. In the last year we have issued 3.2 million insurance quotations and have recognised the rapid rate of inflation in the car insurance market and the impact of recent increases on consumers.

Our Recommendations for Action

1. The Government should seek to encourage major insurers to utilise existing technical solutions that help to remove entry barriers to customers under the age of 25.
2. The Government should strengthen penalties for uninsured driving and fraudulent claims to ensure that the potential fine is greater than the cost of car insurance.
3. The Government should continue to reform the structure of compensation claims to limit the costs incurred by insurers. We would like to urge the Committee to ensure that the reform is implemented in a way that will enable insurers to pass on lower risk to consumers.

Executive Summary

The UK insurance market has seen an unprecedented rise in premium prices over the past year and young motorists are suffering disproportionately from high insurance costs. Price comparison websites have made the UK car insurance market far more competitive over the past decade, with moneysupermarket.com customers able to save on average £237 on their renewal quote. More consumers than ever switch insurance provider on a regular basis and this has helped slow price rises. Recent rapid cost increases, however, have demonstrated that market transparency is no longer sufficient to prevent rising costs for the motor insurance sector being passed on to consumers.

Steeply rising premiums may be attributed to a rise in accidents involving uninsured drivers, fraudulent claims and the large costs for insurers associated with compensation claims which have become a widespread feature of the motor insurance market in the UK. Insurers have passed on costs incurred by back-dated claims to consumers in the form of premium rises.

Price rises encourage and sustain fraudulent insurance claims and uninsured driving. Both of these practices help create a viscous circle of increasing size and frequency of claims and rising premiums.

The statutory penalties applicable to drivers caught without insurance provide too little incentive for motorists to purchase insurance. Considering the cost of insuring a car, it may prove attractive and even logical to some younger drivers to risk being caught driving without insurance.

Many of the causes of price increases have been specifically associated with young drivers. Insurers pass on this higher risk to new drivers through higher premiums. The high cost of insurance policies for young people means some cannot afford to buy cover.

The insurance industry, therefore, should seek to use new and innovative policies that help them better quantify the risk of individual drivers in order to price policies more effectively and accessibly for younger applicants.

Telematic products already exist that both provide insurers with the information necessary to better quantify risk and determine which drivers deserve to pay more for their car insurance. Unfortunately these types of products have yet to be endorsed by major UK insurers and still account for a very small proportion (less than 1%) of the market.

1. *Moneysupermarket.com and Motor Insurance*

1.1 moneysupermarket.com welcomes the Transport Select Committee's timely inquiry into the rising cost of car insurance in the UK. Our objective is to help every household to make the most of their money. We do this by providing our customers with a free online service enabling them to compare a wide range of products and to find the one most suited to their needs. Our customers can compare products by price, product features and service.

1.2 moneysupermarket.com is the largest price comparison website in the UK; the insurance comparison channels attracted approximately 24 million visitors in 2009. We offer consumers the ability to compare quotations across 105 car insurance providers in real time.

1.3 As consumers increasingly research and buy financial products online, price comparison websites continue to become increasingly relevant in the UK motor insurance distribution landscape, accounting for approximately 63% of motor insurance sales.

1.4 moneysupermarket.com recognises the rapid rate of inflation in the car insurance market and the impact of recent increases on consumers. This submission outlines a variety of causes to help inform the Committee's inquiry.

2. *The rising cost of motor insurance: cause and effect*

2.1 The UK insurance market has seen an unprecedented rise in premium prices over the past year. According to figures produced by the AA, fully comprehensive cover now typically costs £704, a year-on-year increase of 31%.[1] moneysupermarket.com believes the rise in price is being fuelled by increases in fraudulent insurance claims, the establishment of a UK "compensation culture", and rise in the number of uninsured drivers on the road. These factors have led to an increase in the size and frequency of claims made by policy holders, with the result that insurers are putting policy prices up to compensate.

2.2 *Fraudulent claims:* Recent research from moneysupermarket.com shows that 15% of motorists under 35 would consider staging a motor accident to claim on their insurance. Worryingly, one in 20 younger drivers admit they have already done so and got away with it. Association of British Industry figures for last year reveal that over 2,000 dishonest insurance claims worth more than £16 million were detected every week.

2.3 *The soaring cost of litigation*: The Committee will be aware of recent Government commissioned reviews which highlight the inefficiencies in the UK's personal injury system. These inefficiencies lead to increased costs to individuals. Lord Justice Jackson's review of civil litigation and Lord Young of Graffham's review

[1] http://www.moneysupermarket.com/c/news/insurers-get-tough-on-fraud/0010083/

into health and safety both criticise "no win no fee" arrangements. Lord Jackson recommends that success fees should no longer be recoverable from an opponent in litigation, but be paid out of damages awarded. moneysupermarket welcome the Government's commitment to act on the conclusions of these reviews.

2.4 *Maximum Fine:* According to official statistics, one in 20 drivers is uninsured. But recent research carried out by pollsters Mori suggests that this figure is more like one in 10 drivers, albeit that the uninsured period in many cases may run to just a few days or a few weeks. This is no comfort to someone who is involved in an accident with an uninsured driver. This adds around £30 to the average annual premium.

2.5 moneysupermarket.com is concerned the statutory penalties applicable to drivers caught using their vehicles without insurance provide little incentive for motorists to purchase insurance, and that this is particularly true of younger drivers. Considering the cost of insuring a car such as the example in paragraph 3.1, it may prove attractive and even logical to some younger drivers to risk being caught driving without insurance.

2.6 The penalties for such an offence are a maximum fine of £5,000 (which a first time offender is unlikely to face) or a fixed penalty notice of up to £200 and six penalty points. When the cost of purchasing and insuring a car outweighs the cost of the statutory penalty for driving without insurance, the public policy intentions of such an offence are skewed. moneysupermarket.com recommends that the government looks to provide harsher penalties for uninsured drivers to encourage the take up of insurance.

3. *Younger drivers pay the price*

3.1 In 2010, moneysupermarket.com analysed car insurance premiums for drivers of all ages. We discovered that while the cheapest premium for an 18 year old male, driving a 2005 1.4L Ford Fiesta, is £4,897, the average premium is £7,917—79% (or £3,494) more than the £4,422 average for an 18 year old female.

3.2 Young males who have a few years of experience on the road will see a considerable drop in premiums, with the average cost for a 19 year old falling to £3,711—a 53% decrease. Premiums continue to reduce by a significant amount as a driver's age increases from late teens to twenties and thirties.

3.3 To reduce this cost, young people face strong incentives to carefully select a lower risk vehicle and drive carefully. At the same time the cost faced by young drivers, even for those who have taken steps to minimise their insurance premium, can prevent many from being able to own and drive their own vehicle.

3.4 Recent research[2] indicates that millions of parents are said to be breaking the law in order to save money on car insurance for their children. Parents are claiming to be the main drivers on the policy, when in fact it is one of their children who is the main driver, or owner of the car. The practice, known as fronting, potentially offers large savings but could lead to prosecution. Research by Co-operative Insurance[3] found that 41% of parents are fronting policies at the moment.

3.5 High premiums therefore emphasise the need for action from the Government and other agencies to address the underlying poor road safety record of young drivers.

4. *Market innovations will lower costs*

4.1 Insurance policies fail to incentivise responsible driving, particularly among the young. The traditional insurers have failed to address this. However, the new market entrants are testing innovative means to encourage drivers, particularly young drivers, to lower their premiums by installing Telematics or "Clearbox" tracking systems onto their vehicles. One particular telematics-based insurance policy aims to influence driving behaviour by incentivising good drivers through its charging structure. This saves young drivers on average at least £200 per year. This product allows insurers to price policies based on evidence of driving practices rather than just age and should prevent a responsible and safe 18 year old driver being punished with higher cost premiums because some of his peers may be reckless.

4.2 Drivers pay for a fixed number of monitored miles, typically 6,000. When the allocation is about to run out they receive email reminders. They can then choose to buy additional miles automatically through their credit cards or bank accounts or opt instead to use top-up principles, similar to mobile phones.

4.3 Telematics technology makes it possible for emergency services to respond rapidly to accidents, reducing the time it takes to get help and potentially saving lives. The box, which is installed onto the vehicle, is capable of alerting the insurer whenever there has been an incident recording a g-force of 2.5 or more, indicating that an accident might have occurred. The insurer can then contact the customer and organise help if needed. Where the box registers a g-force of eight or more, and serious injury is likely, emergency services may be called to the location in cases where the customer cannot be contacted.

4.4 The most extensive trials of telematics have taken place in the United States with organisations such as the Texas Government, General Motors, Safeco and American Family involved in various monitored driving and low mileage discount programmes. After piloting various technologies in a number of different States, Progressive Insurance announced a nationwide roll-out for MyRate in 2008.

[2] http://www.bbc.co.uk/news/10241769

[3] http://www.cfs.co.uk/servlet/Satellite?c=Page&cid=1263305237429&pagename=Corp/Page/tplCorp&currart=1276241509470&currmth=06

5. *The influence of crime*

5.1 Steeply rising premiums may be attributed to a rise in accidents involving uninsured drivers, plus an acceptance of "compensation culture" in wider British society—a theory supported by the AA and Consumer Intelligence.

5.2 Car insurance claims brought against illegal drivers cost the industry £1.25 billion a year and the expense is shared out among motorists. More than 23,000 people are injured or killed by uninsured drivers each year according to the Co-operative Insurance. Incident rates are taken into consideration when companies calculate the general price of car insurance policies, and the risk posed by fraudulent and uninsured motorists is a key reason why the cost of cover continues to increase.

5.3 Car insurance fraud and illegal motoring are problems often associated with younger drivers. The high cost of insurance policies for young people means some simply cannot afford to buy cover. We agree that driving without insurance is inexcusable, and common forms of insurance fraud are against the law. However, the industry needs to come up with a solution that means under-25s have access to affordable car insurance cover. As discussed above, the Government should also provide strong disincentives to help reduce driving without insurance by raising the maximum fine.

6. *Excess Charges*

6.1 Excess charges perform a valuable function in the motor insurance market. Their existence allows both insurers and policy holders increased flexibility in the cost of their premiums. Indeed, customers have also shown appetite for agreeing further voluntary excess payments in which policy holders choose to pay a higher charge in the event of a claim to lower the monthly cost of the premium.

6.2 We are, however, concerned that excess payments demanded by insurers have been increasing in line with car insurance premiums. This is particularly true for younger drivers, who are often forced to agree to high compulsory and voluntary excess payments as a condition of insurance.

6.3 The principal danger of rising excess charges, particularly for young drivers, is that the policy holder would not be able to afford payment in the event of an accident.

November 2010

Written evidence from Zurich Financial Services Group (CMI 08)

1. Introduction

Zurich Financial Services Group (Zurich) is an insurance-based financial services provider with a global network of subsidiaries and offices in North America and Europe as well as in Asia Pacific, Latin America and other markets. Founded in 1872, the Group is headquartered in Zurich, Switzerland. It employs approximately 60,000 people serving customers in more than 170 countries.

It provides insurance and risk management solutions and services for individuals, small and mid sized businesses, large corporations and major multi-national companies. It also distributes third-party financial services products.

Zurich is a major insurance service provider for both private car and motor fleet. Delivering motor insurance solutions in the United Kingdom, distributed through both direct and brokered channels. In addition Zurich is the leading provider of risk management services and motor insurance solutions to the UK's public services market through its Zurich Municipal division.

As a major stakeholder with a broad spectrum of coverage, we have a wealth of expertise and technical knowledge in this area, Zurich very much welcomes this inquiry into the price of purchasing motor insurance and the opportunity to explain to the Committee, the current market dynamics.

We outline the adverse features Zurich believes are driving higher prices and will expand upon each in the body of our submission:

- Increased frequency of bodily injury claims.
- Increased credit hire costs.
- Increased claims costs.
- Increased fraudulent and uninsured activity.
- The current civil compensation model.

2. The Reasons and Consequences for the Recent Increases in the Cost of Motor Insurance

Motor insurance in both the private and commercial sectors is experiencing increased claims costs largely driven by the increase in frequency in bodily injury (personal injury) and credit hire claims. A report published by The Actuarial Profession in October 2010[4], concluded that these increases have added at least £100 onto the cost of an average motor policy over the last two years.

These costs, coupled with a decline in investment income and a fiercely competitive price-driven market, mean that for the majority, the UK motor insurance is currently not a profitable line of business to underwrite.

By way of illustration, motor insurers define their profits in terms of gross written premiums less what is paid for claims and expenses. This is often exhibited as a ratio of the claims and expenses and premium income which is known as the Combined Operating Ratio (COR), with a figure of less than 100% indicating an operating profit. The Financial Services Authority returns for 2008 show the COR for the UK motor insurance industry was 105%. In 2009 this had risen to 120%. In simple terms, for every £1 of premium taken, £1.20 is paid out in claims and other expenses.

Data released by RoSPA in June of this year reported a 12% decrease in road deaths in the UK[5]. Improved vehicle safety and increased public awareness has reduced accident frequency, despite there being more cars on the road. In theory, one would assume that this would lead to a significant reduction in the frequency of injury claims. Paradoxically, the data reveals the opposite is true.

For Zurich, a growing concern is the deterioration in the frequency of third party property damage and bodily injury claims, with more minor injury claims being made, both from drivers and passengers. In 2009, we saw a 12% increase in bodily injury frequency on the prior year.

Using historical data from our private car portfolio, we can illustrate the trend that Zurich has experienced for the period 2005–09:

- Bodily Injury frequency has increased by 24% from 2005 to 2009 (6% per annum).
- The proportion of Third Party Property Damage claims with a personal injury element increased by 36% from 2005 to 2009 (8% per annum).
- Third Party Property Damage cost per settled claim has increased by 40% from 2005 to 2009 (9% per annum). This contrasts with an increase of 14.0% over the same period (3% per annum) for accidental damage to vehicles insured under Zurich's own first-party policies.
- The number of claimants per claim has increased 28% between 2005 and 2009.

Zurich believes this increase in frequency can be directly related to the public perception of easy compensation, with the proliferation of conditional fee arrangements (or "no-win no-fee") advertisements, alluding to easy money to be made from claims.

Another important factor is the growth of the lucrative credit hire market, which is worth in excess of £1.2 billion per annum. Credit hire is the provision of a replacement vehicle, to the non-fault motorist, following an accident. This is done on a credit basis—the claimant has virtually no financial interest in the cost or period of hire—with the credit hire company subsequently looking to recover the hire charges directly from the insurer of the at-fault motorist. A credit hire company, typically, pay a fee in excess of £300 per claim, to its referral source for producing the claim and referral fees within the market are thought to exceed £100 million each year. Both Lord Justice Jackson and, subsequently, Lord Young identify referral fees as one of the primary drivers of the increased frequency of personal injury litigation, having a substantial impact upon the legal costs ultimately paid. Both conclude that the current compensation model is badly in need of reform.

The majority of personal injury claims fall within the "Fast-Track" value range less than £25,000. However, it is also worth mentioning the significant changes to the financial values associated with catastrophic personal injury claims for paraplegic and tetraplegic claimants. Increases in life expectancy, coupled with improvements in medical science mean the cost of long-term care for such claimants has increased dramatically. The multiplier effect is increased when different indices are used to calculate the appropriate hourly rate for care staff and other long term costs.

The introduction of Periodic Payments as a means of funding settlements has led to a supply and demand issue, with few providers willing to offer impaired life annuities. This forces insurers to self-fund these mechanisms often at significantly higher cost—carried on the balance sheet—than previously seen under the lump sum settlement method.

3. The Impact on Young People of the High Costs of Motor Insurance

Zurich's experience is that, as a group, young people exhibit particular behaviours when driving motor vehicles which, statistically, make them far more likely to be involved in road traffic accidents than other drivers. We believe that a lack of driving experience and an inclination to take unnecessary risks underpins these beliefs, and our rating and pricing structure for young drivers has evolved to take these features into account.

[4] http://www.actuaries.org.uk/news/press-releases/articles/actuarial-working-party-establishes-bodily-injury-claims-cost-motor-pol

[5] (ROSPA: http://www.rospa.com/news/releases/default.aspx?id=864).

In 2008, the Association of British Insurers[6], reported that it had conducted research into the factors behind young drivers' poor safety record. Its evidence, "based on 8.5 million motor insurance policies for 2005 and 2006 and for policies involving one driver only, show[ed] that:

- Young drivers are much more likely to make a claim than other drivers;
- Young drivers are more likely to be at fault in a collision for which they make a claim than other drivers;
- When taking the same unnecessary risks as other drivers, such as speeding, young drivers are much more likely to cause a collision;
- Lack of road experience has much more effect on young novice drivers than on other novice drivers; and has the greatest effect on young novice drivers in their first year of driving;
- Carrying passengers increases the risk of a collision for a young driver, and the average number of passengers injured in a collision with a young driver is much higher than in a collision with another driver".

Zurich does not believe that any of these features have diminished since the date of the survey; rather, they remain or have increased since that time and, therefore, continue to contribute to the high cost of motor insurance offered to young people.

It is a basic principle of insurance underwriting that the premium must accurately reflect the degree of risk that is under consideration, having taken these issues into account and drawing upon its own claims experience data, Zurich offers fair and reasonable prices to those consumers who request their policy cover to include young drivers.

However, we are also aware that higher premium costs can, in some circumstances, drive certain undesirable behaviours when proposers apply for insurance cover. In particular, "fronting" remains a significant concern for insurers. Fronting is the term used to describe application fraud which involves the misrepresentation of the use of a motor vehicle by a young driver. Typically, the practice involves an attempt to obtain a motor policy in the parent's name, when the reality of the situation is that the young person is the principal driver and/or owner of the car.

The full impact of fronting on the policyholder usually comes to light after an accident has taken place whilst the vehicle has been under the control of the young driver. The policyholder can find they are uninsured and liable to repay any costs their insurer is legally obliged to make under the terms of the Road Traffic Act.

The additional cost of monitoring and detecting application fraud itself is one which has to be factored into an insurer's operating expenses.

It is acknowledged that an insurers' expenses in providing the service necessary to administer both policy and claims activity is a component of the COR. Over the last decade, the industry has embarked on a number of efficiency steps to remove cost from administrative expenses. This has consisted of centralisation, offshoring, outsourcing, investment in IT, reduction in office premises and streamlining of process. Despite this, the purchase of motor insurance is being driven toward a commodity purchase dictated solely by price. Whilst this may have an attraction to the consumer, ultimately it is unsustainable over the longer term.

The underlying claims frequency, which dictates the pricing differential for young drivers, is also aggravated by factors such as the rise in credit hire and bodily injury claims discussed previously. The combined effects of a high claims frequency and average cost per claim are the main factors in the rising cost of motor insurance for young drivers.

It must be acknowledged that much good work is already being undertaken to address these adverse features and the following initiatives will continue to improve driving skills and reduce claims frequency and costs:

- Improved training including a, say, 12-month minimum learning period
- Raised standards in the driving test
- Actions to encourage young drivers to carry fewer passengers
- Actions to encourage fewer night-time journeys.

Improved driving proficiencies and outcomes will generate better underwriting results for insurers and, if action can be taken to curb the compensation system, this will help improve the loss ratios and make pricing more sustainable over the long term.

4. The Extent to Which the Cost of Motor Insurance is Influenced by the Prevalence of Road Traffic Accidents, Insurance Fraud, Claimant Legal Costs and the Number of Uninsured Drivers Involved in Accidents.

Insurance claims costs are influenced by an increase in fraudulent activities among consumers and businesses, particularly so in times of economic pressure and increased financial stress. Zurich believes that the current economic environment has led more insurers to invest heavily in counter-fraud technology and to increase their fraud detection activities which will reduce fraud, both opportunistic and organised, in the longer-term. Insurers

[6] "Young Drivers—Reforming Learning to Drive", Association of British Insurers, 2008

are acutely aware of their fiduciary duty to those legitimate policyholders who face increased motoring premiums because of the activities of fraudsters but also wider society in challenging the pervasive nature of exaggerated claims and fraud.

Application fraud (eg "fronting") and claims fraud both contribute to an increased cost of motor insurance. Not only is the premium received inadequate, the average cost per claim is inflated. The need to raise premiums to counter these trends may tempt even more people to avoid paying the correct amount by misrepresentation or not insuring at all. Anecdotal evidence suggests that judicial deterrents for driving a vehicle without insurance are seen by many drivers as being insufficient to counter the inclination to either remain uninsured or commit fraud when making an application.

The incidence of fraud has increased dramatically in the motor insurance market due to the prevailing economic climate. The ABI estimated that £930 million of motor insurance fraud went undetected[7]. This has a negative impact on the motor insurance market and contributes to the overall increase in total claims costs.

However, initiatives such as the Motor Insurance Database (MID) and Government campaigns have helped to combat uninsured driving. The Motor Insurers' Bureau states that "uninsured drivers injure 23,000 people and kill 160 each year with total costs to honest motorists of £500 million, paid for through their insurance premiums".[8] Zurich believes the introduction of Continuous Insurance Enforcement will help to deter uninsured driving by imposing penalties for those who choose to drive without insurance cover (ranging from an initial fixed penalty to seizure and vehicle destruction for repeat offenders). However, while combating uninsured driving is expected to exert overall downward pressure on motor claims costs, there is a risk that application fraud may increase as motorists seek to be seen to be insured by having an ostensibly valid policy on the MID.

5. Whether There are Public Policy Implications of the Rise in the Cost of Motor Insurance and, if so, What Steps the Government Might Take in Response to Them.

Motor insurance is a compulsory class of insurance. Therefore, there are a number of public policy implications should the cost of motor insurance be perceived as prohibitively expensive, leading to an increase in those driving without insurance or obtaining cover fraudulently.

An individual prepared to enter a motor insurance contract fraudulently is just as likely to continue that behaviour in other walks of life. In addition to fraud and uninsured driving which has consequences for the innocent motorist, the insurer, law enforcement agencies and the National Health Service, there is also the pervasive impact of the compensation culture which the Government has already indicated a willingness to address.

In terms of steps the Government is taking, there is already helpful work underway in response to the rising cost of motor insurance.

Zurich recognises that there is a legitimate balance between the interests of access to justice and the excess created by a compensation culture.

Zurich has supported access to justice at proportionate cost and the provision of fast compensation for those injured through no fault of their own. Claimants need first and foremost access to justice and advice, a fair, fast and cost effective process and swift recompense.

The Ministry of Justice "Low Value RTA Claims Process" came into effect on 30 April 2010 and although it is still early to reach a final conclusion on its impact, it is seen as a significant step in the right direction. Proposals to extend this fast-track approach further to claims up to £25,000 would be another step in the right direction.

Under this process, claimants' costs are fixed with a transparent claims process and timeline, preventing unnecessary work by the lawyer. It will take more time to accurately judge whether the new process has really had a positive effect on stemming the flow of unmeritorious claims but initial signs do appear to be positive. Zurich is already seeing faster settlements which allows the injured party to receive damages payments earlier.

Other important developments include the Jackson Review of Civil Litigation and Lord Young's recent report into the Compensation Culture. Both of these recommend reform of Conditional Fee arrangements, After the Event Insurance, advertising and referral fees, all of which Zurich believes to be culpable for the increase in third party claims costs and, ultimately, motor insurance.

Though any reform will take time and involve complex issues, as well as a range of stakeholder interests, the forthcoming consultation on the implementation of these proposals does afford the UK a real opportunity for implementing much-needed change.

In conclusion, Zurich accepts that from time to time the vagaries of the free market are likely to create soft and hard markets. Currently, the economic climate and soft market make profitable underwriting on motor insurance impossible, which is driving the market correction and higher prices. We do, however, see some serious structural flaws within the current operating market that, if left unchecked, will continue to erode

[7] "General Insurance Claims Fraud", Association of British Insurers, 2009.
[8] http://www.mib.org.uk/Home/en/default.htm

profitability in the market with the inevitable consequences of withdrawal from the market and a reduction in competition. If we act now to tackle the issues we have identified within the compensation system through the Young and Jackson reviews then we believe equilibrium could be restored.

November 2010

Written evidence from esure insurance Ltd (CMI 09)

In esure's view, the primary cause of recent market increases in the cost of motor insurance is the dramatic increase in the frequency of low impact personal injury claims (ie whiplash) against motor insurers since 2008. As this frequency has risen, insurers have been forced to raise rates to balance premiums taken in against claims paid out. This is an industry-wide phenomenon and the balance is necessary to ensure the viability and solvency of those companies offering motor insurance in this country.

esure believes that the marketing of claims management and "no win, no fee" legal services to the public via TV, radio, print, email, text and directly via point-of-sale stands has led to a step change in public willingness and propensity to lodge claims for injuries. We believe this has also led to an increase in those exaggerating symptoms and/or fraudulently reporting non-existent symptoms. The number of suspected fraudulent personal injury claims increased 84% from mid 2009 to mid 2010. Personal injury claims linked to organised fraud (ie proven fraud rings) increased over 400% in the same period.

esure has carried out extensive market research showing that the majority of people (76%) believe such claims "marketing" leads to exaggerated and/or fraudulent claims against insurers. 81% also believe that action now needs to be taken to curb this activity to reduce claim fraud. This research was carried out for esure by ICM in May 2010 and we can provide copies on request.

The number of serious road accidents—and accidents in general—is decreasing in the UK but the number of claims for injuries in car accidents is rising. This discrepancy is shown clearly in figures from the Government's Compensation Recovery Unit (part of the DWP) who saw a 13.3% increase in notified injuries from car accidents during 2008 and 2009 versus the published figures on road accidents for the same period which fell by 6%.

Costs to insurers are increased disproportionately by the intervention of claims management companies and legal firms who seek to "capture" potentially injured parties.

An insurer who is contacted directly by an injured third party will pay—on average—half the amount in total costs for the claim compared to the same case if referred by a solicitor or claims management company—despite the injured party ultimately receiving the same in compensation by dealing direct. This has a huge impact on the costs of insurance to individuals.

The key public policy issues in esure's opinion therefore do not relate to the provision of competitive insurance to the public. A very broad and competitive market exists for car insurance with the vast majority of customers still able to gain access to competitive rates.

We believe the key policy issues are:

(1) the effect on uninsured driving among those for whom insurance has previously been at the borderline of affordability when weighed against the very low fines for uninsured drivers.

(2) the effect of a growing compensation culture in the UK that is being fermented in car insurance: in particular, the extent to which claims management companies and solicitors who "market" to potential victims is increasing and the wider impact of this on other areas of society (ie benefit fraud).

We would be very happy to elaborate at greater length and provide documentary evidence should you require it.

November 2010

Written evidence from ABP Club (Auto Body Professionals Club) (CMI 10)

The Transport Committee has agreed to hold a short inquiry into the cost of motor insurance, focusing on:

(1) The reasons and consequences of recent increases in the cost of motor insurance.

(2) The impact on young people of the high costs of motor insurance.

(3) The extent to which the cost of motor insurance is influenced by the prevalence of road accidents, insurance fraud, legal costs and the number of uninsured drivers.

(4) Whether there are public policy implications of the rise in the cost of motor insurance and, if so, what steps the Government might take in response to them.

N.B. This submission is only commenting on items 1 and 3 on the list above.

The ABP Club is a Club for anyone involved in the UK body repair industry (also known as accident repair industry). Around five million damaged cars are repaired each year at a cost of around £5 billion.

The Club was founded in 2004 and has 1,500 members from all sides of the industry including:

— The bodyshops/the accident repair centres.

— The motor insurers.

— The suppliers to the industry.

ABP Club would welcome the opportunity for further discussion on any of the points mentioned in our submission.

Key Points —1 Page Summary

There are many different factors affecting the cost of motor insurance in the UK.

— Some are unavoidable due to legislation eg motor insurance has to have unlimited third-party liability, the cost of uninsured drivers.

— Some are outside the control of the motor insurers eg weather, accident/claims frequency, vehicle design (and hence repair cost).

— Some come into the category of the insurers "could do better" to control eg fraud, credit hire, salvage disposal from total losses / write-offs.

— Some are caused by the insurers themselves eg referral fees insurers require from lawyers and credit hire companies, rebates required by insurers from suppliers to the bodyshops repairing cars. Insurers are aware of these issues but are reluctant to change.

The UK motor insurance market is dominated by a few major players with the top five insurers having 54% of the total market and the other 35 motor insurers sharing the remaining 46%.

In contrast the largest bodyshop company has less than 3% of the repair market—so we very much have a "farmers and supermarkets" scenario.

The UK motor insurance market is generally categorised as shown:

Personal lines business

— Private motor—comprehensive.

— Private motor—non-comprehensive.

— Motor cycle.

Commercial lines business

— Fleets.

— Commercial vehicles (non-fleet).

— Motor other.

The UK motor insurance market is highly competitive with consumers enjoying some of the lowest rates in the EC. The branding of motor insurance has been a feature of recent years, with brands such as Marks and Spencer, Post Office, tesco, putting their name to a motor insurance product—however that product is underwritten by one of the 40 motor insurance companies.

The purchase of personal lines motor insurance is dominated by the comparison websites (also known as aggregator sites)—such as Comparethemarket.com, confused.com, gocompare.com—whereby the consumer can submit their details once and the comparison site then obtains quotes from up to 100 different insurance providers in seconds.

How Motor Insurers Spend the Money

The spend of the average premium:

The 9 June 2010 issue of Auto Express magazine, had an article investigating how insurers spent the average £616 comprehensive insurance premium.

The article said they "have been given unprecedented access to insurance company files in a bid to uncover just what our premiums are spent on." The Auto Express information is "taken from a source within one of the country's biggest insurers who wanted to remain anonymous."

31% is spent on vehicle repair
17% is spent on the insurers operating costs
17% is spent on personal injury compensation
11% is spent on the legal bills from the personal injury cases
7% is spent on fraudulent claims
6% is spent on theft and fire claims

5% is spent on paying claims arising from uninsured drivers
5% is the government insurance premium tax (IPT)

100% total premium income

The claims spend

In November 2007, Highway Insurance (which has since been acquired by LV Insurance) published details of their total claims cost between September 2006 and August 2007.

N.B. This is just looking at the claims spend
34% third party non-injury costs
16% third party personal injury costs
13% third party costs
18% first party non-injury costs from total losses and theft
15% first party non-injury costs from accident damage repairs
3% windscreen costs

100% Total CLAIMS Cost

LIST OF THE 40 MOTOR INSURANCE COMPANIES IN THE UK

Posn	*Company*	*2009 Gross written motor premium*	*2008 Gross written motor premium*
1	RBS Insurance Group (Direct Line, Churchill, UKI, NIG)	c£2,550m	£2,630m
2	Aviva Group (formerly NU)	£1,172m	£1,514m
3	RSA	£1,045m	£1,171m
4	Zurich	c£800m	c£840m
5	Admiral Group	£939m	£805m
6	LV (Liverpool Victoria) (inc Highway)	£634m	£492m
7	Axa (inc Swiftcover)	£561m	£487m
8	Esure	£459m	£472m
9	Ageas (formerly Fortis)	£455m	£483m
10	NFU	£437m	£404m
11	Allianz	c£360m	c£380m
12	Equity Red Star *(IAG = Insurance Australia Group)*	£284m	£285m
13	Acromas (AA + Saga) *formed Sept 2007*	c£270m	c£250m
14	CIS	£260m	£230m
15	Quinn *[In administration since Mch 2010]*	c£250m	£243m
16	Markerstudy *(inc Zenith / Link from Jan 2010)*	c£170m	c£150m
17	Provident (GMAC)	£165m	£188m
18	Groupama	c£160m	c£180m
19	Chaucer	£159m	£132m
20	Brit	£115m	£87m
21	Sabre *(Binomial Group / BDML)*	£99m	£87m
22	HSBC (formerly Corinthian) *Ceased business in Sept 2009*	£98m	£207m
23	Amlin (Summit Motor Policies)	£92m	£72m
24	Tradex *(inc Westminster Motor)*	£90m	£81m
25	KGM (Lloyds Syndicate 260)	£79m	£63m
26	MMA	£78m	£110m
27	Travellers (St Paul)	£60m	£35m
28	Service Underwriting	£60m	£60m
29	First Central Insurance *[began Oct 2008]*	£50m	£1m
30	Aioi	£32m	£33m
31	Chartis UK	c£25m	c£25m
32	QBE	c£20m	c£25m
33	Ecclesiastical (inc Ansvar) *(Allchurches)*	£18m	£19m
34	Jubilee (Lloyds Syndicate 5820)	c£15m	c£15m
35	Novae	c£10m	c£10m
36	USAA	£9m	c£9m

Posn	Company	2009 Gross written motor premium	2008 Gross written motor premium
37	Ins Corp Channel Isles (RSA)	c£5m	c£5m
38	Octagon Insurance *[began Nov 2009]*	£1m	NA
39	Insurethebox *[began June 2010]*	NA	NA
40	Liberty Syndicate *[begins motor at end of 2010]*	NA	NA
	TOTAL	**£12,086m**	**£12,197m**

Unavoidable Factors Due to Legislation that Affect the Cost of Motor Insurance

Motor insurance is compulsory in the UK—to drive a car you must be insured for third party liability and that must be unlimited liability.

The cost of damage and injuries caused by uninsured drivers is picked up by the Motor Insurers Bureau (MIB) who are funded by a levy on the motor insurers premiums. The MIB deal with over 30,000 such claims a year costing over £500 million a year.

This adds £30 a year to every motor insurance premium.

There is very little that the insurers can do about this—it has to be down to the Police to enforce.

In recent months we have seen record personal injury awards from the courts—£11.15 million awarded in March 2010 to Wasim Mohammed, followed by £13.75 million awarded to Manny Helmot in September and in the most recent case an award of £17.5 million was made to Chrissie Johnson.

These three individuals had all had suffered terrible, life changing injuries, but of course these award payments have to be paid for by other motor insurance premiums.

Many will also remember the tragic Selby crash in 2001 when a car crashed onto a railway line, resulting in 10 deaths and 82 serious injuries. The insurance press has suggested that the total cost paid out by the insurer of the car driver was in excess of £50 million—and his premium was just £285.

Factors Outside the Control of the Motor Insurers Affecting the Cost of Motor Insurance

The weather is obviously a factor outside the insurers control but it does have a big effect on the cost of claims; bad weather increases the frequency and severity of motor claims costs.

Accident frequency (how often policyholders have accidents) is obviously outside the control of the insurers, but they do have some influence over claims frequency (how often the policyholder makes a claim).

Insurers can increase the excess (the amount of the claim payable by the policyholder) or reduce the no-claims bonus in the event of a claim; both of these actions can make consumers decide not to make a claim after they have had an accident.

A recent trend is for some insurers to add a further excess if the consumer wishes to take their car to a repairer of their choice, rather than using the insurance company's chosen repairer.

Vehicle design has a large part to play in the cost of motor insurance.

The built-in safety features in cars has improved dramatically in the last 10 years; cars are built of stronger steel with "safety cages" to protect the occupants; pedestrian safety has been introduced into vehicle design—all aimed at reducing the death and injuries caused in an accident.

This has been clearly demonstrated through the EuroNCAP crash-test programme.

Crash avoidance technologies are now being introduced into cars such as brake assist, pedestrian detection, radar operated cruise control—all aimed at avoiding the accident taking place.

There is an inevitable "knock-on" cost to this technology—the cars are becoming more complicated and hence expensive to repair.

This is clearly illustrated by the following comment from Anna Reynolds of the SMMT in July 2006:

> *"The priority of the motor industry is to design safe cars for occupants and the increasingly vulnerable road users like pedestrians. Soft bumpers are part of the energy absorbing characteristics of front and rear-end design. They ensure the car, not the occupant or pedestrian takes the strain in an impact at any speed.*
>
> *A return to bolt-on, rigid bumpers might save the insurance industry money in certain low speed accidents. However, this would be a huge leap backwards in car safety and the drive to cut death and injury on UK roads."*

Factors Affecting the Cost of Motor Insurance Which the Insurers "Could do Better" at controlling

Fraudulent claims are on the increase—especially the so-called "crash for cash" scams.

This is usually where someone deliberately gets someone to crash into the back of their car and then makes claims for personal injuries and repair costs considerably in excess of the norm.

The insurers are using technology to try and link up these fraudulent claims and are having some success.

There is more that can be done in this area, but the insurers have to be careful of not alienating genuine claimants. Insurers also need more Police co-operation in bringing suspects to court.

The credit hire market is one which many insurers have claimed are costing around £30 per policyholder.

Credit hire is where the innocent victim of a car accident can use the services of a credit-hire company to provide them with continued mobility in the form of a hired car whilst their claim is being settled.

The cost of the car hire are recovered by the credit hire company from the "at-fault" insurer.

The credit hire companies charge a much higher rental fee than could be obtained by visiting your local branch of Hertz / Avis etc.- but they are providing the hire car on a credit basis until they recover the costs, often many months later.

The credit hire market has several large players including Helphire, Accident Exchange, AI Claims and Drive Assist.

Credit hire came into existence due to the insurers failing to look after the innocent party; it has now become a £500 million market which is all payable by the insurers. However the relationship between insurer and credit hire operator is now changing—see below.

Salvage disposal occurs when the insurer declares a vehicle to be a write-off / total loss; the vehicle is deemed to be beyond economic repair. Around 550,000 cars a year are written-off by the insurers.

The vehicle is categorised by the insurer, depending on the damage severity, and is then sold by a salvage company such as Copart or Blue Cycle. The sale is usually done via an on-line auction.

Many of these are bought by small one-man band businesses who then repair them (often using incorrect repair methods) and sell them to the unsuspecting public.

The repair of such vehicles is totally legal, however no check is made of their roadworthiness before they are sold.

The insurers then end up insuring the vehicle for a second time—having declared it beyond economic repair a few months earlier!

Factors Affecting the Cost of Motor Insurance Which are Caused by the Insurers Themselves

Supplier rebates are often demanded by insurers from companies who are supplying the bodyshops where the insurers cars are being repaired.

This happens with paint companies and parts suppliers.

The insurer agrees a rebate with the supplier in return for the insurer "requiring" the repairer to use their particular brand of paint or purchasing their parts.

This naturally distorts the market as shown in the price of paint which has increased by 57% since 2003 compared to the RPI increase of 25.6% in the same period.

Referral fees are a major area where the insurers could do much to reduce the costs.

Insurers get referral fees from:

- credit hire companies (for sending them details of their innocent policyholders who have been hit by a guilty third party insured with another insurer)
- Personal injury lawyers ((for sending them details of their innocent policyholders who have been injured by a guilty third party insured with another insurer)

These referral fees are paid by the lawyers and credit hire companies by increasing the fees charged to the other insurer!

Many in the industry believe that these referral fees are causing an increase in the number of personal injury claims as innocent policyholders are often "encouraged" by their own insurer to pursue a claim as their insurer will financially gain from this in the form of a referral fee from the lawyer they pass the case to.

An average referral fee for a standard small personal injury case such as whiplash is around £500, rising substantially for more severe (and hence more expensive) cases.

Credit hire referral fees are typically around £200 per case.

Thus we have a great money-go-round with each insurer gaining at the cost of another insurer.

The loser is the policyholder. This whole issue is perhaps the biggest cause of rising motor insurance premiums.

At the insurance Post magazine Motor Claims conference in April 2007, Tony Emms, claims director of Zurich Insurance said:

In the credit hire world there are 1.7 million non-fault claims of which 350,000 are captured by credit hire companies to a value of £500 million.

Accident claims had fallen year-on-year for the past ten years.

Since year 2000, third party Personal Injury claims have increased by 100% costing £2 billion in legal costs. He asked, "are insurers feeding this problem by accepting referral fees?"

Third party property claim had risen by 145% since 2000 with credit hire being the main cost "being artificially high due to the referral fees often paid to other insurance companies".

Tony summed up by stating "there are too snouts in the trough making a profit out of accident, which has dramatically increased claims cost. We need transparency of costs".

A more recent article written by Graham Gibson of Allianz Insurance in Insurance Times, August 2009 shows the insurers are aware of the issue but there is a reluctance to address it:

Graham Gibson, director of claims, Allianz Insurance states his view on the practice of referral fees, saying its time for the industry to get its house in order:

In these turbulent times, I think we can be certain that the insurance industry will not escape the scrutiny of the outside world. With this increased interest will come greater questioning about our practices. What we have to ask ourselves is: "Are we happy with what they will find?"

There is one area of practice in our industry which cannot be attributed to the current economic madness, and it would be unrealistic to think that it will continue to remain unchallenged. I'm talking about referral fees.

It is a commonly held view that the credit hire market is saturated but, in the continued drive for revenue, attention has now turned towards referring personal injury claims, which is causing a marked increase in claims frequency. Indeed, it seems that the procurement arms of most insurers are now building revenue generation and conversion targets into agreements which, put simply, is unrealistic.

I read AXA chief executive Philippe Maso's recent comments in Insurance Times with interest, as he quite rightly highlighted that referral fees are damaging for all insurers and called for radical industry action.

I, amongst others, have in the past called referral fees the "guerilla in the room that nobody wants to talk about". But considering the average legal cost of pursuing a small personal injury claim is £1,400, with the referral fee representing around £700 of that cost and showing no signs of abating, it seems bizarre not to talk about it!

Furthermore, we have recently seen referral fees being built into loss adjuster and supplier models, hitting our customers from another angle. Meanwhile, we continue to expect our policyholders to accept the inevitable increase in their premium without explanation.

In the current economic climate, with greater scrutiny from the FSA, we have to question where the current practice of referral fees sits in terms of our obligations to treat our customers fairly and conduct our business in a transparent way.

If we consider this topic as consumers ourselves, the answer becomes obvious. Would we feel comfortable and accepting of the explanation that a substantial part of our insurance premiums go towards the buying and selling of our claim? The man on the street would quite rightly label this as grossly unfair. And given that it is the consumer's claim, why should they not share in the spoils? After all, non-fault motor claims involving personal injury, credit hire and credit repair could be worth up to £1,000. Not an insignificant sum of money, particularly in current circumstances!

A more recent and worrying development is that of negative commission models. I am amazed that we have reached the point where a broker can make more money from a referral fee than from commissions, leading them to write business in the hope of an accident resulting in a non-fault referral!

Left unchecked, we will see more people wanting to get involved in what appears to be a very lucrative process for some, continuing the upwards spiral of costs even further for us as an industry and, ultimately, our policyholders.

It's time for the insurance sector to get its house in order and learn from the mistakes of our counterparts in other areas of the financial sector. We need to preserve the trust of our paymasters—the consumers—by working together to develop a viable solution that satisfies all those stakeholders involved.

As a final point, the issue of referral fees is to feature at the February 2011 Post magazine Motor Claims conference under the following:

The ethical behaviour of the motor claims community

- *How the motor claims community can be its own worst enemy*
- *Why do insurers continue to allow growth in referral fees?*
- *The continuing headache of credit hire*
- *The practices in subrogated recoveries*
- *How have some insurers been off-setting the costs of "at-fault" claims from the "non-fault" claims?*
- *Are savings being passed onto the policy holder?*
- *Are these practices ethical and fair?*

November 2010

Written evidence from Saga Group Ltd (CMI 11)

1. The Transport Committee is holding a short inquiry into the cost of motor insurance, focusing on:

- The reasons and consequences of recent increases in the cost of motor insurance.
- The impact on young people of the high costs of motor insurance.
- The extent to which the cost of motor insurance is influenced by the prevalence of road accidents, insurance fraud, legal costs and the number of uninsured drivers.
- Whether there are public policy implications of the rise in the cost of motor insurance and, if so, what steps the Government might take in response to them.

2. Saga Group is the pre-eminent provider of services, including motor insurance, to the over 50s in the UK. The motor insurance sold by Saga is provided by our in-house insurer Acromas Insurance Company Limited (formerly Saga Insurance Company Limited).

3. This submission from Saga Group considers the first, third and fourth of the issues raised by the Transport Select Committee. As we are focused on those aged 50 and over we have not commented on the issue of young drivers.

Reasons for and Consequences of the Recent Rise in Motor Insurance Prices

4. The cost of motor insurance in the UK has risen substantially since the middle of 2009. The most recent AA private motor insurance "shop around" index showed an average increase of 40% from the third quarter of 2009 to the third quarter of 2010. A number of other market commentators produce price indices that all show similar increases to the AA index.

5. These are unprecedented increases for the motor insurance market.

6. The primary driver of these increases in premiums is an increase in personal injury claims costs for motor insurers. Personal injury claims have significantly increased motor insurers overall claims payouts which has necessitated large increases in premiums. We, like other motor insurers, have seen a significant increase in personal injury claims in recent years.

7. The Institute of Actuaries Third Party Working Party has recently completed an analysis of trends in motor insurance in the UK based on pooled data from a large number of insurers. This data showed that:

- The number of road traffic accidents has been falling since 2007.
- The number of personal injury claims arising from these road traffic accidents has been increasing rapidly in the same period.
- The average cost of these personal injury claims has also been rising rapidly.
- The total effect of increasing numbers of personal injury claims and the increasing average costs of personal injury claims has increased insurers' bills for personal injury claims by 30% per annum. This is a massive increase against the background of reducing accident rates.

8. In our view, the primary driver of the increased number of personal injury claims is the aggressive advertising tactics used by claims management companies. These organisations seek to find individuals who have been injured and pass them onto personal injury lawyers. The personal injury lawyer pays the claims management company a referral fee for each potential personal injury claimant. The claims management companies have engaged in increasingly aggressive marketing in recent years including:

- Extensive newspaper and television advertising.
- Cold calling.
- Cold emails and text messages.

- Assumptive questioning tactics and the "leading" of actual and potential claimants.
- Pressurising those involved in road traffic accidents to make personal injury claims.

9. The aggressive advertising tactics used by claims management companies are generating a "compensation culture" in the UK by encouraging people to seek compensation for any accident or injury. In addition, there has been an increase volumes of fraudulent claims. The frauds take a number of different forms of which the most common are:

- Fabricated accidents where no accident has taken place but the parties nevertheless conspire to put forward personal injury claims.
- Deliberate accidents (co called "crash for cash") perpetrated by organised crime.
- Exaggeration of injuries suffered in a genuine accident in order to increase damages.
- Multiple vehicle occupants fraudulently claiming to be injured as the result of an accident. Typically, the condition alleged is mild neck pain (whiplash).

10. It is not just motor insurers who will have experienced increases in costs due to the "compensation culture" created by the aggressive advertising tactics employed by claims management companies. Local government will have seen increasing claims for alleged injuries arising due to trips and falls. The National Health Service Litigation Authority report and accounts for 2010 show very clearly on page 13 that the number of claims received by the NHS has grown very significantly in the last two years. For example, clinical claims have grown from 5,470 in 2007–08 to 6,652 in 2009–10—an increase of 10% per annum. These additional claims will impose rising costs on the NHS.

11. The recent rise in motor insurance premiums affects all motorists in the UK. Young drivers have seen particularly high increases but the effect on the over 50s have also been significant. The AA index shows increases of almost 30% in the last year for drivers aged 50 or over (compared to 40% for all drivers). Such a substantial increase in premiums will further stretch the budgets of pensioners, many on fixed incomes, in difficult economic times.

12. Certain areas of the UK have seen particularly high increases in premiums. In our view it is no coincidence that the highest motor insurance premiums are payable by consumers who live in areas with very large numbers of claims management companies (the M62 corridor in the North West being an example).

Factors Influencing the Cost of Motor Insurance

13. The cost of motor insurance is primarily driven by the cost of motor insurance claims. The inquiry suggests a number of factors that may have an effect on motor insurance prices and we have commented on the importance of each below

Prevalence of road accidents

14. The prevalence of road accidents is of course a key determinant of motor insurance prices. In recent years, the prevalence of motor accidents has declined which might suggest that motor insurance claims should have declined. However, as discussed above, the beneficial effect of lower accident claims ("bent metal") has been more than offset by the increase in the number and cost of personal injury claims.

Insurance Fraud

15. Insurance fraud has caused part of the recent increase in motor insurance prices. The ABI estimates (ABI, General Insurance Claims Fraud, 2009) that £930 million of motor insurance fraud went undetected in 2009 which they estimate adds £39 to the cost of an average motor premium.

16. We have a significant team dealing with insurance fraud. There are many patterns in these claims but two of the more interesting issues are:

- Fraud is more common in areas of the country with a high density of claims management companies.
- We see increasing volumes of more sophisticated fraud rings which are often fabricating accidents to try to make fraudulent personal injury claims. Often a firm or firms of solicitors are central to such rings. In our view it is important that the Solicitors Regulation Authority ("SRA") acts proactively to deal with errant members of the legal profession.

Legal costs

17. Legal costs have been an important driver of the increase in motor insurance premiums. Approximately half of the claims on a motor insurance policy relate to personal injury claims. On the Saga motor account approximately 40% of the amounts paid out for personal injury claims goes to lawyers with the remaining 60% going to the injured party. Thus legal costs account for approximately 20% of insurance premiums.

18. For small bodily injury claims where damages of between £1,000 and £5,000 are paid, our experience is that claimant legal fees are, on average, only very slightly below the level of damages paid to the injured

party. Small claims below £5,000 are the vast majority of bodily injury claims by number and represent a large proportion of insurers' costs.

19. In our view the legal fees which claimant solicitors are able to recover in personal injury cases significantly exceed the true cost of completing the legal work. The changes in the profession, following the Access to Justice legislation in 2000, meant that legal firms were allowed to pay referral fees to claims management companies and other referral sources, usually in lieu of marketing activity undertaken by the solicitor itself. The proliferation of claims management companies in recent years has been a direct result of the referral fees paid by solicitors. In consequence the marketing by claims management companies has become more aggressive as those referral fees have been chased. In a very significant way this has contributed to the increased frequency of small personal injury claims. Indeed, it is interesting to see that Scotland has a much lower frequency of personal injury claims than England. In our view this is because the lower level of fees which claimant solicitors receive in Scotland for whiplash and other minor injury cases do not allow them to pay large referral fees which in turn means that the type of claims farming practiced by claims management companies in England and Wales is uneconomic.

20. We see no signs that the recently introduced MOJ (Ministry of Justice) reforms have reduced aggressive advertising by claims management companies.

Uninsured driving

21. The insurance industry pays a levy for uninsured drivers. This levy amounts to approximately 3% of motor insurance premiums. Thus, at present the level of uninsured driving is not a key driver of motor insurance premiums.

Public Policy

22. The rise in motor insurance premiums is due to a significant rise in personal injury claims in the last few years. If personal injury claims are allowed to continue to rise, the cost of motor insurance will undoubtedly continue to increase rapidly. This will be increasingly painful for motorists who already find their family finances stretched by the economic downturn. Inevitably, some drivers who can no longer afford insurance will drive uninsured.

23. In our view the key drivers of the increase in personal injury claims are (1) claims management companies with their increasingly aggressive marketing, (2) the rise of insurance fraud and 3) the ever-increasing compensation culture (which in turn is fed by (1) and (2)). Unless the compensation culture is decisively addressed, we believe that motorists will continue to see rapid rises in their motor insurance premiums. The NHS and local government will also see ever rising costs of litigation. The cost of other types of insurance exposed to personal injury, such as employers' liability, will also increase, placing an increasing burden on industry and making the UK less competitive.

24. There are a number of possible ways in which the compensation culture could be addressed. Indeed, the experience of other countries illustrates some of the possible courses of action:

- As discussed above, Scotland has a different legal system and the amount which claimant solicitors can recover in minor injury cases is rather smaller than in England and Wales. These lower fees mean that solicitors cannot afford to pay large referral fees or spend large amounts on advertising. We see much lower personal injury claims in Scotland, much lower levels of claims fraud in Scotland and our Scottish policyholders enjoy lower motor insurance premiums.
- The Republic of Ireland had a significant problem with increasing personal injury claims driving up the cost of motor (and other liability) insurance to unaffordable levels. Ireland responded by introducing the Personal Injuries Assessment Board ("PIAB") in 2003. In simple terms PIAB acts as a conciliation service for personal injury claims. All claimants are required to use PIAB initially and legal costs are heavily restricted if the claim can be settled quickly. The effect of PIAB was to reduce the legal costs incurred in the process significantly and it led to a large reduction in motor insurance premiums in Ireland.
- In Germany, based on biomechanical evidence, the courts assume that any accident below 10kph cannot cause whiplash—which removes a significant part of the low value but high cost claims.

25. However, in our view, if the Government wishes to restrict the growth of the compensation culture, the best approach would be to address the primary cause of this growth directly. We have explained why we believe excessive and inappropriate advertising for personal injury claims is the primary cause of the compensation culture and high motor insurance premiums. We believe that the best solution would be to severely limit the level and type of advertising permitted by claims management companies and solicitors.

26. In his recent report (Common Sense, Common Safety) for the Prime Minister, Lord Young of Graffham made a number of recommendations including restrictions on the type and volume of advertising by claims management companies and solicitors. Lord Young discusses this issue on pages 20 and 21 of his report

under the heading “The regulation of claims management companies”. In our view, this is the most important recommendation in Lord Young’s report and is a key step in addressing the compensation culture.

November 2010

Written evidence from RBS Insurance (CMI 12)

Introduction

RBS Insurance is the second largest general insurer in the UK and is wholly owned by the Royal Bank of Scotland Group. Headquartered in Bromley, Kent, it has operations in the UK, Germany and Italy. RBS Insurance continues to be the largest motor insurer in the UK with a 22% market share. In 2009 RBS Insurance became the UK’s largest home insurer.

RBS Insurance provides a wide range of general insurance products to consumers through a number of well known brands including; Direct Line, Churchill and Privilege. It also provides insurance services for third party brands, through its UKI Partnerships division. In the commercial sector, its NIG and Direct Line for Business operations provide insurance products for businesses.

In addition to insurance services, RBS Insurance continues to provide support and reassurance to millions of UK motorists through its Green Flag breakdown recovery service and TRACKER stolen vehicle recovery and telematics business.

Executive Summary

The recent steep rise in premiums across the motor insurance industry is a huge cause for concern for RBS Insurance and one our staff are confronted with every day. It is important that we understand exactly why these rises have occurred and our investigations have shown it is a culmination of many factors. We hope this evidence will give the Transport Select Committee an insight into the causes and effects our industry faces. What follows are short summaries of the different causes that lead to increases in premiums. In most cases, these have been fuelled by negative cultural changes in the UK and have become a perfect storm for insuring the modern driver. If there was one single factor that has lead to the rise in premiums, it is the rising compensation culture that this country has witnessed in the last few years. This is an issue that needs immediate attention and the effect of doing so will be positively felt by the consumer.

1. The Reasons and Consequences of Recent Increases in the Cost of Motor Insurance

The EMB’s annual analysis of the financial returns made by insurers to the Financial Services Authority, stated for every £1 motor insurers received in premiums, they paid out £1.22 in claims. This increase in claims costs is the key factor in the increased cost of motor insurance. The single biggest contributing factor to these claims is the increase in personal injury claims and the associated costs.

Personal injury claims

The continued increase in the number of personal injury claims is, in RBS Insurance’s view, the overwhelming factor in the rising cost of motor insurance premiums. This is despite the fact that the frequency of actual accidents has not increased. The now firmly-established “compensation culture” in the UK has fuelled the desire for people to seek compensation for accidents. This has been exacerbated further by the prolific marketing of the services of no-win no-fee lawyers and claims management companies.

RBS Insurance is firmly supportive of those injured in accidents being quickly and rightfully compensated and, as such, commends the recent implementation of the Ministry of Justice Reforms to make the process for smaller claims simpler and quicker. Currently for every £1 paid in compensation for smaller injury claims an additional 87 pence is paid in lawyers fees. The ABI has stated that £41 from every motor insurance policy goes to the legal profession.

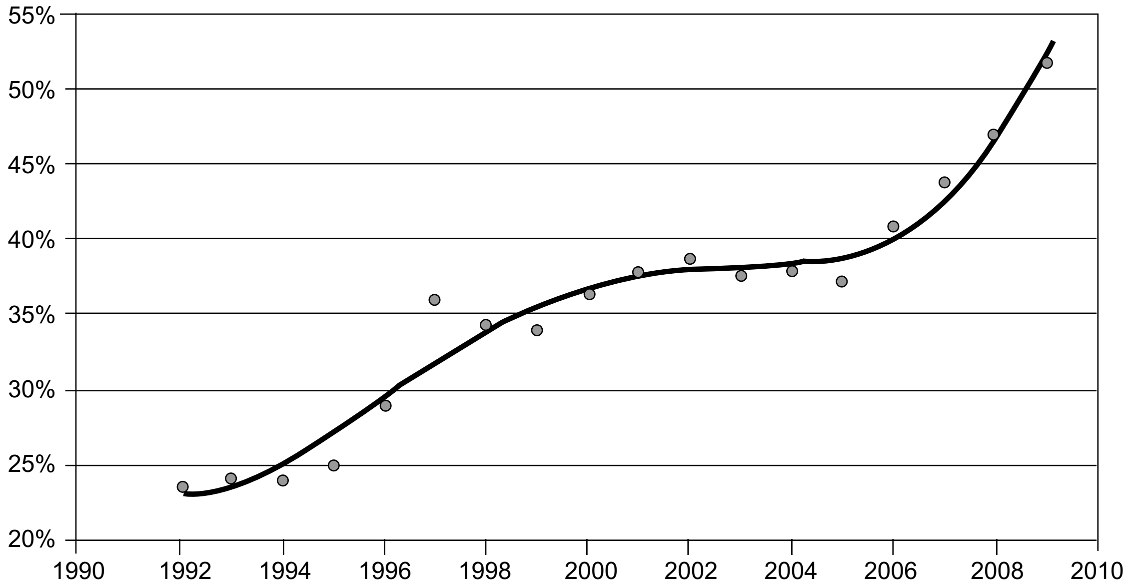
Fraud: The onset of “cash for crash” fraud is another worrying development for the industry. There is a rising trend in accidents being staged and the driver (and passengers) claiming for injuries. The ABI estimates the cost of motor insurance fraud is £410 million per annum. RBS Insurance recently surveyed 200 GPs and found they are currently rejecting as fake nearly one in five patients claiming to have whiplash injuries.

Case Study: A recent case saw a genuine accident involving a 31 seater bus generate 34 injury claims—police investigations found that one passenger who worked for an accident management company generated £17k in referral fees by referring all his fellow passengers to solicitors. Almost all the claims were found to be for injuries that did not exist.

Recent industry analysis has shown that since the proliferation of claims management companies, the cost of settling injury claims has increased by around 20% per year and the frequency has increased by a further 10% per year. It is no surprise, therefore, that injury claims now make up the majority of our claims spend, up from under a quarter only two decades ago.

The chart below is taken from our own data. It shows how the proportion of total claims cost that relate to injury payments has grown over the last two decades.

Trend of Injury Cost as a Proportion of Total Claims Spend



Another factor that has increased insurers' claims costs, and in turn impacted the cost of motor insurance premiums, is an increase in personal injury settlements in the form of Periodical Payment Orders (PPO). Under the Courts Act 2003, the courts have the power to order the settlement of a claim, wholly or in part, by means of a PPO, whereby the claimant receives some or all of their damages via regular payments from the insurer. Under a traditional lump sum settlement, the claimant would invest their money in order to meet future losses, such as loss of earnings or care costs. Under a PPO, the investment and mortality risk is transferred to the insurer—this means that when the clamant dies, the regular payments cease. These payments are index linked to care costs and in the current low investment environment have greater cost implications to insurers.

Whilst the upward trend in personal injury claims is a major reason for the increased cost of motor insurance, other contributing factors are:

The proliferation of penalty points

The proliferation of penalty points on drivers' licences has also had an impact on the cost of insurance premiums. Our own data, as well as separately commissioned research, has highlighted approximately 16% of all drivers have (or have informed us of having) penalty points on their licence.

Our own statistics suggest a driver with one conviction is 69% more likely to claim than a driver with no convictions. This increases incrementally the more convictions a driver has:

- A driver who has two offences on their licence is 38% more likely to claim than a driver with one offence.
- A driver with three offences is 19% more likely to claim than driver with two. This greater risk is priced accordingly.

N.B. Other factors which impact motor insurance costs are uninsured drivers and fraud which we refer to later within this document.

2. The Impact on Young People of the High Costs of Motor Insurance

RBS Insurance believes that it is important to understand why young drivers (defined as typically under 25 years old) do, on average, have higher premiums. A whole range of factors affect the amount you pay for your car insurance policy, including: age, vehicle, mileage, type of use, gender, occupation, postcode, claims history and any driving convictions or penalty points. It is a combination of these factors that determines the insurance risk, and hence the premium a driver pays.

When it comes to young, inexperienced drivers, our own data suggests they are twice as likely to make a claim, and five times more likely to make a claim that involves an element of injury than an older driver. Young drivers are 10 times more likely to make a claim involving severe personal injury. These statistics highlight why insurance for younger drivers tends to be significantly more expensive. It is worth noting that this is not based around the value of the vehicle that they drive, but rather the amount of damage they can do with that vehicle to themselves and other people.

Fronting

One clear consequence of the higher premiums younger people pay is the issue of "fronting". "Fronting" is where the main driver of the vehicle is insured as the named driver to reduce the cost of their insurance. This typically results in younger drivers naming their parents as the policyholder and themselves as a named driver. This method of reducing the cost of a motor insurance policy is fraudulent. The consequences could be grave, ranging from an additional premium being required, to the voiding of a policy (and therefore non-payment of the claim), as well as the policyholder being added to the financial industry's fraud database (CIFAS).

Another potential consequence of high premiums for young drivers is them opting to drive uninsured. The MIB estimates that around one in five uninsured drivers are under the age of 20.

There are, however, several ways for younger drivers to reduce the cost of their motor insurance. Choosing a car that is in a lower insurance group can reduce premiums by up to 30%—even within the small car bracket. Young drivers who undertake an advanced driving course such as Pass Plus are also eligible for discounts with RBS Insurance and other insurers. We are continually looking for ways to make the roads safer and are working with the DSA to help to shape the future of driver training. We recognise that Pass Plus would be a more effective differentiator of risk if it contained a test at the end.

Direct Line was the first insurer to enable named drivers to accrue their own No Clams Discount. Young drivers, with no previous insurance history, can build up a discount that can be used when they wish to take out an insurance policy of their own.

RBS Insurance is committed to promoting road safety. It has a long standing relationship with Brake, the road safety charity and in 2009 released its "Ready to Drive" report highlighting its recommendations to promote safer driving for younger motorists.

3. The Extent to which the Cost of Motor Insurance is Influenced by the Prevalence of Road Accidents, Insurance Fraud, Legal Costs and the Number of Uninsured Drivers

Road accidents

The changing cost of repairing a vehicle after an accident is not a significant factor in recent increases in insurance premiums. The increases here have been offset by the downward frequency of road accidents, which Government statistics reveal have fallen by three per cent in the last year. The most significant factor is the huge rise in claims made for personal injury after a road traffic accident (RTA). In fact, the Compensation Recovery Unit has recorded an increase of 27.5% in the number of cases they register for personal injuries after a RTA over the past two years.

Insurance fraud

The Insurance Fraud Bureau states that the cost of insurance fraud to honest policy holders is an additional £44 on every insurance policy. Our own research suggests one in ten people who has claimed for personal injury after a RTA has either lied about or exaggerated their injuries. The increased cost in insurance premiums may potentially increase the number of people who wish to commit fraud, to recoup the money they paid for their policy.

Legal costs

There is a substantial correlation between when "no win no fee" lawyers and claims management companies began actively marketing their services and increases in fraudulent claims for injury.

The actuarial profession recently highlighted within its GIRO presentation the direct correlation between the increase in the number of claims management companies and growth of personal injury claims.

This is not to suggest, though, that lawyers and claims management companies have encouraged fraud. However, by commoditising the legal process and creating the perception that everybody in an accident—regardless of the fundamental presence of injury—is due compensation, they have provided the fuel for the creation of a right to compensation as a "social norm". For the increasingly significant minority who subscribe to the view that "everybody is doing it anyway", the likelihood of an attempt to commit fraud increases.

As Lord Young's recent report denoted, there is considerable evidence of the disproportionate nature of damages in relation to claimants' costs.

Uninsured drivers

The Motor Insurance Bureau states that of the 34 million vehicles on UK roads, approximately 1.5 million are uninsured. Uninsured drivers injure 23,000 people and kill 160 each year, with a total cost to honest motorists of £500 million, paid for through their insurance premiums. This is estimated to cost an additional £33 on each and every law-abiding motorist's insurance premium.

RBS Insurance has expressed its concerns on the level of fines within our response to the DFT's consultation paper on uninsured drivers. An uninsured driver could be fined as little as £50 under the current proposal which, when you compare that to other fines such as £1,000 for not having a TV licence, or £5000 for graffiti, is not a big enough deterrent.

The increase in motor insurance premiums also puts pressure on the affordability of motor insurance for some people, and may tempt them to drive uninsured.

4. Whether there are Public Policy Implications in the Rise in the Cost of Motor Insurance and, if so, what Steps the Government might take in Response to them

RBS Insurance strongly believes that the Government should implement, without delay, the full recommendations of Lord Young's review on health and safety laws and compensation culture.

RBS Insurance draws particular attention to Lord Young's recommendations to:

- introduce a simplified claims procedure for personal injury claims similar to that for road traffic accidents under £10,000 on a fixed costs basis; and
- restrict the operation of referral agencies and personal injury lawyers and control the volume and type of advertising.

RBS Insurance strongly believes that the Government should implement, without delay, the full recommendations of the Lord Justice Jackson's Review of Civil Litigation Costs. RBS Insurance draws particular attention to Lord Justice Jackson's recommendations to:

- abolish the recoverability of both success fees and "After The Event" (ATE) insurance premiums;
- and assist claimants to meet the cost of the success fees for which they would now be liable; an increase of 10 per cent in the level of general damages for personal injury, defamation and other tort claims; a regime of qualified one way costs shifting in specified proceedings, including personal injury and defamation.

An additional policy consideration that RBS Insurance would strongly urge the Government to look at is the use of and access to CCTV in public places. Allowing insurers access to CCTV at crash sites would speed up the process of compensating those who were injured in the accident.

November 2010

Written evidence from the Road Haulage Association (RHA) (CMI 15)

Key Points

- HGV motor insurance sector appears to be generally functioning well, encouraging continuous improvement in standards of driver management and security.
- Excess charges are weighted heavily against young HGV drivers and industry needs to work around that to attract more young recruits.
- We see no pressing public policy issues we wish to raise.

1. The RHA represents small, medium and large firms providing road haulage and logistics services and our members operate around 100,000 HGVs. We welcome the committee's short inquiry into motor insurance and the opportunity to submit evidence.
2. Our interest is in respect of the way the insurance industry affects operators of commercial vehicles. In the main, the market appears to work well, rewarding those with a good claims record and encouraging those firms who have a poor record to do better through sharp increases in premiums. Transport companies are, increasingly, both required by insurers to provide a considerable amount of detail as to HGV risk mitigation measures and encouraged to provide details and commentary as to the work they have been doing.
3. We have just completed our annual survey of haulage costs and it is clear that while premiums have risen in the past year, the rises have been contained. We will be reporting an average increase in insurance costs—comprising largely but not exclusively motor insurance—of 2.9%.
4. The RHA actively promotes high standards. Through the RHA Security Forum, we meet quarterly with the police and insurance industry (Association of British Insurers). We actively promote good driver training and management to members and deliver specific Driver Development courses through RHA Training.

5. Our chief concern is for the impact of motor insurance on firms' ability to bring on young HGV drivers. Under new EU "Driver CPC" rules that took effect in September 2009, it is possible to employ an 18-year-old to drive trucks—at any weight—provided he has the appropriate professional qualification. This is a reduction from 21 years.
6. There are concerns that, with an ageing driving population, the UK will face a shortage of HGV drivers as the economy improves and a desire in any case to attract young people into driving, rather than have them change career post-25.
7. However, the reality is that most firms now require drivers to be 25 years of age and preferably with driving experience. Contacts in the insurance industry suggest to us that while premiums are not loaded, excess charges in the event of a claim in respect of drivers under 25 ie can be doubled or trebled. Standard policies are based on over 25 + two years experience from the major underwriters.
8. Drivers under 25 are judged on a case by case basis, depending on experience, claims record etc. Often, the driver involved can be a relative of the company owner.

November 2010

Written evidence from Aviva (CMI 21)

Summary

Insurance costs reflect claims costs. Although the frequency of collisions has remained broadly flat over the last decade, there have been four key drivers of increasing cost:

— Increased number of bodily injury claims and increased number of claims per incident. Of the money insurers pay out in claims, 40% is for bodily injury—half of which is accounted for by legal fees.

— The introduction of "No Win No Fee" arrangements and associated changes has encouraged claims and added additional costs.

— Increased use of high referral fees by solicitors.

— Increased fraud.

Two other significant factors have also contributed:

— Young male drivers are a significant component of increased costs—costs of injury claims for a young male driver are up to four times higher those for a 40 year old driver. Increased premiums for young drivers reflect this risk.

— One in six drivers misrepresent their conviction history when purchasing insurance, which distorts underwriters' ability to accurately assess their risk and likelihood of making a claim.

To address these developments we believe that the Government should:

— Implement the recommendations of the Jackson and Young reviews to address the impact of the compensation culture and "No Win No Fee" agreements.

— Significantly toughen driver training, including overhauling Pass Plus.

— Accelerate moves to make DVLA data available to insurers and communicating and enforcing rules to ensure that uninsured vehicle must have a valid Statutory Off-Road Notification.

These issues are explored in more detail below.

About AVIVA

Aviva is pleased to respond to this consultation. Aviva provides peace of mind for more than 50 million people across the world, protecting their families and possessions and looking after more than £380 billion to help our customers save for the future.

More than 19 million customers rely on us in the UK—one in three of the population—and we insure one in 10 private cars. We have one of the largest insurance databases enabling us to use the data from millions of customers and thousands of claims to predict the likelihood of a future claim for any given customer and therefore give customers a fair price in relation to the risk they represent.

The Reasons for and Consequences of Recent Increases in the Cost of Motor Insurance

1.1 There are a large number of providers operating in the personal motor insurance market and it remains very competitive.

1.2 The frequency of collisions has remained broadly unchanged over the past decade but the cost of insurance has risen for four key reasons:

(a) *Increased bodily injury claims:* The industry is seeing circa 10–12% p.a. more bodily injury claims and also more claimants per claim—circa 3% increase p.a. Of the money insurers pay out in claims, 40% is for bodily injury—half of which is accounted for by legal fees.

(b) *Introduction of No Win No Fee agreements and associated changes* have encouraged claims and added costs. Introduced in the late 1990's, these have taken the financial risk away from claimants. These agreements backed by legal expenses insurance policies have encouraged people to claim where previously they may not have, thus increasing costs. In addition the ability to recover After the Event Insurance (ATE) Premiums and Success Fees became possible against a compensating defendant in 2000 and are now common on circa 60% of all BI claims which adds significant additional cost to defendants.

(c) *Increased use of high referral fees by solicitors:* The number of claimants continues to rise largely as a result of Claims Management Companies advertising and seeking claimants. Referral fees to solicitors became legal in 2004 and form part of a solicitor's marketing costs. These have risen from approx £200 in 2004 to circa £800 now (Legal Services Board). The solicitor paying the referral builds this cost into the process and it is now estimated that some solicitors' marketing costs are between 23% and 40% of base costs.

(d) *Fraud:* The increase in compensation has led to "cash for crash" scams. In 2009 the Insurance Fraud Bureau estimated there were over 30,000 fraudulent "accidents." The cost of investigating such claims and defending them adds significant costs to insurers.

1.3 In addition, in 2009 the ABI and Actuarial Research Consultants EMB estimated that the industry as a whole paid out £1.23 in claims for every £1 received, a situation that cannot be sustained.

1.4 The situation could be mitigated by regulation. In 2008 Lord Justice Jackson was asked by the Master of the Rolls to undertake a full review of civil litigation costs and make recommendations to increase access to justice at a more "proportionate cost". In 2009 then Leader of the Opposition David Cameron asked Lord Young to look at Health & Safety law and comment generally on "compensation culture" which has grown (be it real or perceived) in the last 5–10 years. Both Jackson and Young have reported in 2010 and both reports offer some proposals which Aviva believes will act as to reduce peripheral costs:

(a) Jackson recommends removing the recoverability of ATE and Success fees—this would be of significant benefit in reducing cost.

(b) Jackson recommends the banning (or restricting) of referral fees.

(c) Jackson suggests a wider Fixed Costs regime—currently there is a fixed costs regime in Pre Litigated Motor claims which do not exceed £10K. Jackson suggests widening this to all claims under £25K.

(d) Conditional Fee Agreements—Jackson suggests alternatives to these be investigated eg Damages Based Fee Agreements which give the claimant a degree of financial involvement in the litigation process and encourage claimants to find a solicitor offering the most competitive agreement.

(e) Lord Young suggests widening the Ministry of Justice (MOJ) claims process which involves a low cost and fixed fee model to motor claims below £25K. The process currently applies to claims below £10K.

(f) Lord Young wishes to restrict the operation of referral agencies and the volume and type of advertising.

Aviva is of the view that all of these noted proposals would reduce the peripheral costs of lower value claims while continuing to ensure injured parties continue to receive a reasonable level of compensation. Aviva is working with the ABI to engage with all parties on the various resulting consultations.

1.5 At the same time, insurers have experienced an unprecedented increase in the cost and frequency of larger personal injury claims, not just for new claims but for outstanding claims from previous years. This matter has been made even more difficult in the current economic climate by more claimants opting for Periodical Payment Orders rather than lump sum settlements. This involves paying sums to injured claimants over a period of time (for the rest of their lives), and increasingly the period and sums involved have escalated. This is because the life expectancy of severely injured people has risen, associated care needs increased, and the annual sums payable are linked to indices which inflate well above the RPI, (eg ASHE 6115—a statistical estimate of the earnings of carers in the UK). This has added to pressure on previous year reserves meaning that some companies have had to strengthen them. In addition, poor current investment returns have led to significant premium rises in 2010.

1.6 However, due to prudent early action Aviva has been able keep motor insurance premium increases below the market average.

1.7 We are concerned, however, that in the current economic environment, with significant cuts to local authority and policing budgets, and an anticipated reduction in road safety initiatives the long term downward trend in the numbers killed and seriously injured in motoring accidents could be reversed.

The Impact on Young People of the High Cost of Motor Insurance

2.1 Aviva data shows that the cost of injury claims for a 17 year old driver is twice that of a 40 year old driver, and for young males, up to four times higher. Increased premiums for young drivers reflect this risk.

2.2 Aviva data shows that many serious injuries which result in claims in excess of £250K are caused by young males, with the cost being composed mainly of injuries to passengers in the young driver's vehicle. This explains the widening differential between the genders and makes the pending European Court decision on gender discrimination of great concern to us. Equalising premiums would increase rates for young females unfairly with little impact on male rates.

2.3 In the case of young drivers Aviva would like to see a complete revamp of driver training. In our view there should be a minimum learning period and training should include a minimum number of hours of night driving and if possible poor weather driving and dual carriageway experience. Classroom peer group sessions should be included to cover road safety, coping with peer pressure and wider issues of ownership including the potential consequences of poor driving.

2.4 Aviva also believes that parents or guardians should be involved in the learning process and Aviva is the first insurer to produce a parent guide, soon to be available in commercial learning software.

2.5 We also believe that the Pass Plus initiative should be enhanced by including motorway driving, night driving, and poor weather training in the programme, as well as having to take a test to show improved competence.

2.6 As an insurer, Aviva knows that a significant proportion of accidents involving young drivers take place after 11pm; steps to restrict driving after this time would reduce injuries with a consequent impact on premium costs.

The Extent to Which the Cost of Motor Insurance is Influenced by the Prevalence of Road Accidents, Insurance Fraud, Legal Costs and the Number of Uninsured Drivers

3.1 Aviva would welcome faster progress in the release of DVLA data to insurers, which the industry has agreed to fund.

3.2 One in six drivers misrepresent their conviction history when purchasing insurance, which distorts Underwriters' ability to accurately assess their risk and likelihood of making a claim (data shows a clear correlation between motorists with previous convictions and likelihood to make claims in the future). Aviva wishes to ensure that honest customers do not bear the costs of dishonest drivers, and by sharing the DVLA data on convictions, insurers will be able to more accurately price insurance for each customer based on the true records of driving history. We welcome the progress now being made to provide insurers with access to driver records.

3.3 From 2011 it will be illegal to own an uninsured vehicle unless a SORN declaration has been signed. Aviva is anxious for the relevant legislation to be passed, then communicated and enforced in order for the number of uninsured vehicles involved in accidents to be reduced.

November 2010

Written evidence from Nick Ross (CMI 24)

I have recently been made aware of your inquiry into the cost of motor insurance and I gather the committee has extended its deadline for submitting written evidence to Wednesday 15 December.

Accordingly I offer the following observations:

- Crime is an important driver of motor insurance costs.
- Most crime is driven by lax design of policy, products or services.
- The three-quarters drop in vehicle theft since its peak in the mid 1990s has been driven overwhelmingly by design improvements (as indeed has the cut in road fatalities from over 6,000 to rather more than 2,000—a trend kick-started by a campaign in which I was involved in the 1980s).
- The criminal justice system has little measurable effect on crime rates and should not be regarded as an important lever for driving down crime*.
- Most politicians, police and members of the public have not grasped this and continue to believe that crime is driven by bad people rather than bad regulatory or corporate decisions.
- While in general private enterprise is often culpable in promoting criminal behaviour, in this case bad public policy is the key.
- In 2001, together with two energetic civil servants from the DTLR and DVLA, I presented HMG with a comprehensive proposal to ensure compliance with vehicle identification requirements. Ministers accepted the "easy" options and balked at those requiring political courage.
- The impact of the new measures secured an immediate improvement in motor insurance penetration.
- Adoption of the more comprehensive package, one that defaults to motorist-compliance rather than voluntary obedience, could ensure much higher penetration of vehicle insurance and thus drive down premiums.
- By cutting the number of "ghost" vehicles which are untraceable and often without MoT, better regulatory policy is also likely to reduce accidents, vehicle crime and crimes commissioned with the assistance of vehicles.

— However, better enforcement is unlikely to make a major difference in premiums to young drivers where the actuarial risk is principally from accidents. Since UK motor policies generally insure the driver not the vehicle, improved regulation is unlikely to reduce the problem of young people driving without insurance cover. Indeed it might reveal a larger problem.

— Given (a) that driving on public highways is a complex skill that improves with maturity and practice, (b) the competitive nature of the UK insurance industry, (c) the mounting costs of vehicle repairs and injury claims and (d) the relative impotence of courts to affect behaviour, improving insurance access to young drivers can only be tackled by subsidising them, such as through State subventions or fiscal dispensations (which would drive up taxes) or by sharing the risk with others such as older motorists (which will drive up their premiums).

I do not say this lightly. I presented the BBC's *Crimewatch* for two decades. It was the revelation that crime rates rise and fall independently of court disposals, and the discovery that much thinking about crime owes more to voodoo than science, that led me to found the Jill Dando Institute of Crime Science at UCL and to seek firm evidence about cause and effect (I am an honorary fellow of the Academy of Experimental Scientists and a trustee of Sense About Science).

December 2010

Written evidence from National Accident Helpline Ltd (CMI 26)

Summary of Main Points

1. National Accident Helpline (NAH) is pleased to respond to the Transport Committee's inquiry into the reasons for the rising cost of motor insurance. We would also be delighted to provide further details of our submission through oral evidence if required.

2. This document will focus specifically on three areas of the Committee's inquiry:

— the reasons and consequences of recent increases in the costs of motor insurance;

— the extent to which the cost of motor insurance is influenced by the prevalence of road accidents, insurance fraud, legal costs and uninsured drivers; and

— whether there are public policy implications of the rise in the cost of motor insurance.

Introduction to National Accident Helpline

3. National Accident Helpline is the UK's leading free advisory service for people who have suffered an injury as a result of an accident. We help these people seek financial assistance to aid their recovery, through our national solicitor network of over 200 specialist solicitor firms, our panel members, from across the country (including Scotland and Northern Ireland).

4. National Accident Helpline is the largest advertiser in the personal injury sector with TV advertising spending of approximately £8 million during 2010.

5. National Accident Helpline is authorised by the Ministry of Justice in respect of regulated claims management activities and is a registered company, incorporated in the UK. Furthermore, we have a strong track-record of working with the MOJ to restrict the 'cowboy' practices which give our sector a bad name. In December 2010 we have already reported three claims management companies for bad practice.

6. NAH was formed in 1993, in advance of both the introduction of conditional fee arrangements and the Access to Justice Act. We were formed by a group of solicitors who saw the economic advantages of pooling resources and advertising through a national brand to help people frightened of approaching solicitors directly to obtain advice and, where appropriate, pursue their rights to claim for personal injuries suffered by them.

Our Model

7. The NAH model is significantly different to arrangements that operate in other areas of the personal injury market and that involve referral fees. The NAH model is a pooled marketing model, rather than a referral model. Indeed, this distinction was recognised when NAH was established in 1993 at a time when referral fees were not permitted in the legal system. The Law Society has recognised that the NAH model did not involve referral fees and that our pooled marketing arrangements are different.

8. NAH has no contract or other arrangement with the inquiring consumer; the service to the consumer is entirely free. We do not "sell on" or "auction" claims to our panel firms or others.

9. We are proud of our Customer Charter, which goes above and beyond existing regulatory frameworks and has been designed as part of NAH's wider campaign to champion the consumer, demystify the compensation process and remove the barriers to justice. The Charter guarantees that NAH will only help genuine claimants and will never cold call or pass on details to other organisations, as well as reaffirming its commitment to allowing customers to keep 100 per cent of their compensation.

10. NAH received around 195,000 inquiries in 2010 from consumers who were accident victims and who wanted advice and help on what to do. Of these, our legally trained call centre staff referred 62,000 to one of our panel members with a geographic or specialism link to the consumer, filtering out 68% of claims as either unlikely to succeed or spurious.

Increases in the Cost of Motor Insurance

Has there been a rise in RTA claims and consequently the cost of motor insurance?

11. The majority of witnesses giving oral evidence to the Transport Select Committee during the oral evidence session of Tuesday 9 November 2010 indicated that there had been a recent rise in the number of RTA claims. NAH agrees that this is the case. However, we strongly oppose the view that the main cause of the increase in personal injury claims from 2005–10 is advertising of claims management companies and TV advertising.

12. Evidence provided by the Compensation Recovery Unit, when compared with our own market data, indicates that while the number of RTA claims reported to the CRU has increased by 25%, the number and percentage of RTA enquiries generated by NAH has remained relatively constant:

Period	*RTA claims registered with CRU*	*All claims registered with CRU*	*RTA as % of all claims registered with CRU*	*RTA enquiries generated by NAH*	*All enquiries generated by NAH*	*RTA as % of all enquiries generated by NAH*
2004–05	402,974	755,875	53%	12,474	42,263	30%
2005–06	466,097	674,422	68%	13,232	44,433	30%
2006–07	518,821	710,784	72%	15,690	46,266	34%
2007–08	551,905	732,750	75%	15,264	47,140	32%
2008–09	625,072	812,348	74%	16,953	58,331	29%
2009–10	674,997	861,325	78%	17,454	59,077	30%

13. We anticipate that our main competitors have data which presents a similar picture, indicating that the rise in RTA claims is in no way linked with TV advertising in the personal injury sector or marketing by claimant solicitor collectives.

14. The number of RTA enquiries generated by NAH has remained constant since 1993 at around 30% of our overall enquiry mix. The increase in the number of RTA cases is therefore being triggered by something, or someone, else.

What are the reasons for increases in motor insurance?

15. It is NAH's view that liability insurer activity is a major cause of increases in both the number of motor personal injury claims and the cost of motor insurance.

16. It is well known that a number, if not the majority of RTA liability insurers refer personal injury claims to solicitors for referral fees, commonly exceeding £700. Some insurers auction off cases to the highest bidder. Where claims are not sold on immediately, insurers often sell on their data for farming by third parties who act as a white labelling agent. It is notable that during the Transport Committee's oral evidence, the insurance industry was unable to provide data to the committee regarding their own involvement in RTA referrals.

17. We are aware that a large number of insurers sell on claims and it is our view that the committee should specifically ask the insurance industry for the figures of the number of claims they sell on—or, if this is denied, be asked to provide evidence to the contrary.

18. We are particularly concerned that the use of "Third Party Capture" has led to a significant increase in the numbers of RTA claims. Third Party Capture is a tactic used by insurers whereby they offer claimants financial settlement for compensation ahead of the claimant consulting a solicitor or obtain medical evidence detailing the full extent of their injuries. This activity is designed to reduce claim costs by preventing the need for an injured person to seek the advice of a solicitor. We believe this insurer activity has led to an increase in the number RTA personal injury claims.

19. It is highly disingenuous for defendant insurers to suggest to claimants that they do not need their own representation and can rely on equal and fair treatment within defendant insurance companies' own processes. There is no reason whatsoever to believe that defendant insurers would suddenly prove capable of treating claimants neutrally and fairly, when so much practice to date has shown that this is often far from the case.

20. More importantly for this enquiry, Third Party Capture is an important reason behind the number of RTA cases and we would query whether raising the number of claims generated by third party capture has any upward impact on insurance premiums. Again, we think it would be beneficial for the Committee to ask the insurance industry about its practices in this area in order to have a more balanced view about the causes of increased motor premiums.

Conclusion

21. NAH has strong evidence showing that the rise in RTA cases is wholly unconnected to TV advertising by solicitor marketing collectives and claims management companies, as proven by our figures which show no rise in RTA cases coming through NAH. We believe that defendant insurer activity, particularly in selling on claims, accounts for a large proportion of the increase in RTA claim numbers from 2005 onwards.

22. NAH would be extremely happy to discuss this issue further with the Transport Select Committee and to provide formal oral evidence to the committee.

December 2010

Written evidence from Enterprise Rent-A-Car (CMI 29)

1. Overview

This paper has been prepared by Enterprise Rent-A-Car as a submission to the Transport Select Committee's inquiry into the cost of motor insurance. It illustrates the extent to which car insurance premiums have risen over the past twelve months, sets out some of the reasons for this increase, and offers a number of suggestions for further investigation by the committee.

2. Introduction to Enterprise Rent-A-Car

Enterprise Rent-A-Car was founded in 1957 and is an industry leading, multi-national company with approximately one million vehicles in its global rental fleet and an annual turnover of more than $12bn. In the UK its current rental fleet is approximately 48,000, which makes it the largest car rental company as well as the biggest purchaser of vehicles in the country. Enterprise employs 3,400 people in the UK across 340 offices and branches—more sites than any other rental company.

Enterprise began trading with the overriding business philosophy that "you take care of your customers and employees first, and profits will follow". Enterprise starts from the point where its relationship with clients is a partnership and the company will support the client with change management as well as capacity issues, whilst delivering outstanding customer service for our corporate and retail customers. Insurance replacement vehicles account for some 30–40% of our rentals. Our approach has been to work with insurers to provide a cost effective and customer focused service.

3. The Rising Cost of Motor Insurance

The cost of motor insurance has risen by an average of 40% over the last year. These figures indicate that the cost of car insurance has increased at its fastest rate since the AA started analysing the market. The price of the average comprehensive motor insurance policy has risen from £473 in the second quarter of 2009 to £650. The 17–20 year old male group has seen the biggest increase, with the cost of a comprehensive policy increasing by £284 to £2,879, while women in the same age range have seen their premiums go up by £147 to £1,490. Although some observers have speculated that the price rises may be starting to run out of steam, it is clear that this is part of a longer-term upward trend, as premiums rose by 10% in 2007 and 8% in 2008.

There are a number of explanations which have been offered for this drastic increase in the cost of insurance. Insurers claim that they are currently paying out more than they are taking in and the price rise over the past year is simply a correction in terms of premium costs. In March 2010 a survey by EMB, one of the world's largest specialist non-life insurance and reinsurance actuarial consultancies, indicated that, for every £1 the retail motor industry receives in premiums, it has to pay out £1.20 in costs and claims. This is a knock-on effect from the rise in non-transparent and often poorly managed third party organisations, such as some accident management or Credit Hire Organisations (CHOs) who increasingly control the claims process (including repair costs and length) and in some cases, appoint third party specialists such as no-win, no-fee lawyers to maximize the cost of the claim via personal injury.

Industry trends suggest that where accident management and certain CHOs are used the cost of claims tends to increase. Moreover, the accident management industry is becoming involved in an ever increasing number of cases. Between 2002 and 2007 the proportion of third party accident claims that involved accident management companies or Credit Hire Organisations increased from 7% to 20%.[1]

4. The Role of the Accident Management Industry

CHOs work by providing access to repair services and replacement rental vehicles and managing or sourcing other justice provision services such as bodily injury for not-at-fault drivers following an accident. They reclaim their outlay by charging the at-fault driver's insurance provider a higher cost for the services incurred (repair, replacement vehicle). Where they do not manage BI claims themselves, typically these will be farmed to lawyers for a referral fee of often up to £1000. It is obviously in the interest of the lawyer to then convert that claim and recover compensation for the driver and costs. If the CHO fails to recover the costs from the at-fault driver's insurance company, they may then look to charge the not-at-fault driver. This has led to a number of high-profile court cases after the at-fault driver's insurance company has refused to foot the bill on the grounds that they have been excessive.

The services offered by the Credit Hire Operators are legal entitlements of the non-fault driver, so by virtue, are inherently good. However, the industry lacks a degree of regulation to control some of the processes and practices that certain accident management and CHOs adopt. Typically, these practices can be extremely inefficient and through manipulation of repairs (sometimes through bodyshop ownership or "agreements") can lead to vastly elongated repair times and thus replacement car hire periods. This has a knock on effect of pushing up the cost of insurance premiums. A large volume buyer is usually able to purchase rental cars on a per day basis at up to 50% less than through a CHO. The average hire time is also higher when a claim is being handled by a CHO. The average rental is around 25 days through a CHO, but where an insurance company has direct control of the claims process and is organising the rental directly, this can fall to 13 to 14 days.[2] Certain practices came to light earlier this year when a small spate of whistle-blowing uncovered some of the specific practices adopted by certain companies to lengthen repair times and increase claims costs.

Key to the growth of the accident management industry has been the "race to the client". The accident management industry captures claims by paying referral fees to insurance companies, garages or other sources, who recommend their service to not-at-fault drivers. Often referral sources will refer victims of a road collision onto an accident management company before their insurance provider is aware there has been an accident.

CHOs do provide a useful service, meeting the changing needs of the consumer and their need for personal mobility. As such Enterprise has made use of credit hire as part of our service to customers, but this has been largely at the request of insurance providers with transparency over prices and the length of hire and professionalism at the heart of our approach. In cases where the claims involving credit hire are not effectively managed, then the cost of claims can spiral out of control and thus play a big role in pushing up insurance premiums.

5. Legal Liability and The "Compensation Culture"

As mentioned, in some cases CHOs also refer their clients to personal injury lawyers, for which they receive referral fees. This helps push up the cost of claims settlements. Association of British Insurers figures suggest that the average cost per motor bodily injury claim in 2008 was £3,512—an increase in 16% over the previous year. Combine this with a 13.3% increase in incidents involving personal injury claims between 2007 and 2009 and the real cost becomes more apparent. More recent analysis by the ABI of 50,000 low value road accident personal injury claims suggests a £40 increase in premiums per average policy as a result of legal fees and costs.

This increase in personal injury claims has been a major factor in driving up motor insurance premiums. The proliferation of "no win, no fee" solicitors as part of the accident management portfolio of services has increased compensation claims despite the fact that the number of road accidents has remained broadly the same in recent years. Some companies guarantee a 40% conversation (win rate) and will pay up to £1,000 for a personal injury referral. By nature, this encourages an aggressive sell to the non-fault claimant to help meet the 40% target. Lord Young's recent review into health and safety legislation found that there is a growing burden on businesses by insurance programmes that entail expensive premiums, and that this has been mainly driven by frivolous claims and the growth in conditional fee agreements over the last few years.

6. The Role of Insurance Providers

The growth of the accident management industry is in some way a response to a need in the market for suitable services targeted at non-fault drivers who have been involved in a crash. Historically, many insurance companies did not offer their customers an effective repair and replacement car service or relevant access to justice for legitimate claims. CHOs spotted this gap in the market and saw an opportunity to give their clients what they were entitled to after an accident, taking control of the claims away from the insurer. For non-fault claims, the insurers saw this service as valuable as they were able to pass on responsibility for the claim to a third party and generate revenue from the referral. However, at that time, no-one could have foretold the impact this would have on at-fault claims costs.

7. Theft, Fraud and "Crash for Cash" Claims

The most common and costly form of insurance claims fraud is "opportunistic retail fraud". This is where individuals exaggerate or inflate genuine claims to increase the value of a payout, and is often factored into loss ratio calculations. However, there is evidence to suggest that the past few years have seen a big rise in organised scams, where criminal gangs work to systematically defraud insurers. There are frequently reported examples of "crash for cash" cases where accidents are staged, usually at roundabouts, by drivers suddenly braking, causing the car behind to crash into them. In October 2009, a man was sentenced to four and a half years in prison for deliberately causing at least 93 car crashes in three years, costing insurers around £17,000 on each occasion.[3] Figures from the Insurance Fraud Bureau estimate that around 30,000 accidents were staged last year, costing the industry £350m and adding £44 to the premiums of every driver in the country.[4]

Another phenomenon which has emerged in recent years has been that of organised criminal gangs, particularly with connections to Eastern Europe, stealing cars in the UK as part of the lucrative illegal trade in luxury vehicles. A recent report from Europol noted that "the incidence of organised international vehicle trafficking is on the increase", and that "no other type of criminal activity is as lucrative for such minimal risk". A high value car can net around £15,000 on the black market, with half the cars stolen in the EU trafficked to neighbouring countries, generating around £6.75 billion in annual revenues.

While Ireland and Holland have been the main focus of such activity in recent years, there has been a number of reports, particularly in Yorkshire and Essex. In July 2010, five Lithuanians were jailed for their part in a £750,000 stolen car smuggling ring.[5]

8. Uninsured Drivers

In addition to this, insurance premiums are being pushed up by the growing number of uninsured drivers. A 2010 study by Kwik-Fit showed that there could be some 2.6 million people who drive without an MOT.[6] Around 1.6 million people are believed to be driving without insurance. Uninsured drivers injure 23,000 people and kill 160 each year with a total cost to honest motorists of some £500m through a 'surcharge' of a further £30 per policy.[7]

Uninsured drivers are far more likely to be involved in road traffic accidents, fail to follow traffic signs, or cause injury or damage to other people's vehicles or property. The increased cost of motor insurance creates a vicious circle, as higher prices temp more drivers to feel they can get away without insurance, which pushes premiums up even higher.

9. Insurance Premium Tax

Although there has been some speculation that the worst of the insurance price increases may now be behind us, there are a number of measures on the horizon which mean that cost pressures on motorists are likely to remain for the foreseeable future. The forthcoming increase in Insurance Premium Tax from 5% to 6% in January 2011 will mean that drivers will be paying £18 per year on a £300 policy. With the increase in VAT from 17.5% to 20%, and a recent 1p increase in fuel duty, the IPT hike will hit drivers at a particularly difficult time in the economic cycle. Enterprise believes that the recent price increases are part of a systemic imbalance in the insurance industry which has been driven by the "race to the client" challenge from CHOs and fuelled by the perceived "compensation culture" highlighted in the Young report.

10. Recommendations to the Transport Select Committee

In order to meet the challenge of rising insurance premiums and ensure that car travel remains an affordable and viable means of transport in these economically challenging times, Enterprise recommends that the Transport Select Committee investigate the following areas:-

(a) *Mandatory reporting of any accident to the driver's own insurance company*

One of the reasons costs get out of control and disputes arise during insurance claims is that CHOs capture and control the claims process and associated costs. Members of the Transport Select Committee should consider the benefits of adopting a more robust regulatory approach to case management through an amendment to the Road Traffic Act to require mandatory reporting of accidents to their insurance providers, even in cases where the at-fault driver has admitted liability.

(b) *Review the role of referral fees in the accident management industry*

The payment of referral fees by the accident management industry has encouraged some of the behavioural challenges we see today. Referral fees are driven by competitive forces. As the CHOs or other participating organisations try to 'out-compete' on referral fees paid, the cost of these increases needs to be bourn in the claims costs charged to the at fault insurer. However, crash victims are often not in a position to make an informed choice about what service is right for them. All too often, CHOs or other accident management companies are sold policy-holder details through a range of referral sources. This can be interpreted by the policy-holders as a belief that the organisation is working for and on behalf of the insurance company when, in actual fact, they are ring-fencing the non-fault claimant and looking to maximise the value of the claim.

In addition to a requirement that all accidents should be reported to a driver's insurance provider, the committee should examine the practice of referral fees paid to breakdown companies, scrap yards, emergency services or other referral sources by the accident management industry. In particular, the payment of referral fees for personal injury opportunities has helped to fuel a circle of litigation that has pushed up insurance costs. Referral fees in themselves aren't a bad thing but can encourage bad behavior, and the process needs to be more customer-centric. Enterprise operates in this market, but our approach is designed to challenge behavior and ensure that claims are managed in a transparent manner. We believe the Transport Select Committee should consider the benefits of a cap on referral fees as a means of keeping claims under control and reducing their impact on insurance premiums, as well as ensuring that sellers look at service as well as revenue.

(c) *Limits on the amount of compensation that can be awarded under "no win, no fee" arrangements*

The Young Review noted that the proliferation of "no win, no fee" services has given rise to the perception that there is no financial risk to starting litigation, and indeed, some individuals are given financial enticements to make claims by CHOs, who are in turn paid referral fees by solicitors. These costs must all be met by insurance companies, and passed onto drivers through higher premiums. Enterprise suggests that the Transport Select Committee considers increasing the upper threshold of £10,000 for personal injury claims for road traffic accidents that can be settled on a fixed cost basis.

Of particular concern are guarantees by some solicitors that they can convert 40% of personal injury referrals into compensation payments. Several years ago this figure was around 10%, demonstrating the extent to which the compensation culture has contributed to the financial burden borne by the insurance providers.

The Jackson Review proposed a number of measures which would place restrictions on the amount of compensation that could be awarded under "no win, no fee" cases. Any reform of legal liability law should give claimants a financial interest in the level of costs being incurred under their name, while still allowing claimant solicitors to make a profit.

(d) *Action against uninsured drivers*

A study by the Motor Insurance Bureau suggests that 10% of drivers in the 18–34 age range do not know that car insurance is a legal requirement, and around 900,000 drivers under the age of 30 are currently driving without any insurance. The committee should investigate ways in which drivers can be made more aware of their obligations and responsibility to themselves and other drivers. While the Road Safety Act 2006 makes provision for harsher sentences for uninsured drivers who injure or kill others, the committee should consider whether the maximum fine of £5,000 and six to eight penalty points should be increased to reflect the seriousness of the offence and reduce the temptation for drivers to go without motor insurance.

(e) *Tougher action against "crash for cash" scams*

The committee should look at ways to clamp down on the growing number of insurance fraud and "crash for cash" schemes. The Fraud Act 2006 defines insurance fraud as a crime punishable by up to ten years in prison, a fine, or both. There are also powers to prosecute the perpetrators of such cases through laws against reckless and dangerous driving. The committee should consider whether the police are aware of the full range of powers available to them to tackle crash for cash schemes, and what additional measures and resources might be required to reduce this fraudulent activity.

12. Endnotes

[1] *Invasion of the client snatchers*, Motor Report, 10 April 2008.

[2] *Unite and conquer*, Post Magazine, 29 May 2008.

[3] *"Crash for cash" scam man jailed*, BBC News, 21 October 2009
http://news.bbc.co.uk/1/hi/england/manchester/8318338.stm

[4] *Crash scam figures at record high, insurers warn*, BBC News, 21 August 2010.
http://www.bbc.co.uk/news/uk-11044315

[5] *Lithuanian gang sentenced for stolen car ring*, Waltham Forest News, 3 July 2010

[6] *No MOT, No Matter?*, Kwik-Fit, 30 September 2010

[7] Motor Insurance Bureau, 2010

December 2010

Written evidence from Mark Thompson (CMI 30)

I am a claimant personal injury solicitor of 27 years experience. I am now a sole practitioner having previously managed a large personal injury department working for claimants. I have an obvious interest in attracting clients to my practice. I also use a marketing style of my practice, called Your Key.

I will limit myself to two of your four points:

- The reasons and consequences of recent increases in the cost of motor insurance.
- The extent to which the cost of motor insurance is influenced by the prevalence of road accidents, insurance fraud, legal costs and the number of uninsured drivers.

I read with concern the "evidence" presented to the Committee, available at http://www.publications.parliament.uk/pa/cm201011/cmselect/cmtran/writev/591/cmi.pdf. I am concerned the evidence submitted does not provide a comprehensive picture. Too much of the evidence is based on selective statistics. Statistics expressed as percentages are headlines, and opinions based on estimates or anecdotes are of little or no value.

Here are some of my personal estimated statistics. My ability to run 10 miles has been reduced by 90%, my lung capacity has been reduced by 40%, and my life expectancy by 15%. Statistically dramatic, particularly if I omit to tell you how many cigarettes I smoke and my age.

One of the most dramatic statistics, and quoted several times, tells us of an extraordinary increase in the injury cases paid by an insurer called esure. To understand that statistic you need to know esure has only been in the market for 10 years, and has seen considerable growth in policyholders, particularly in the last few years. It is therefore not surprising the claims they receive and pay have increased.

My final point is that the historical information gives no credit for the recent introduction of the "streamlined" process for road traffic cases with a value below £10,000.

Rather than add to the lobbying I would like to assist the Committee to gain a comprehensive view of the issues. I therefore provide twenty two questions which I believe will assist in the provision of a comprehensive picture:

1. What proportion of road accident claims will fall into the recently launched streamlined process introduced by the Ministry of Justice?
2. Are the figures provided by the Motor Accident Solicitors Society accurate—674,977 motor accident personal injury claims of which 75% will fall into the streamlined process, and if you do not agree what is the correct percentage?
3. If the average solicitor costs are no more than £1,350 in cases settled within this streamlined process, what difference would that make to the underwriting profit and loss of insurance companies for their last financial year?
4. When figures are shown for cost of settlement, do they include solicitor costs, VAT, police accident reports, medical record fees, medical report fees, repayment for treatment to NHS, repayment of State benefits under recoupment regulations, and if so please identify the proportion of the cost applicable to each of these elements?
5. Is the payment of referral fees a profitability issue for solicitors rather than insurance companies?
6. Is it correct that referral fees cannot be recovered from the "other side" and are absorbed by solicitors as part of their marketing cost?
7. What proportion of referral fees are paid to insurance companies, and what proportion to insurance brokers?
8. What is the amount in £s of referral fees paid in the last three years to insurance companies, and what is the amount paid to insurance brokers?
9. Is it necessary for insurance companies and brokers to tell their customer that a referral fee will be paid to them by a solicitor, and the amount?
10. The memorandum from the Auto Body Professionals Club refers to "rebates required by insurers from suppliers to the body shops repairing cars." Are such rebates received by insurance companies, and if so how much in £s per annum?
11. Do body shops pay rebates on their invoices to insurance companies, and if so how much is paid in £s per annum?
12. How much commission is paid by credit hire companies to insurance companies in £s per annum, and how much is paid to insurance brokers in £s per annum?
13. Bearing in mind your answers to questions 7, 8, 9, 10, 11 and 12, is it accurate and fair to present your figures on the basis of premium income against claims paid (underwriting profit or loss)?
14. Which of the organisations presenting evidence to the Committee are providing a fair and accurate picture of the income and costs of insurance companies?
15. Of the evidence presented is the most balanced response from the Auto Body Professionals Club?
16. Of those who make injury claims after a road accident, what proportion first contact their own insurance company?
17. How many insurance companies have contracted-out the handling of these first telephone calls to claims management companies?
18. How many insurance companies which handle their own post-accident calls identify potential claimants and provide a system to arrange credit hire, credit repair, and solicitor representation?
19. Does either practice identified at 17 and 18 above have a tendency to increase the number of claims made against insurance companies?

20. How many claims for compensation are made by the route identified at question 17, and how many by the route identified at question 18?
21. What proportion of each insurance company's overheads is spent on identifying fraudulent claims?
22. If the Government introduce measures which reduce the number and extent of personal injury claims, reduce the costs paid to representatives of those claimants, how do you suggest the Government should regulate the fairness of motor insurance premiums in future?

December 2010

Written evidence from swiftcover.com (CMI 32)

1. About Swiftcover.com

Employing over 1,000 people, www.swiftcover.com started trading in June 2005 and was born out of a desire to revolutionise the general insurance market. In addition to car insurance, swiftcover.com offers insurance products for home, travel as well as pet cover and is Britain's only insurance company without call centres. This allows cost savings which are passed directly on to the customer, keeping premiums low.

In 2007, AXA UK acquired swiftcover.com. It is now a wholly owned subsidiary of AXA Insurance UK PLC which forms part of AXA Group.

In 2008, swiftcover.com achieved over half a million live policies and, in May 2009, it sold its one millionth policy. It is considered to be one of the fastest-growing insurers in the UK.

2. Overview

Following on from the initial consultation in November 2010, swiftcover.com is submitting its findings to foster lower premiums for UK motorists.

Before doing so, recognition of the key areas raised by the Committee is important. These include:

— Uninsured drivers.

— Insurance fraud.

— Claims management firms/personal injury claims.

— Legal costs.

swiftcover.com recognises and supports the important action needed to address these fundamental issues and welcomes change for the benefit of UK motorists and insurers. However, there are other key areas which need consideration. These include:

— Vehicle recovery fees.

— Further areas of insurance fraud.

— Further areas of claims management firms.

— Insurance policy verification practices.

3. Swiftcover.com Expands on Existing Issues

Building on the insurance fraud issues raised by other parties, swiftcover.com has highlighted some of its own programmes which are currently in practice to help lower premiums.

swiftcover.com is tackling insurance fraud:

— swiftcover.com operates a dedicated department to investigate all suspected fraud and all reported car thefts.

— The team has been in place for two years.

— It has allowed the business to save at least £4 million this year by rejecting fraudulent claims during this period.

— By adopting this tactic as well as other anti-fraud measures, swiftcover.com will save all of its policyholders an average of £10 per policy next year.

However, more support and co-operation across the industry in such strategies would be welcome. swiftcover.com believes that other insurers should be as proactive and invest accordingly in fighting potentially fraudulent claims. The insurer also believes that stricter action is needed by the courts in bringing these fraudulent claimants to justice rather than simply writing off the claim and allowing the fraudster to go free and potentially re-offend.

Credit hire

The detrimental rise of personal injury claims and the growth of claims management firms in the car insurance industry is well documented. However, swiftcover.com is also proactive in challenging the exorbitant fees being billed by companies known as credit hire companies.

swiftcover.com also operates a number of other initiatives in order to allow the company to maintain its low premium offer. This has become more and more challenging each year.

4. Other Areas for Discussion

4.1 *Recovery fees*

Between August and September 2010, swiftcover.com began researching the fees collected by local police forces for collection of vehicles which have been deemed unfit to drive following an accident or breakdown.

Typically, when a car has been classified in this way, the regional police force will arrange for a local recovery firm to collect the vehicle. For doing so, the police will collect a "commission" fee.

When the insurer—swiftcover.com or another—is told about the collection, it has to arrange a further collection of the vehicle from a recovery centre, owned by a third party. This incurs additional, unnecessary costs to the insurer and therefore policyholders which can be avoided.

The results were startling with huge disparity across the UK. Of the nine police forces approached through the Freedom of Information Act, seven revealed their fee structure to us. Two declined on grounds that it would "damage their third party relationships". The results are as follows:

Police Force	*Referral Fee*		*Referrals in 2009*	*Referrals in 2008*
West Midlands Police	£25		24,891	28.952
Northumbria Police	£21		10,220	9,763
Thames Valley	£6		15,716	19,641
Lothian & Borders Police	£6		Information not held	Information not held
South Wales Police	£5		10,067	11,951
Greater Manchester Police	Decline	9	32,855	37,884
Merseyside Police	Declined	10	1,263	1,529
Metropolitan Police	No charge	11	N/A	N/A
Strathclyde Police	No charge	12	N/A	N/A

It is evident that a simple recommendation on best practice is needed. We, through our public relations programme, have worked hard to highlight the issue to the public; however, the police forces need to adopt a new way of working. There will be significant savings to the industry by requesting the owner of the vehicle to notify their insurer of the need for collection instead of third party involvement—understanding that some smaller insurers may not be able to offer this kind of service.

4.2 *Fraud*

4.2.1 Low-impact claims

Small injury claims caused by low-impact accidents have been a growing trend due to the growth in the claims management sector as well as the everyday financial pressures of life. It is important to highlight the effects of the regionalisation of successful claims and, therefore, the need for a polarised approach.

This problem is nationwide but is more evident in specific regions. Many insurers know better than to dispute a small injury claim simply because it would be uneconomical and a waste of resource, even when it is clear that the injuries claimed are simply impossible. This has had a significant impact on premiums both nationally but more specifically, on those regions seen as "soft touches". Lawyers of claimants intentionally bring cases to specific courts, because they know that they are more likely to get a favourable result.

swiftcover.com would welcome debate on this area and would be willing to set out an action plan to tackle the issue if the Committee wishes it to.

[9] West Midlands Police stated that not all of the referrals for 2008 and 2009 attracted a referral fee.

[10] Greater Manchester Police confirmed that it does receive referral fees, but refused to disclose the amount, stating: "The most persuasive reason for disclosure is accountability, which needs to be compared to the strongest reason for maintaining the exemption, which at this time is the damage to the Commercial Interest of Third Parties. Merseyside Police also confirmed that it receives referral fees but refused to disclose the amount for the same reasons.

[11] Neither Metropolitan Police nor Strathclyde Police receive referral fees from recovery companies. However, the cost of recovery by third party firms in these areas will still be passed on to insurance companies.

[12] Neither Metropolitan Police nor Strathclyde Police receive referral fees from recovery companies. However, the cost of recovery by third party firms in these areas will still be passed on to insurance companies.

4.2.2 Passenger numbers

The average number of passengers per accident per car has risen from 1.1 persons to 1.7 persons in recent years. There may be a number of factors for this such as an increase in younger drivers transporting fellow youngsters; however, a rough rule of thumb, whereby a typical claim per person runs at £5k, means the additional "half a person" has added approximately £2.5k to each claim, which has inevitably had an effect on premiums.

4.2.3 Verification practices

Currently, when an individual applies for car insurance, there is no way of checking that vital information—such as holding a driving licence—can be verified by an insurer unless that person is involved in an accident. The DVLA hold this information but are reluctant to give out licence info because of the Data Protection Act.

This is a major hurdle for insurers and having this barrier in place means that insurers are forced to treat every applicant as a risk as there is no way to check driving history. Consequently, premiums across the board have increased to accommodate that risk. It means that those millions of honest drivers across the UK are victims of those who apply fraudulently. swiftcover.com would like the DVLA to work in partnership with them and other insurers and to provide information on type of licence and the convictions they have on record.

If a verification model was in place, all drivers would be evaluated fairly which would allow "good/truthful" drivers to be rewarded with lower premiums. Again, this is a simple issue which can be rectified by introducing a free of charge, automated checking process between insurers and applicants.

5. Insurance Books

The rise in claims management firms is again well documented. However an area swiftcover.com feels strongly about hasn't been raised to date. The fundamental practice of these types of businesses is somewhat questionable. The first task they face is to obtain information of individuals who have been involved in an accident in the past three years. They do this through a number of means whether that's random text messages or e-mail to consumers, or even through direct requests with insurers requesting data.

swiftcover.com has been approached by a number of these firms and all such requests have been strongly rejected.

The practice of obtaining clients by claims management firms should be questioned.

- The tactic of approaching insurers should be made illegal.
- The tactic of encouraging those involved in accidents to re-evaluate their physical condition, in some cases years after the close of an incident case, should be strongly discouraged or made illegal.
- At the very least, once a claim has been concluded and closed, it should not be allowed to be reopened due to a claims management firm's request.

There needs to be a review of these types of companies alongside strict practice guidelines. With so many claims now being reopened, insurance companies have had to reopen their financial yearbooks which has had a financial impact on the industry. Therefore a rise in premiums is necessary to rectify this financial disparity.

6. Conclusion

There have been some fundamental issues raised by the Committee but there are further issues which, if addressed, would have a significant positive effect on car insurance premiums.

swiftcover.com has been and always will be active in seeking ways in which to keep premiums low and the above outline of issues, alongside suggestions to tackle such issues, should have a positive effect on costs to the driver.

We look forward to your feedback. We would welcome further involvement with helping to reduce premiums for the benefit of UK motorists.

December 2010

Written evidence from CTC (CMI 33)

Introduction

1. CTC, the national cyclists' organisation, was founded in 1878. CTC has 70,000 members and supporters, provides a range of information and legal services to cyclists, organises cycling events, and represents the interests of cyclists and cycling on issues of public policy. CTC also provides 3rd party insurance to all its members.

2. We welcome the opportunity to respond to this extended inquiry and strongly support proposals that the Committee addresses the issue of the liability of motor vehicle operators in crashes involving vulnerable road users.

Reasons and Consequences of Recent Increases in the Cost of Motor Insurance

3. One obvious explanation for recent increases in the cost of motor insurance is that more claims are now being made, especially for incidents that are minor and unreported to police.

4. The ABI suggest that 432,000 claims for whiplash alone were made in 2006–07, significantly up on previous years. Recent Reported Road Casualty Reports record huge self-reported injury rates from road crashes that are not recorded by police.[i]

5. It may be that a combination of greater willingness to claim and driving behaviour deteriorating may be contributing to the increase in collisions. Alternatively the increase in vehicle safety technology may be leading to risk compensation on the part of drivers, meaning more shunts and bumps, leading to insurance claims without injury.

Impact on Young People of the High Costs of Motor Insurance

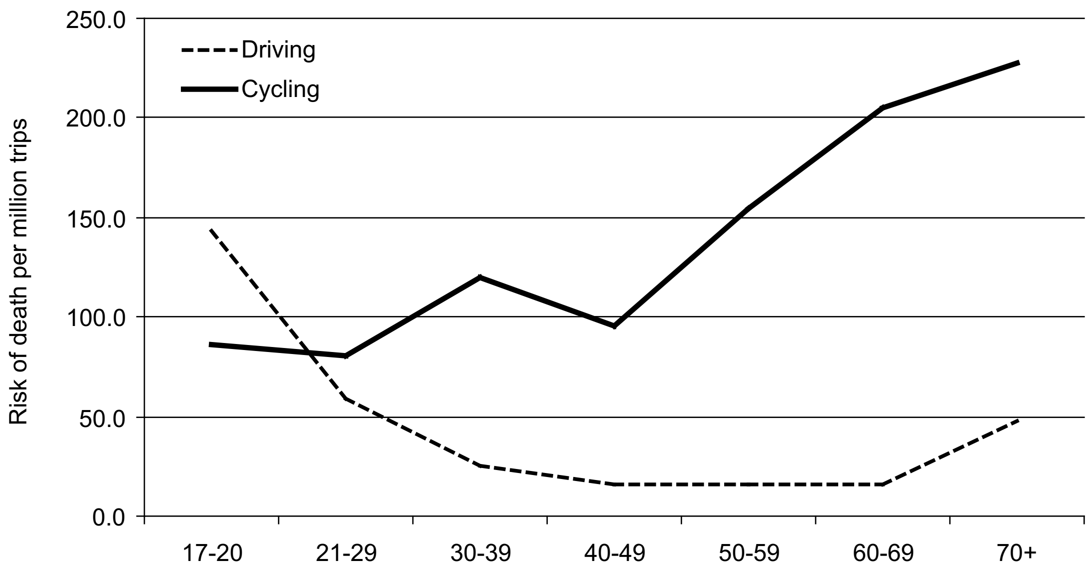
6. CTC notes that levels of automobile use amongst young people, particularly men, has been slightly declining in recent years. The higher motor insurance may have contributed to this reduction.

7. The fact that fewer young people are choosing to drive should not be seen to be negative. Young people are more likely to be killed on the roads than in any other means and the risk of being killed per trip for a 17–20 year old driver is nine times greater than for someone their parents' age (see figure 1 below). Although cycling is often perceived as being a riskier activity than driving, the risks young people are exposed to are lower for cycle trips than when they are driving.

8. While reducing the ability of young people to access motor vehicle by making insurance more costly may not be equitable, the level of involvement in injury and death of young drivers suggests that any means of reducing their car use must be welcomed. Young people may well shift to healthier modes of travel, posing less risk to themselves and others.

Figure 1

RISK OF DEATH PER MILLION TRIPS: DRIVING AND CYCLING



DfT: National Travel Survey 2009; Road Casualties Online

Public Policy Implications of the Rise in the Cost of Motor Insurance and what Steps the Government might take in Response to Them

9. As above, CTC suggests that in part the rise in the cost of motor insurance may deter some people from driving. This is to be welcomed.

10. We believe that insurers should offer pay per mile insurance, a concept that until now has only been trialled or implemented on a very limited basis. This would allow access to motor vehicle insurance to be lower for those who choose to use their cars less.

Changes to Motor Insurance to Give Greater Protection to Vulnerable Road Users

11. While most drivers are generally considerate towards cyclists and pedestrians, the fact remains that non-motorised users (NMUs) are more at risk of being injured on the roads, whilst posing far less threat to others.

12. This imbalance could be corrected by introducing the legal presumption made by most west European countries that injured cyclists and pedestrians are entitled to compensation from drivers who hit them, unless the victim was obviously at fault.

13. If a cyclist or pedestrian suffers personal injury or damage in a collision with a motor vehicle, they should be entitled to full compensation from the driver's insurance unless the driver (or in practice their lawyers/insurers) can show that the injury was entirely caused by the cyclist or pedestrian behaving in a way that fell well below the standard that could be expected of them, taking account of their age, abilities and the circumstances of the collision.

14. The cyclist or pedestrian should also be entitled to proportionate compensation even if they were partly at fault.

15. Particularly vulnerable people (eg children, the elderly, people with learning difficulties or physical disabilities), should receive compensation from the driver's insurance automatically, unless they evidently wanted to harm themselves.

16. We do not believe that this system would inevitably lead to an increase in the costs of insurance.

What's wrong with the current system?

17. Cyclists and pedestrians are:

- most at risk on the road network;
- least likely to be at fault in a collision with a motor vehicle; and
- pose far less danger to others.

Yet it is usually much harder for them to claim compensation for injuries they sustain. Reasons for this include:

18. The burden of proof lying with the injured cyclist/pedestrian: as explained below, cyclists are more likely to be the injured party in collisions with motor vehicles, but less likely to be at fault. In order to gain the appropriate amount of compensation, they have to prove that the driver was negligent, has committed a tort (a breach of duty leading to liability for damages) and/or a criminal offence and, as such, was wholly or partly at fault. This is a costly, complex and time-consuming process;

19. Injured cyclists/pedestrians are less likely to be good witnesses in court: given their greater likelihood of injury, cyclists and pedestrians are far less likely to recall what happened with the clarity needed of a "good witness" in court. This regularly leads to grave injustice, far more serious than anything that could possibly result from reversing the burden of proof.[ii]

20. Injured cyclists/pedestrians don't have as much financial support: motoring organisations and insurance companies have, in effect, limitless funds for employing lawyers etc., whereas most cyclists (especially those who are not members of a cycling organisation like CTC) do not. This puts many injured cyclists at a significant disadvantage;

21. Cases take extended periods to resolve: typically it takes a long time to resolve personal injury cases—even with a solicitor, they can span four or five years. Compensation, for example, can depend on the severity of injury, which may take a while to confirm and require an interim payment and then further payment when diagnosis is more certain—naturally, insurance companies will always pay as little as they can at any time.

22. The need to correct for imbalances in power or vulnerability is already recognised elsewhere in law, and elsewhere in Europe—indeed, the system of civil compensation for personal injuries to NMUs in England is one of the least favourable.[iii]

23. In many European countries, the bigger vehicle is presumed responsible or motor vehicles are held strictly liable for injuries to NMUs. In France, Belgium and the Netherlands, liability for personal injury damages to NMUs rests with the driver, unless they can show that the NMU acted in a way that was clearly illegal and/or seriously negligent.

24. The principle that a defendant is 'innocent until proven guilty' is not completely enshrined in matters of liability relating to road traffic incidents. Drivers are generally held to be liable if they run into the back of another vehicle, even if the driver in front braked sharply or without warning. This is because drivers are expected to drive at a safe distance—just as they should be expected to exercise a high degree of care around NMUs, allowing for unexpected or erratic movement by them. In the case of *Russell v. Smith* (2003) it was established that even if children were deemed to be entirely 'at fault', compensation must still be awarded.

25. Common law on tort liability allows for the theory of *res ipsa loquitur* ("the thing speaks for itself"). Basically, this means that if it is circumstantially obvious that a claimant did nothing wrong, and that the incident must have resulted from negligence, it follows that the party who caused the harm must have acted negligently.

26. Provisions for imbalances in power or vulnerability are made in areas of the law such as consumer protection, employment contracts, public and employee health and safety (eg legislation places primary responsibility for employees' safety on employers).

27. A presumed entitlement to compensation would have the following benefits:

- The law would reflect the fact that NMUs are far more at risk of injury than motor vehicle occupants (see above).
- It would reinforce the message that drivers should exercise a high degree of care towards NMUs, promoting more cautious driving and leading to fewer crashes.
- An injured NMU would find it much easier to obtain compensation following a collision with a motor vehicle.
- Reversing the burden of proof transfers any injustice arising from failures in evidence from the innocent victim to the innocent driver. The latter only risks losing their no claims bonus, whereas under the current system the victim risks being unable to claim compensation even if maimed for life, simply because their injuries have left them unable to provide evidence that the driver was at fault.

28. It would (should) not mean:

- That NMUs are given *"carte blanche"* to act irresponsibly—CTC would not support it if it did.
- Any change to the criminal law principle that the defendant is innocent until proven guilty, any more that it would mean that drivers would be automatically criminalised if they collide with a NMU. Our proposal would only affect *civil* liability compensation cases.[iv]
- That the law would be introducing a divisive or unfair arrangement: most drivers walk and cycle too. It would simply reflect the fact that when people choose to walk or cycle, they are more vulnerable than drivers who put them most at risk.
- A significant increase in insurance premiums or motoring costs. It is more than likely that a change in compensation rules would lead to safer driving, hence fewer collisions and, in turn, reduced payouts. Also, the proposal would reduce the necessity for much of the costly litigation that currently takes place—and for which drivers ultimately pay.

29. We ask the Committee to take note of these points, even if they are not directly relevant to the exact terms of the current inquiry.

CTC, the national cyclists' organisation

December 2010

References

[i] ABI, *Tackling Whiplash: Prevention, Care, Compensation*, 2008.

[ii] To give an example: the injustice suffered by a child who cannot claim damages despite being maimed for life by a dangerous driver, because s/he cannot provide adequage witness evidence that the drive was at fault, is far greater than the injustice that an entirely blameless driver might suffer in the reverse situation—this would usually be no more than thej loss of a no claims bonus.

[iii] Groutel, Hubert. *The Compensation of "Vulnerable" Road-accident Victims*. Academy of European Law, Trier, 2001.

[iv] In 1999, the Environmental Law Foundation published Optuions for Civilising Road Traffic, which sets out the arguments for and against changing the operation of road traffic law both iln terms of criminal and civil liability, for the better protection of NMUs and promotion of the message that drivers bear primary responsibility for road safety.

Written evidence from RoadPeace (CMI 34)

1. RoadPeace, the national charity for road crash victims, is grateful for the opportunity to highlight the need to consider the wider social cost of our motor insurance system and its implications on the price we pay with regard to our health and environment.

Reasons and Consequences of Recent Increases in the Cost of Motor Insurance

2. This inquiry to date has been focused on the cost of motor insurance premium, with consideration of the impact on the incidence of uninsured driving. While much has been made of the recent rises in the cost of motor insurance premiums, it is too early to tell the effect of the recently introduced streamlined procedures for road traffic civil claims.

Impact on Young People of the High Costs of Motor Insurance

3. This will encourage them to take up the more physically active and less polluting mode of cycling, assuming they are not intimidated by the volume and speed of motor vehicles.

Extent to which Cost of Motor Insurance is Influenced by the Prevalence of Road Collisions, Legal Fraud, and the Number of Uninsured Drivers

4. RoadPeace is aware that when the problem of uninsured driving was reviewed several years ago by Professor Greenaway, he was not allowed to consider the system whereby third party coverage could be collected via the fuel levy. RoadPeace is also aware that the cost of uninsured drivers on motor insurance premiums has been reported to be £30 for many years, despite much effort in recent years to reduce uninsured driving.

Public Policy Implications of the Rise in the Cost of Motor Insurance and what Steps the Government might take in Response to them

5. A wider consideration of the social costs of our motor insurance system must include the inherent bias against vulnerable road users. Britain puts the burden of proof in road collisions on the injured, including when it is a pedestrian or cyclists. No consideration or allowance is given for the fact that:

(a) they will be the injured party and thus less able to provide evidence and

(b) they are least likely to be represented by any insurance company.

6. In the majority of countries around the world, the burden of proof is reversed in collisions involving pedestrians and cyclists. Compensation is assumed owed to the pedestrian or cyclist casualty, unless it can be proven that they contributed to the collision. . RoadPeace refers to this system as "Stricter liability". How the countries interpret contribution varies widely, even within Western Europe, but they all start with a different assumption than does Britain.

7. Stricter liability does not mean that irresponsible pedestrians or cyclists will be compensate. RoadPeace does support the system introduced in France and the Netherlands where children, elderly, and those disabled, do qualify for compensation, regardless of their actions.

8. RoadPeace has previously argued, most recently in an article in London Cyclist and in a presentation at RoSPA's 2010 National Road Safety Conference, that without a system where a greater duty of care is placed on motor vehicle drivers, the long awaited cycling revolution is unlikely to occur. Getting people out of cars and onto bikes is critical for our efforts to tackle what David King described as the twin crises, obesity and climate change. The Sustainable Development Commission had also supported "stricter liability" and we believe that it is basic to any sustainable transport strategy.

9. A few years back, it was reported that adopting such a system would add £50 to every policy but this estimate was never substantiated. RoadPeace has also tried to find evidence of its introduction on road casualties but this has proven difficult as it was introduced many years ago in some countries such as Germany or at the same time as other measures in other countries, including Denmark.

10. This enquiry was short and its scope was subsequently widened. RoadPeace requests that consideration be given to undertaking a separate enquiry into stricter liability. If this is not possible, then separate oral evidence sessions within this enquiry should be dedicated to stricter liability. More information on stricter liability systems can be provided by RoadPeace in 2011.

December 2010

Written evidence from Nigel Lacy, Young Marmalade (CMI 35)

I am aware that submissions for evidence has now closed but I would like to make the Committee aware of the work that we have done at Young Marmalade in helping to reduce the cost of insurance, particularly for young drivers—amongst the hardest hit by the recent steep rise in premiums.

We help to manage the risk for the insurance company and we achieve that by having an influence on the car that is driven by our customers. At Young Marmalade we sell the car and the insurance as a package and as we are controlling the risk for the insurance company, we are able to reduce the risks and hence the premiums. We are using sophisticated, modern in car telematics to monitor acceleration, braking, cornering and speeds to help build a profile of the driver.

We have already proved that by putting young drivers in a newer cars with additional training, they have significantly fewer accidents—this was reported in an Early Day Motion in the House back in 2007.

We have now taken this one stage further by assessing drivers via a drivers' log book scheme which takes them on as learner drivers—our Provisional Marmalade product insures them to practise in a family car. After they pass their driving test we seek a further assessment with Police trained observors linked to the Inititute of Advanced Motorists and then the technology alerts us to how the car is being driven and we link the premiums to that. The advantage is that the premiums are approximately 50% of the general market rates and there are no other restrictions on driving.

This whole process is also linked to the sale of a new or nearly new car, the funding of which makes the whole scheme affordable.

Intelligent Insurance allows the driver to assess the areas of his or her driving that affects their risk on the road, such as having a car full of friends or feeling off colour and how this affects their driving and safety on the road. Other benefits include early indication of a collision, even to the extent of summoning emergency services if required, simply by being alerted to sudden decelleration or activation of airbags. Recovery in the event of a theft is simple—the car can be switched off remotely.

All of these measures have a massive impact on reducing insurance costs.

We are also taking this into the classroom through our 6th Gear programme www.6th-gear.co.uk where we stimulate discussions about all aspects of motoring to the next generation of motorists.

We hope this is of interest to the Transport Select Committee

Young Marmalade is a member of the Parliamentary Advisory Council for Transport Safety.

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