



House of Commons  
Transport Committee

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**The cost of motor  
insurance: Government  
Response to the  
Committee's Fourth  
Report of Session  
2010–12**

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**Fifth Special Report of Session 2010–  
12**

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## The Transport Committee

The Transport Committee is appointed by the House of Commons to examine the expenditure, administration, and policy of the Department for Transport and its Associate Public Bodies.

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Steve Baker (Conservative, Wycombe)  
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The following were also members of the committee during the Parliament.

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Lilian Greenwood (Labour, Nottingham South)  
Kelvin Hopkins (Labour, Luton North)  
Gavin Shuker (Labour/Co-operative, Luton South)  
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The committee is one of the departmental select committees, the powers of which are set out in House of Commons Standing Orders, principally in SO No 152. These are available on the internet via [www.parliament.uk](http://www.parliament.uk).

### Publication

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.

The Reports of the Committee, the formal minutes relating to that report, oral evidence taken and some or all written evidence are available in a printed volume. Additional written evidence may be published on the internet only.

### Committee staff

The current staff of the Committee are Mark Egan (Clerk), Marek Kubala (Second Clerk), David Davies (Committee Specialist), Tony Catinella (Senior Committee Assistant), Edward Faulkner (Committee Assistant), Stewart McIlvenna (Committee Support Assistant) and Hannah Pearce (Media Officer).

### Contacts

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# Fifth Special Report

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On 12 July we received a response from the Government to the Transport Committee's Fourth Report of 2010–12, *The cost of motor insurance*,<sup>1</sup> which we publish with this Special Report.

## Government response

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### Introduction

The cost of insurance and the impact it has on motorists is a key issue for this Government. The rise in motor insurance premiums is making travel more expensive for motorists, particularly for young drivers, with significant economic and social impacts. Many people depend on their cars to travel to work and for an active social life, yet for some the ongoing increase in premiums has made running a car too expensive. While there is no excuse for driving uninsured, we want to ensure that drivers are not tempted to cut corners and save money by allowing their insurance to lapse or distort the truth on insurance details. Uninsured driving has a significant impact on those involved in accidents and on all motorists through the cost of premiums. The Government therefore welcomes the Committee's valuable report. The Government fully agrees that the cost of motor insurance is a problem and we want to ensure the right action is taken in helping to tackle this with everyone playing their part.

The Government is already taking steps to help manage this issue:

- Improvements in enforcement which have seen the number of uninsured drivers fall from 2.2m in 2005 to 1.4m today.
- The introduction in June of the continuous insurance enforcement scheme to tackle uninsured driving (CIE).
- Plans to allow insurers access to the DVLA driver database to reduce fraud, with the aim to achieve an agreed way forward this summer.
- The recent MoJ consultation on the reform of civil litigation funding and costs in England and Wales, where the resulting changes should mean that meritorious claims will be resolved at more proportion cost and unnecessary claims deterred from progressing to court.
- Work with interested parties such as insurers and the driver training industry to develop use of telematics, develop driver learning and encourage safe driver behaviour, so that we lower the risk to insurers from novice, particularly young, drivers.
- Continuing to improve road safety and reducing the number of casualties and collisions. The Government's plans were set out in the DfT's Strategic Framework for Road Safety published on 11 May 2011, which included a range

of measures including proposals to ensure young people acquire the appropriate skills and attitudes, modernising the driver training industry and improving the content and delivery of motorcycle training.

The Committee recognised that the Government is not responsible for the cost of motor insurance which is set in a competitive market place. However, we want to look at approaches which will help reduce the burden on motorists without reducing freedom for business to respond innovatively or for individuals to act responsibly as safe drivers and consumers. Further regulations should generally be seen as a last resort.

The Government will continue to monitor the cost of insurance and its economic impacts. Insurance premiums are as far as possible set by insurers in relation to the risk of the drivers that are being insured in a competitive market place. However there are still many areas where Government, working with the insurers and others can help. We are committed proactively to implementing the various measures highlighted above, such as the action on the managing the cost of claims, fraud, driving uninsured and improving road safety. We will continue to look at additional measures that will translate into reduced motor insurance costs.

The Government's response to each of the Committee's detailed recommendations is set out below.

## Response to Recommendations

### Committee recommendations: Personal injury claims and referral fees

**The provision of wider access to justice is to be welcomed, but it has come at a cost. Motor insurance premiums must now pay for compensation for personal injuries and legal costs on a far greater scale than before.** (Paragraph 21)

**In our view, the Government should ensure that arrangements exist to enable people injured in a motor accident to claim compensation, regardless of their income. However, wider access to justice should not provide an opportunity for people to make fraudulent claims for compensation for non-existent or pre-existing aches and pains.** (Paragraph 22)

**Insurers should publish on their websites a list of the firms with which they have referral arrangements, an indication of the level of the fees paid, and a clear explanation of how referral arrangements work and their purpose. Policy holders should be sent this information with their insurance documents. When claims are made, insurers should make it clear to claimants that they need not use the solicitor, vehicle repairer or credit hire firm which is recommended by the insurer. We look to the insurance industry to implement a more transparent regime for referral fees by the end of next year and to the Government to step in, with legislation if necessary, if the industry is unwilling or unable to agree on this.** (Paragraph 28)

**We recommend that the Department sponsor a research project on international experience in restraining the number of personal injury claims relating to motor insurance, with the aim of publishing a discussion paper on this issue during 2012 outlining possible options for change. (Paragraph 31)**

**DfT response:**

The Government is committed to tackling the high and disproportionate costs of defending personal injury claims and believe the measures it has taken so far will go some way towards this. On 29 March 2011, the Secretary of State for Justice set out the way forward following full consultation on implementation of Lord Justice Jackson's recommendations for reform of civil litigation funding and costs<sup>2</sup>. The Government has decided to abolish recoverability of no win no fee conditional fee agreement (CFA) success fees and after the event insurance premiums. The package of associated measures recommended by Lord Justice Jackson will also be introduced. Overall, these changes should mean that meritorious claims will be resolved at more proportionate cost, while unnecessary or avoidable claims will be deterred from progressing to court.

The Association of British Insurers welcomed the announcement that the Government would be taking forward the reforms to civil litigation funding and costs, stating that motorists can look forward to cheaper car insurance in the future.

The Government welcomes the Committee's recommendation that the insurance industry look to implement a more transparent regime for referral fees. The Legal Services Board (LSB) – the oversight regulator for the legal profession – has been considering the role and impact of referral fees. Following consultation, the Legal Services Board's final report on this issue was published on 27 May and called for greater transparency in their use. The Board has set new guidance which requires approved regulators across the market to make sure that consumers know when referral fees are in operation and to whom they are being paid.<sup>3</sup> The Government awaits the response to it of the insurance industry and the legal professions regulatory bodies.

However, we recognise that there is still more that can be done on reducing legal costs. The Government will consider the LSB's report, as well as the responses to it from the legal and insurance industry, and how its recommendations might work alongside the proposals for radical reform of the whole "no win no fee" system announced earlier this year, including consideration of whether to ban referral fees altogether. We also feel we can encourage an approach which reduces cost escalation of claims made. The current model of the Road Traffic Accident Personal Injury Scheme provides cost and resource benefits to claimants and insurers and has been widely welcome; the current MoJ public

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2 Reforming Civil Litigation Funding and Costs – Implementation of Lord Justice Jackson's Recommendations: The Government Response. <http://www.justice.gov.uk/consultations/566.htm>

3 Referral fees, referral arrangements and fee sharing [http://www.legalservicesboard.org.uk/what\\_we\\_do/consultations/closed/index.htm](http://www.legalservicesboard.org.uk/what_we_do/consultations/closed/index.htm)

consultation on “Solving Disputes in the County Courts” proposes to extend the scheme beyond the existing threshold of £10,000 to £25,000 or £50,000, and closes on 30 June.

We recognise that legal regimes in other jurisdictions may influence lower numbers of personal injury claims. This may be for a number of reasons including the basis on which liability is determined, the propensity for claimants to make a claim and the ease and costs to claimants to make such a claim. Within UK civil law, if a third party incurs an injury and can prove negligence then they are entitled to seek compensation. We do not want to impose unnecessary restrictions which would restrain those that have a genuine claim to make. Nor do we feel there is compelling evidence to change the basis on which liability is determined. We do not favour an approach which shifts the burden onto one party rather than the other (as in stricter liability for example) which has the potential to force an innocent motorist to pay compensation (albeit through insurance) in a case where there is a lack of, or inconclusive, evidence.

However, we believe a combination of approaches without restricting the freedom of consumer choice is a better way forward and the measures we are undertaking strike the right balance.

#### **Committee recommendations: Uninsured driving**

**We welcome the action which has been taken in recent years to reduce uninsured driving.** (Paragraph 33)

**We welcome the introduction of Comprehensive Insurance Enforcement: it is a sensible measure which should help reduce the prevalence of uninsured driving. We recommend that the introduction of CIE should be accompanied by a promotional campaign, aimed at young drivers, to alert them to the requirement to have valid motor insurance. We also recommend that the first letter sent to registered keepers who appear not to have motor insurance should focus on reminding drivers of the legal requirement to insure their vehicles and should not be based on the assumption that all recipients have deliberately flouted the law. Once vehicle owners have been reminded of the requirement to take out insurance pursuit of those who fail to do so should be vigorous.** (Paragraph 36)

**Although we can see the argument to increase the minimum penalties for driving, and for keeping a car, without insurance, the Government’s focus should at this stage be on better enforcement of the existing law. We recommend that the penalties for these offences should be reviewed one year after CIE has been implemented.** (Paragraph 37)

#### **DfT response:**

The Continuous Insurance Enforcement scheme will start on 20 June 2011. and the Government welcomes the Committee’s support for the scheme. The CIE scheme allows

us to detect a greater number of uninsured vehicles rather than relying on the police spotting uninsured vehicles in use on the road. The scheme is an important complement to existing measures to tackle those who are determined to drive uninsured and a focus on enforcement (a fine/ clamping/impounding of the vehicle and prosecution of offenders) is an integral part of the scheme. We consider that this will be an effective and desirable improvement in enforcement as it enables motorists to be given notice of the problem without, as long as they comply, engaging in costly action.

A full publicity campaign was launched on 23 May and included a TV advert sponsored by the insurance industry. The insurance industry has used social networks to promote its “Stay Insured” campaign, with emphasis on young drivers and we will use online and viral marketing (an activity that encourages people to pass on the message), including DSA social media forums to maintain momentum and again target younger drivers. We agree that the initial letter to keepers who appear not to have insurance must not assume the recipient has deliberately flouted the law. It is however important that the letter prompts action; the letter will signpost what the recipient needs to do.

We will review the effectiveness of the scheme, including the appropriateness and level of the fine, post implementation of the CIE scheme.

#### **Committee recommendations: Fraud**

**We welcome the Government’s aim to ensure that insurers can gain access to information held by the DVLA about drivers when insurance is being arranged. We recommend that, in reply to this Report, the Government should specify more precisely when the new data sharing arrangements will be introduced. (Paragraph 42)**

**There appears to be significant scope for the insurance industry to do much more to combat motor insurance fraud. We call on the main players in the industry—particularly the insurance firms, brokers and comparison websites—to work together more proactively to achieve this. In particular, we welcome the initiative to establish a dedicated police unit on insurance fraud, paid for by the industry. We note the Minister’s commitment to look at this proposal: he has a responsibility to law-abiding drivers to ensure that fraud is taken seriously by the industry and minimised. We recommend that, in reply to this Report, he update us on progress in discussions on this issue and on the action the Government has taken to assist in ensuring that a successful outcome is achieved, preferably by the start of the 2012–13 financial year. (Paragraph 44)**

#### **DfT response:**

A number of workshops have been held with the insurance industry to identify the system requirements for access to the driver record held by the Driver and Vehicle Licensing Agency, as well as identifying the preferred solution, the costs to design, develop, test and implement the required solution. In addition, the Department and the



insurance industry has met with the Information Commission to clarify data protection issues. The Driver and Vehicle Licensing Agency is now preparing the necessary business case to enable a full costing to be made and it will be shared with the insurance industry. This is a significant project for both government and the insurance industry; consumer choice and the ease of searching on line for competitively priced insurance products means volumes are around 1.5 billion per year. This means that the exact timescale for implementation will depend on the specific options chosen and will need to be agreed with the insurance industry. Based on similar scale projects, we estimate the project could take between 18 to 24 months to complete. The aim is to achieve an agreed way forward by this summer.

We are grateful to the insurance industry for the work that already undertaken to counter insurance fraud through establishing the Insurance Fraud Bureau, which has had significant success particularly in tackling "cash for crash" type motor fraud. We are also pleased that the industry has agreed in principle to fund a dedicated police unit, an initiative which we strongly support. Such specialist units have proved to be very successful in other industry sectors and provide a high level of specialist knowledge and policing skill which otherwise might not be so readily available. Home Office Minister James Brokenshire has corresponded with the ABI about the proposal and a meeting is being arranged to discuss the industry's plans and concerns.

#### **Committee recommendations: Young drivers**

**We welcome the Minister's commitment to making the driving test more rigorous, exploring other ways of ensuring that young drivers are fully trained before they are licensed, and to making an advanced driving course available which can effectively signal to insurers that drivers who have completed it are safer. Many of these ideas were discussed in our predecessors' Report into novice drivers. The Minister's commitment must now be backed up by a consultation document setting out the measures the Government wishes to explore, a timetable for implementing any legislative and procedural changes, and an indication of likely costs and how they will be budgeted for. We recommend that the Government publish such a document within the next six months, with a view to implementing changes to the driving tests and other measures during this Parliament. We will pay close attention to the Government's proposals. (Paragraph 49)**

**We recommend that the Department for Transport facilitate investigation of effective means of deploying and publicising new technology which can assess how cars are driven by young drivers and thereby provide more information on which risk assessments can be made. For example, we suggest that the Department could host a conference on this issue involving all relevant parties, during the summer, and establish and participate in an industry working group on how this technology can be most effectively used. (Paragraph 52)**

**DfT response:**



The Government published its strategic framework for road safety on 11 May 2011. In it the Government outlines its approach and indicative timescale on a range of measures including proposals to reduce novice driver and rider collisions based on education to ensure young people acquire the appropriate skills and attitudes, modernising the driver training industry so that instructors can offer the range and standard of service that consumers need, and improving the content and delivery of motorcycle training. The Government is already in discussion with key interested parties to progress these proposals and where regulation is needed or existing rules need to be changed we will publicly consult. The Government is committed to improve driving standards and these proposals build upon a number of other measures recently introduced:

- case study questions have been introduced in the theory test to better assess understanding of real-life situations;
- following on from this, we have announced that we will no longer publish the questions and answers used in the live multiple choice theory test questions to avoid candidates seeking to memorise the position of the correct answer, so reducing the assessment power of our theory tests;
- we have launched an initiative actively to encourage for instructors to ride out as observers on their pupils' tests. Since this has been stepped up in April, the proportion of observed car tests has risen from around 5% to 14%;
- 'independent driving' was introduced in the practical test from October 2010 allowing candidates to demonstrate their ability to drive safely in more realistic situations without step-by-step instruction from the examiner, and we also no longer publish test routes;
- We have also reduced the number of manoeuvres tested to enable test routes to be opened out so that they are more representative of real driving, and enable assessment in higher risk areas such as on higher speed roads.

In addition, the Driving Standards Agency is working with the driver training and insurance industries, running a trial to test a new approach to learning to drive, using a broader learning syllabus with candidates being encouraged – by specially trained Approved Driving Instructors - to adopt a more active approach and take responsibility for their own learning.

Insurers and employers have been involved from the start since it is important that they should be convinced of the merits of a new approach. The first phase of the trial runs until March 2012.

The Department for Transport is in regular contact with vehicle manufacturers and suppliers on developments in new vehicle technology, including driver information systems and parental controls. We recognise this technology can help demonstrate how young drivers are driving and it is an important tool in indentifying their behaviour and their insurance and casualty risks. The insurance industry is already starting to make use

of technologies and new products, where young drivers are willing to accept monitoring, restrictions or training. The Government welcomes these new approaches, as they allow insurance costs to better reflect risk and may also lead to improvements in driver behaviour. The Government is working with the insurance industry, the driving instructor industry and others to look at new approaches and has held initial seminars with key interested parties to identify ways of reducing the risk faced by young drivers. We have set up a working group to look at post test training qualifications and we will continue to work with these groups to develop more detailed proposals that can be taken forward to implementation.

We know from the insurance industry that the cost and frequency of claims significantly falls after age 21. We also know that the greatest cost to insurers from this age group is from personal injury of drivers and passengers, driving older, smaller cars with fewer security features. We will use industry information as well as government research to develop our strategies for this narrow range of drivers. Our intention is that intervention on the driving behaviour of this group and reducing their risk to insurers should result in significantly lower premia.

#### **Committee's conclusion**

**Although the Government is not responsible for the cost of motor insurance there are several good reasons for it to be concerned at the recent increases in premiums for what is a compulsory requirement on drivers and we have identified a number of actions it can take to help bring premiums down. In particular, the Minister pointed out that other departments are responsible for issues such as referral fees and action against insurance fraud but we look to him to press the case across Whitehall for the measures we have recommended. Within his own remit, the Minister has already acted decisively to help reduce uninsured driving. We now look to him to turn his attention to making the driving test more rigorous and bringing down the casualty rate amongst young drivers, something which in our view should be central to the Government's forthcoming road safety strategy. (Paragraph 53)**

**The insurance industry also has a big part to play in bringing premiums under control. If referral fees continue they should be more transparent. We are not convinced that the increasing prevalence of referral fees throughout the sector has left premiums unaffected and we suspect that the market will be less "dysfunctional" if consumers have a better grasp of where their money goes. We would also like to see the insurance industry do more to tackle fraud. The Department for Transport should bring pressure to bear on the main players to work together, and with the police and other authorities. (Paragraph 54)**

#### **DfT response:**

The Government's published strategic framework for road safety makes clear its commitment to sustaining the recent reductions in all road deaths and serious injuries.

It is a particular priority for this Government to sustain the sharp reduction in the figures of young driver fatalities. The Government recognises that, for young drivers in particular, the most effective way of reducing costs of insurance is to reduce the number of road accidents and casualties for this group and it will continue to work with the police, road safety groups, service providers and road users to achieve this. The road safety strategy proposes a large number of actions and measures, including on-going and new measures to look at driver training and testing.

The overall measures on motor insurance costs outlined in this response to the Committee demonstrate that Government is already taking action, for example making referral fees more transparent, implementing continuous insurance enforcement and steps to reduce fraud. It is committed to tackling the cost of insurance in the long term, for example by improving the training and attitudes of young drivers which should reduce their casualty risk. We are already working with all the key parties on implementing these measures and are considering further steps. The Committee's report is a welcome and useful contribution and will help the development and implementation of policies to tackle this major issue.