

# Popping the Bonnet

Exploring affordability issues in car insurance and the ethnicity penalty



**citizens  
advice**

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# Introduction

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Citizens Advice has witnessed the sharp end of the cost of living crisis, with a growing number of people coming to us who are finding it impossible to cover their bills and often needing crisis support. This growth in demand for our services has been driven by rising prices in essential markets. Increasingly, we are seeing people in [negative budgets](#) - who now account for around 50% of our debt clients. These are people who, no matter what they do, just cannot cover the costs of their essentials each month. This places people in impossible situations, often having to make choices about what essentials to go without, and being priced out of essential markets.

Car insurance is one of the markets where we are seeing people priced out. Over the last two years, the rising cost of car insurance has only added to this acute situation. In 2022, just 5% of surveyed Citizens Advice advisers said they had seen clients having to cancel their car insurance. But in 2023, this rose to more than half. This came at the same time as run-away costs in the car insurance market, with the average price of insurance across 2023 [up by 25%](#) on the previous year. Since then, prices have continued to spiral upwards, with premiums from the first quarter of 2024 [up by one third](#) on the same period in 2023. High costs are driving a range of problems. During the height of the cost of living crisis we [found](#) that just over 1 million people had to stop spending on their car insurance entirely. This has wide ranging impacts, with our advisers seeing people who are struggling to access employment, participate in social opportunities, or reach services as a result.

But these costs have also never fallen equally. In March 2022 we first [published research](#) showing the existence of an 'ethnicity penalty' in car insurance, which saw people of colour paying on average £250 more per year for car insurance than white people. We [re-examined this issue last year](#), and found that the gap had persisted. This means there is a risk that high car insurance costs are placing even higher strain on people of colour, putting them at greater risk of being priced out of this essential market.

This report examines the impact that growing car insurance costs are having on the people who come to us for help. It also provides a timely update on the ethnicity penalty to understand the impact this is having on affordability.

## Key Findings

- High prices are resulting in people having to cancel their insurance, or make cutbacks in other areas of essential spending.
- High prices are hitting some groups even harder. For example, white people in debt are paying almost 23% more for car insurance than the average premium reported by the Association of British Insurers (ABI), and people of colour in debt are paying 71% more.
- People of colour are paying an estimated £307 more for car insurance than white people.

## Recommendations

Prior to the election, Labour announced its intention to launch a review of car insurance pricing. We recommend that this review should be started at the earliest opportunity and be carried out by the Financial Conduct Authority (FCA). As part of the review, we recommend that the FCA should:

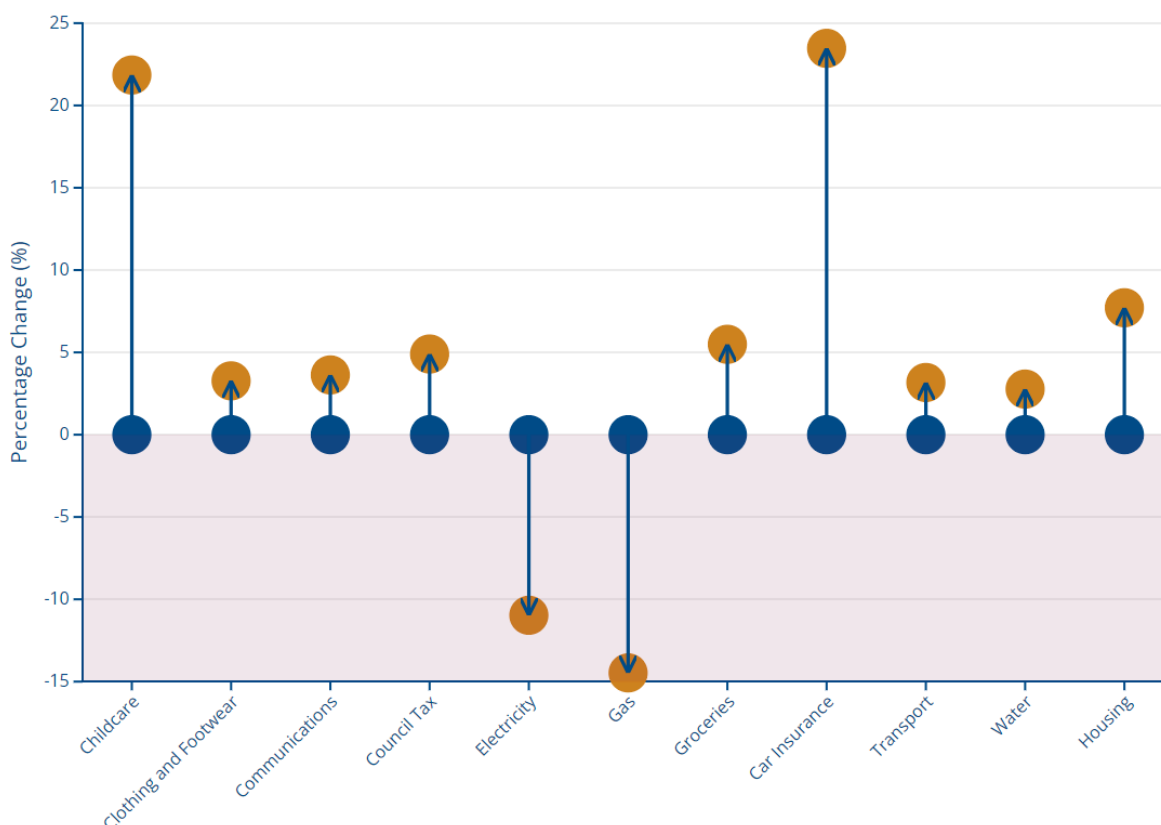
- Determine the causes of rising costs in the car insurance market. This should include a focus on why certain groups, including people of colour and those on low incomes, face substantially higher costs for car insurance. The FCA should also investigate how far higher prices have led to people being priced out of the market and the impact this has on consumers.
- Consider how far the use of certain risk factors, such as postcodes or credit scores, are driving differential outcomes for people of colour or those on low incomes. The FCA should establish whether insurers can reasonably justify the use of these factors and assess the impact of these factors on financial inclusion.
- Explore a broad range of options to address issues around affordability, financial inclusion and differential outcomes in the car insurance market. These options should not be limited to only measures which the FCA itself can implement and should include a discussion of whether mechanisms to address affordability, such as targeted bill support or cheaper products aimed at people on lower incomes, in other essential markets such as energy, water and telecoms could be applied to the insurance market.

# Car insurance in 2024

The last year has seen huge rises in the cost of car insurance. These increased costs come at a time when many people are struggling with growing costs across essential markets, including high food prices, and increased housing costs. But even against a backdrop of higher prices, the increase in the cost of car insurance stands out. Between June 2023 and June 2024, data from our clients shows that people are paying on average 23.5% more for car insurance, whilst other essential costs have risen at a slower rate.

Figure 1: Percentage change in the cost of essentials between June 2023 and June 2024, based on Citizens Advice budget planner data

## Essential Expenditure Tracker



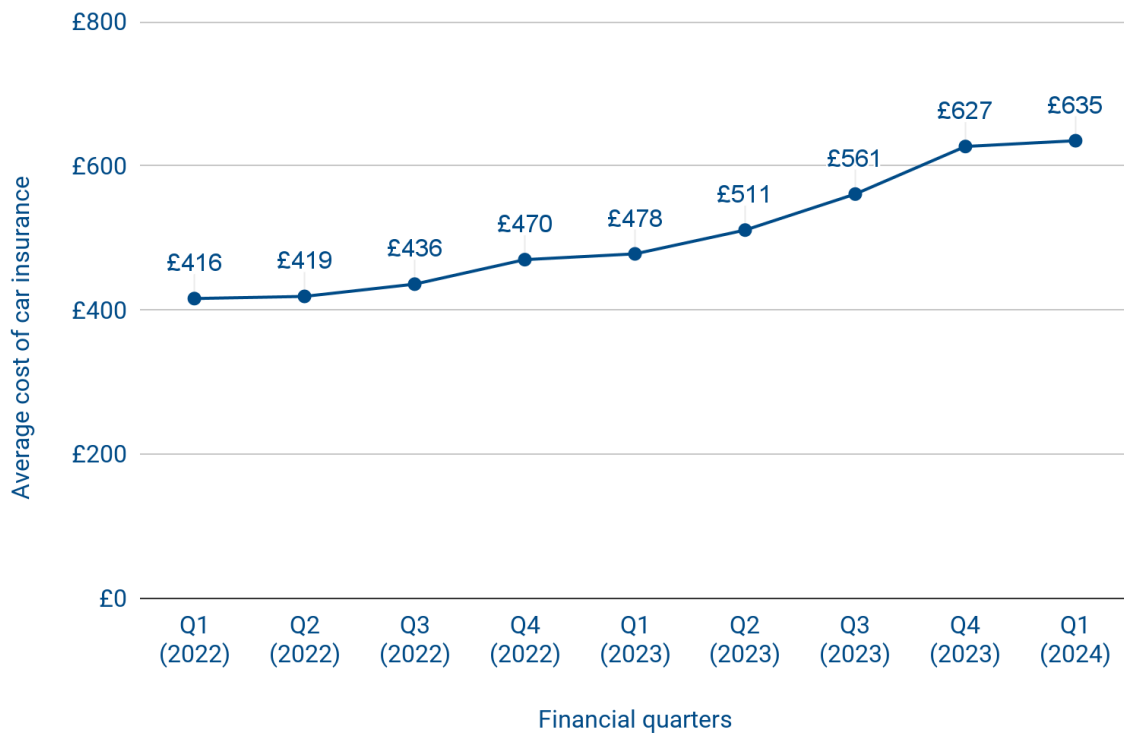
Source: Citizens Advice data

This upward trend is also evident in [data](#) from the Association of British Insurers (ABI), which shows that the average price for car insurance was up by one third in the first quarter of 2024, compared to the same time last year. In cash terms,

this means that the average person will have to find an additional £157 to retain their car insurance in 2024.

But with so many people struggling with rising household bills, this will leave people facing impossible choices.

Figure 2. The average cost of car insurance according to Association of British Insurers (ABI) data



Source: ABI Data, as published by [Which?](#)

High costs could mean that some people have to make the difficult decision to cancel their car insurance, and can also add strain to already stretched budgets. The next section will explore the ripple effects that stem from having to stop paying car insurance, but our advisers also regularly see people struggling with the cost of insurance who simply cannot cut back on this essential. For example, where their car is crucial to their work, to caring for family, or getting their children to school. Or where they rely on a car to help manage a health condition or disability.

In these cases, all too often we see people having to make difficult choices to cut back on their other essentials, including food and energy costs. And even where people do make cuts, high insurance costs are still pushing some people into the red, as Jane's story shows.

### **Jane's Story**

Jane\* lives on her own in a rural area in the North of England. She has a long term health condition and is currently unemployed. Her car insurance costs are high at over £130 each month - more than 10% of her overall income. This is dragging Jane into the red after her household bills are covered. But due to safety concerns, Jane is unable to give up her car.

Jane is a survivor of domestic violence. She worries about seeing her former partner, so avoids public transport. As a result she is having to rely on cutting back in other areas and help from family to cover the shortfall in her bills. This is not enough and consequently Jane is building up debts whilst trying to cover her costs.

# The impact of high car insurance costs

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As insurance costs have risen, our advisers have been seeing more people who have had to make difficult decisions to give up their car insurance and take their vehicles off the road.

We regularly ask a panel of our advisers about the issues they're seeing on the frontline to understand emerging issues. In 2022, just 5% said they had seen clients having to cancel their car insurance. But in 2023, more than 50% had seen clients with this issue. At that time we also found that 3% of people with car insurance had to stop spending on their car insurance entirely.<sup>1</sup> This amounts to just over 1 million people who had to cancel their premium. Since then, car insurance costs have only continued to spiral upwards, putting more people at risk of going without this essential.

As a legal requirement for driving in the UK, car insurance is essential for car access. If people can't afford their car insurance, this can have wide-reaching consequences. It can affect their ability to access employment or childcare, and make it harder to attend important medical appointments, or take part in everyday activities that are vital to social connection and inclusion.

The stories below show the real impact of unaffordable car insurance. We will be continuing to explore the impact of this issue over summer/autumn 2024.

## Impacts on daily tasks

As a frontline service, we see firsthand the impact that unaffordable car insurance has on people's lives. With car access so central to daily living for so many people, unaffordable insurance can touch every corner of life. It can make everyday things difficult - things like getting to the shops, looking after children, reaching friends or family, and travelling to healthcare appointments. The stories below are just a few examples of people we have helped with this issue in recent months.

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<sup>1</sup> Source: See point 3 in Methods.

### **Cassandra's story**

Cassandra\* has declared her car a SORN (Statutory Off Road Notification) because she can no longer afford to pay car insurance. Cassandra has arthritis, and is now relying on the bus to get around but this is difficult to manage when her arthritis is more acute. She lives alone, so being able to travel to meet friends and family acts as a lifeline to social connection.

### **Marvin's Story**

Marvin\* needs his car for mobility but had to cancel his car insurance policy as he could not keep up with the monthly payments. This left him in a situation where he was having to resort to taking out temporary cover when he needed to use his car, at a much higher rate.

Unaffordable car insurance can also result in wider harms for people reliant on car access to reach services. For example, without car access Jasper\* was worried about being able to go to ongoing job centre meetings.

### **Jasper's Story**

Jasper\* came to see us because he was struggling to afford his essential bills. He is unable to work due to a health issue, but is awaiting an assessment from the Department for Work & Pensions so does not yet receive any extra support.

He can't keep up with payments for his car insurance, but without a car he's worried he will not be able to get to job centre meetings putting him at risk of sanctions.





## Impacts on employment

Our advisers also regularly see people who are facing issues related to employment due to unaffordable car insurance payments. For example, Alex\* was unable to travel to her job when she could no longer afford the insurance for her car.

### Alex's Story

Alex\* is a single parent, living in the South West of England. Increasing car insurance costs meant she could not afford to keep her car running, which she previously relied on for getting to work. As a result she has had to give up her job. Alex is currently searching for a new job that she can access without a car, and is relying on Universal Credit until she finds a new role.

This also affects people who are seeking work, with fewer options available to them without their car. This risks trapping people in a cycle - unable to afford their car insurance without securing work, but unable to secure work because they can't afford their car insurance.

### Shula's Story

Shula\* is currently in receipt of Universal Credit and looking for work. Last year her car was damaged, and after this her insurance premiums doubled to £98 per month. Until now, she had just about managed to meet the cost with financial assistance through fuel vouchers and the Household Support Fund, but couldn't afford to make the payment when she came to see us for help. She had two job interviews lined up, but was worried if she had to cancel her insurance she would not be able to reach them, meaning she would lose out on job opportunities as a result.

# An unequal rise

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Rising car insurance is not impacting everyone equally. Certain groups face much higher insurance costs than others.

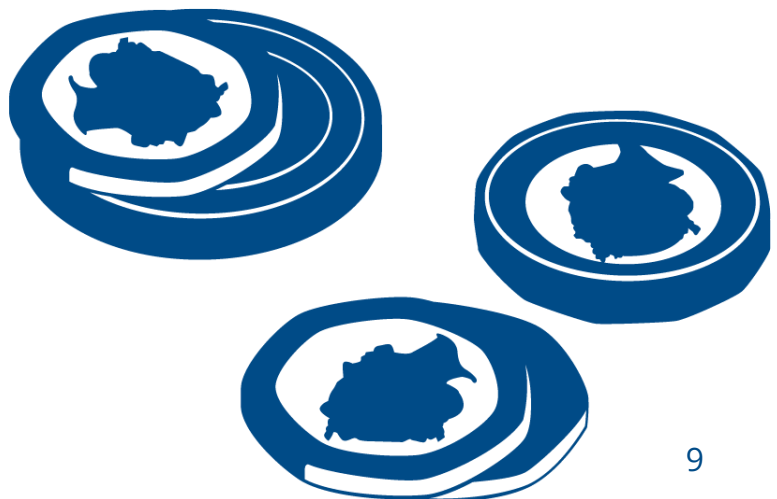
## People of colour face much higher costs for car insurance

[Two years ago](#), we identified an ethnicity penalty in car insurance that saw people of colour paying on average £250 per year more for car insurance than white people. Our detailed data, based on tens of thousands of real financial statements from people we help with debt, enables us to look at how much the people we help are actually paying for car insurance, providing a rich data set for analysis. This enables us to go beyond quotes to look at real outgoing costs. We looked at this data through both actual costs, alongside conducting a regression analysis to control for factors that may affect costs (like gender, age, disability, and income) to isolate the impact of ethnicity on costs. In both cases, we found that people of colour were paying more for car insurance than white people.

When we produced our first report we also complemented this with analysis from a [mystery shopping](#) exercise based on car insurance quotes. We looked at areas with similar profiles for risk (such as crime rates) but different demographic make-ups, and we found that costs were on average higher in areas where the population had a larger proportion of people of colour.

We shared our research with the Financial Conduct Authority (FCA) and the insurance industry, calling for urgent action to tackle the ethnicity penalty. We then [looked at the issue one year on](#) to see whether steps had been taken to address the issue, but found that the problem remained.

Now two years on from when we first raised the alarm about this issue, new data from July 2023 to June 2024 shows that people of colour are still paying much higher costs for car insurance.



Based on data from over 20,000 debt clients<sup>2</sup>, we estimate that:

- On average car insurance costs were £307 higher for people of colour.
- People of colour were paying 39% more for car insurance than white people, rising to 42% for Black people.

## Changes to the regulatory environment since our last report

Since our last report exploring the ethnicity penalty, the FCA's new Consumer Duty has come into force.

The Consumer Duty was introduced in July 2023 and promised to drive up standards in financial services by requiring firms to deliver good outcomes for consumers. This includes price and fair value. The FCA set out that assessing whether firms are delivering fair value will include "assessing differential outcomes [...] such as differential pricing". This brings discriminatory pricing into clear focus as something the FCA should consider when assessing whether firms are meeting the expectations of the Consumer Duty.

Whilst firms can charge customers different prices under the duty, the FCA has [said](#) that firms must ensure different customer groups are each receiving fair value and demonstrate that they have a framework for this. We've [previously set out](#) that the ethnicity penalty is a key test for understanding the effectiveness of the Consumer Duty in transforming customer outcomes.

Since we first raised the issue, the FCA have taken some steps, including writing to firms to ask about their practices. But one year into the Duty we have still to see any explanation of why people of colour are paying hundreds of pounds more for insurance. It is imperative that the FCA prioritises this issue and requires insurers to show their working on how they are achieving fair value in their pricing strategies.

This is important in the context of the Consumer Duty but also to ensure that firms are complying with expectations of the Equality Act 2010. Whilst insurers

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<sup>2</sup> This includes only those who provided car insurance data and ethnicity data, based on an initial sample of over 88,000 debt clients who completed a budget planner.

do not typically collect data on ethnicity, suggesting this is unlikely to be direct discrimination, this issue could be the result of indirect discrimination. This may be the case where a policy or law is applied in the same way for everybody but results in worse outcomes for a group of people with protected characteristics. Indirect discrimination is at play if the policy can't be proven to be "a proportionate means of achieving a legitimate aim". Our findings mean that the insurance industry has a responsibility to empirically demonstrate that their pricing policies constitute a "proportionate means" or they must take steps to mitigate these discriminatory outcomes. However, despite raising the alarm on this issue almost two years ago, we've yet to see compelling evidence. The ABI has in its recent [Financial Inclusion strategy](#) committed to looking into the challenges faced by people of colour and those on low incomes, but this simply cannot wait.

## **Those facing financial difficulty face higher costs**

In our research, we've also consistently found that average costs for car insurance are higher among our debt clients than the national averages reported by the ABI. Based on the period June 2023 to June 2024, we estimate that our debt clients were paying £972 per year for car insurance. This is 53% - or £337 - higher than the average cost for car insurance paid across the UK, as reported by the ABI.<sup>3</sup>

There are a range of factors that may influence these differences. For example, the people who come to us for help with debt issues, are likely to be facing financial difficulty. This may mean that they are more likely to spread out the cost of car insurance over time, by paying monthly rather than annually, but [paying monthly can increase costs](#) with interest added to payments. Those requiring help with debts may also face higher costs when paying monthly, as they may have lower credit scores which are used by industry to determine risk - and therefore costs - when calculating their monthly payments.

Disabled people are also highly represented among those who come to us for debt advice. For example, in 2023 we helped almost 370,000 people with a debt issue - of this number, 45% had a disability or long term health condition. Whilst

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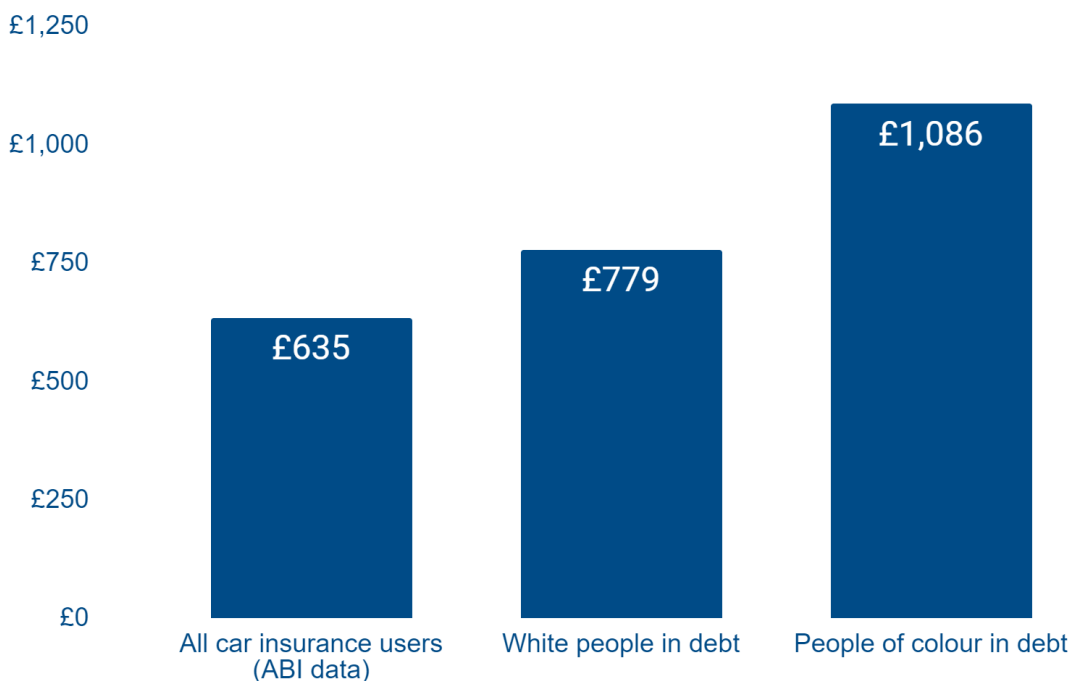
<sup>3</sup> ABI data shows that the average price paid for car insurance in the first quarter of 2024 was £635.

the Equality Act makes it illegal for car insurance providers to charge people higher premiums due to their disability, disabled people may end up paying disproportionately higher charges as providers [can charge higher costs for modified vehicles](#).

The higher costs we see among our debt clients may also be explained in part by the [poverty premium](#) - a term that refers to the extra costs people on low incomes and in poverty pay for products and services. Fair By Design have [previously found](#) that this is affected by postcode pricing, with people in less affluent areas paying up to almost £314 more a year for car insurance than those in more affluent areas.

Stratified analysis shows that costs are considerably higher for people of colour in debt, in contrast with white people. For example, based on data from July 2023 to June 2024, we estimate that white people in debt are paying on average £144 more per year for car insurance than the national average (as reported by the ABI). But the gap is even wider for people of colour in debt, who pay an estimated £451 more per year for car insurance than the average consumer.

*Figure 3: Average estimated annual car insurance premiums - looking at the impact of debt and the ethnicity penalty.*



Source: ABI & Citizens Advice

These differences are concerning, and risk those in challenging financial circumstances being excluded from the car insurance market. It is vital that the issues driving high costs are explored and steps are taken to prevent people of colour and people in debt from being priced out.

## Recommendations

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During the election campaign, the Labour Party committed to urging the FCA to launch investigations into the rising cost of car insurance, including a focus on whether postcode pricing is unfairly targeting ethnic minorities and those on lower incomes. Two years on from when we first sounded the alarm - and with new evidence showing that car insurance costs are still higher for people in debt and people of colour - it is vital that this happens promptly.

In this review, it is important that the FCA consider insurance costs in the round, as well as the disproportionate outcomes for people on low incomes and people of colour. In order to work out what steps need to be taken to address the problem of high - and often unaffordable - prices in this market, it is essential that the FCA brings clarity to what precisely is driving both the recent price rises and the fact that certain groups are consistently facing much higher prices.

We expect that as part of this work the FCA will identify that certain risk factors, such as postcodes or credit scores, play a role in driving these outcomes. The FCA must seek to establish that the use of these factors, and the outcomes they drive, are consistent with the Consumer Duty and the Equality Act. This should include an assessment of whether insurers can reasonably justify the use of these factors versus using other available data which may result in a reduced differential outcomes for people of colour or people on low incomes. The FCA should also explore the impact that postcode pricing and other risk factors, like credit scoring, may be having on financial inclusion.

Finally, it is essential that the review considers solutions to address the problem of people being unable to afford the rising costs of car insurance. This should include consideration of proposals that encourage greater financial inclusion, including the treatment of certain risk factors in pricing calculations and whether mechanisms present in other essential markets such as water, energy or telecoms aimed at addressing affordability could be applied to the insurance market. This could include, for example, exploring opportunities for targeted bill support. The FCA should not limit this discussion of possible approaches to only the options the regulator has power to implement, but should consider all available options in the round.

Whilst it is imperative for the regulator to act, car insurance providers also have a role in tackling unequal outcomes. They must ensure they are meeting their obligations under both the Equality Act and Consumer Duty by showing their working when different groups are paying different prices. The ABI has also [previously committed](#) to addressing punitive interest charges that see customers who need to pay monthly for their car insurance hit by much higher costs - it must address this urgently.



## Methods

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1. Citizens Advice data regarding the ethnicity penalty is based on detailed financial statement data provided by over 88,000 people who received debt advice. These individuals provide detailed financial information, including their monthly income and expenditure. Of these, over 20,495 people had provided both information on their car insurance payments and ethnicity. We use the term “estimate” when describing the ethnicity penalty, as this analysis is based on regression analysis which controls for gender, age, income, and disability. This difference is also borne out in data based on raw averages.
2. Real client stories are included throughout this report, based on detailed conversations people have had with advisers when they have come to Citizens Advice for help. All names have been changed to protect their anonymity.
3. Evidence on the number of people cancelling their car insurance comes from a representative survey of over 6,000 UK adults. Walnut Unlimited conducted an online poll of 6,000 adults in the UK conducted for Citizens Advice. Fieldwork was conducted between 9th January – 8th February 2023. The figures have been weighted and are representative of all UK adults (18+). When asked, ‘In the last 12 months, have you cut back or stopped spending on any of the following products or services as a result of rising costs?’, 3% of all respondents who had car insurance reported that they had stopped spending.

# Citizens Advice helps people find a way forward.

We provide free, confidential and independent advice to help people overcome their problems. We are a voice for our clients and consumers on the issues that matter to them.

We value diversity, champion equality, and challenge discrimination and harassment.

We're here for everyone.

**[citizensadvice.org.uk](https://citizensadvice.org.uk)**



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