How Labour could reduce the cost of motor insurance

By Emma Ann Hughes
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Analysis: Emma Ann Hughes examines efforts by the industry to push down motor insurance premiums and whether politicians could force providers to take more extreme action.

With a general election looming, politicians have been door-knocking up and down the country, hearing consumers complain about the cost of car insurance.

Motor insurance premiums were 25% more expensive on average across the whole of 2023 than in 2022, according to the Association of British Insurers.

That leap in price, as the cost-of-living saw the annual rate of inflation reach a 41-year high of 11.1% in October 2022, proved too much for voters already fed up with shrinkflation in their food shopping baskets plus soaring energy prices.

Voters made it clear to those wanting to win a seat in the House of Commons this year that they want to pay less to insure their car, which resulted in Shadow Transport Secretary **Louise Haigh promising a Labour government would ensure motorists don't pay over the odds.**

At last year's Labour Party Conference, Haigh promised if Labour are elected, she would order the Financial Conduct Authority and the Competition and Markets Authority to launch formal investigations into the soaring price of car insurance.

Pushing up premiums

Why Labour believes an investigation is required in unclear, given that the industry has been open about what pushed premiums up and caused the likes of **RSA to turn their back on providing personal lines motor insurance** last year.

Far from the motor insurance industry being one of fat cats lining their coffers, most providers in 2023 were playing catch-up on their failure to price appropriately for risk in 2022.

As the cost-of-living crisis corresponded with an uptick in crime, payouts for vehicle thefts rose 35% in the third quarter of 2023, according to the ABI's claims data, compared with the same period in 2022.

The Covid-19 pandemic plus Brexit causing some mechanics to retire or relocate plus a greater variety of vehicles requiring fresh knowledge resulted in longer repair times, which drove up the cost of providing replacement vehicles by 47% in the same period.

The ABI reports the **biggest single factor pushing up premiums** in 2023 was repair costs, which jumped 32% in the third quarter of 2023 to £1.6bn.

Research suggests electric vehicles were about 25% more expensive to repair than petrol equivalents and take 14% longer to fix, according to the ABI, resulting in motorists who opted for this mode of transport facing some of the biggest leaps in premiums.

The cost of replacing written-off vehicles also increased as the average costs of new cars up by 43% over a five-year period, the ABI noted.

Analysts at EY estimate in 2022 for every £1 motor insurers received in premiums, providers paid out £1.11 in claims and operating costs.

EY also forecast that in 2023, insurers will have paid out £1.14 in claims and operating costs for every £1 received in premiums, meaning premium prices in 2024 still need to cover the bill for this year's as well as past pay-outs.

Car types hit with highest premiums

Larger, faster, and more powerful cars tend to fetch much higher premiums, while smaller cars tend to be cheaper to insure.

According to research conducted by Go Compare in 2023, cars like the Tesla Model-Y, the Mercedes-Benz GLE, and the Land Rover Defender are currently among the most expensive vehicles to insure.

These cars are likely more expensive owing to the higher cost of maintenance and repairs, which in turn pushes up the cost of the claim for the insurer.

Some have also speculated these expensive and powerful cars are also at greater risk of being stolen.

So, which cars were the most affordable to insure?

According to Go Compare's data, the cheapest cars included the Toyota iQ, the Fiat Panda, and the Suzuki Alto — all small, reasonably priced vehicles that tend to have lower running and maintenance costs.

However, there are exceptions to this pattern, with speedy roadsters like the Mazda MX-5 and Porsche Boxster both appearing in the top ten cheapest cars.

> ***Source:*** *Go Compare, 2024*

ABI action plan

Given current opinion polls suggest Labour is likely to win the next general election, in a politically prudent move the ABI recognised politicians want reassurance the sector is doing all it can to ensure motor insurance is affordable.

In February, the trade body stated it will commission research into the feasibility and impact of various social policies focused on helping low-income households manage their insurance costs.

The **ABI also published a roadmap outlining 10 steps to tackle insurance costs for all drivers**, which included commitments from providers to make more data available for consumers to understand which vehicles are more expensive to insure.

Natalie Larnder, head of market affairs at Keoghs, says the steps outlined by the ABI recognise addressing soaring motor insurance premiums requires a multifaceted approach that combines regulatory reforms and proactive risk mitigation strategies.

She says the steps highlight how collaboration between industry stakeholders and targeted policies are necessary for the Labour Party to fulfil its pledge to deliver tangible relief to motorists burdened by escalating insurance costs.

Adam Clarke, chief underwriting officer at Ageas, says particular attention on tackling fraud and uninsured driving, improving the road infrastructure, and continuing whiplash reforms were key contributors for Labour to focus on in the ABI’s plan.

In addition, he observes the ABI clearly highlights how insurance premium tax at 12% adds an extra £67 to the cost of the average motor policy.

Clarke says: “By removing insurance premium tax any incoming government could significantly reduce the cost of insurance for policyholders."

ABI's plan to tackle motor insurance costs

1. **Help consumers make informed decisions.** The industry will do more on transparency around which vehicles cost more to insure. For example, increasing visibility of the Group Rating system.
2. **Combat vehicle theft.** The ABI is exploring a partnership with the police to aid in the recovery of stolen vehicles from ports.
3. **Tackle fraud and uninsured driving.** Continuing to crack down on fraud and uninsured driving.
4. **Improve road safety and road infrastructure.** Through campaigns, modern safety measures and road improvement.
5. **Support new and novice drivers.** The phased approach of graduated driving licenses has been proven to improve safety.
6. **Reduce the impact of the Personal Injury Discount Rate.** The rate for large, severe injury compensation needs a rethink, as these costs filter back to premiums.
7. **Continue whiplash reform.** Reform principles enacted for whiplash - which set reasonable compensation amounts and controlled the cost of injury claims - should be applied to similar injuries (bruised knees, sprained ankles etc).
8. **Advocate for safety-focused vehicle technology.** Making assisted safety features mandatory in new cars to improve road safety.
9. **Lower insurance premium tax.**
10. **Support the repair sector.** Work with government, vehicle manufacturers and independent mechanics to create a robust repair sector that can fix a broader array of vehicles.

***Source:** ABI, 2024*

Achieving efficiency

On the steps the sector could take to satisfy the Labour party, Emma Fuller, partner and head of market strategy for motor and casualty at law firm DAC Beachcroft, says many in the industry are already working hard to achieve greater operational efficiency.

She says: “The primary focus of most insurers is to reduce claims costs which will result in improved combined operating ratio, so that premiums fall.

“However, market factors, which are often outside the industry’s control such as the continued rise in vehicle repair costs, can mask the good work being done by insurers to tackle claims costs.”

Marco Distefano, managing director of Axa Retail, says his company has reviewed and made improvements to the supply chain by investing in technology and data that will allow greater efficiency.

These results are likely to pay dividends this year, as he says: “As we see inflationary pressure begin to lift, we do expect it to be followed by a reduction in the cost of cover.”

Ageas’s Clarke says his company is also investing in technology, data analytics and pricing capability to enhance price optimisation, stating this work will: “ensure we are capitalising on the opportunities to reduce claims costs, improve operational efficiencies and identify fraudulent activities to offer competitive premiums to our broker partners and their customers.”

While businesses keeping an eye on our own costs is imperative, Nick Kelsall, head of motor claims at Allianz Commercial, says it is important providers and the ABI continue to make it clear that cutting costs alone won’t reduce premiums.

Given that an increase in fraudulent claims is also pushing up premiums, he adds: "Fraudsters are becoming ever more advanced and we need to continually invest in new technology to stay ahead and protect our honest customers.

"It's not just professional fraudsters, according to the Insurance Fraud Enforcement Department's figures opportunistic fraud rose by 61% between March 2022 and April 2023, primarily in the personal lines space but also within commercial."

Given this threat from fraudsters, Kelsall says ongoing work with broker partners and customers is important and led to Allianz improving the first notification of loss process: "There is a lot we can do as an industry to address cost, but we can't do it alone."

Distefano agrees that while it is important for insurers to continually focus on operational efficiencies, engaging with customers to increase trust, improve loyalty plus understand their evolving needs is essential and he points to Axa's collaboration with road safety charity Brake as an example.

Teaming up with Brake, he says, helped the provider: "Gain deeper insights into public attitudes towards driving and road safety, which is one of the contributing factors that affect motor insurance affordability."

"Prioritising road safety is at the heart of our commitment to safeguarding lives and promoting a culture of responsible driving," he adds.

Slow progress

While insurers work towards greater operational efficiency today, and promote responsible driving, it is clear from speaking to providers they are also working to ensure they have enough flexibility to quickly change the value chain when motoring changes.

Manoj Pant, who provides the workflow automation and AI used by QBE and Motor Insurers' Bureau, says the next generation of drivers will want personalisation.

He adds: "There is an opportunity for insurers to use a hyper-personalisation approach to contextualise premiums and provide further transparency on how the premium is being calculated.

"Hyper-personalisation can help tailor policies and premiums, which are currently segment-based, to the specific needs and characteristics of individual policyholders using advanced data analytics and artificial intelligence technology.

"This allows insurers to analyse vast amounts of data about individuals, including their demographics, lifestyle, behaviour, and risk factors.

"By understanding each policyholder's unique circumstances, insurers can offer premiums tailored to individual needs, eliminating unnecessary coverage, and thereby reducing overall premiums."

In addition to hyper-personalisation, Pant says insurers also have the chance to seize another opportunity that hasn't been widely explored yet, which is pay-as-you-go insurance.

Despite its current lack of popularity, Pant argues this type of insurance could gain traction in the coming year, particularly with the increase of remote work and a decrease in drivers and commuters.

He adds: "Technology exists that can track the frequency of people's driving habits to provide more accurate premiums and provide insight and feedback on driving behaviour to reduce accidents."

Looming on the horizon is connected mobility and a society willing to share data so long as it can see the value in doing so, observes Will McAllister, senior vice president and managing director of EMEA at Guidewire.

In a decade's time, he reckons most vehicles on the road will be connected in a way that was simply unimaginable in the early days of telematics, offering providers the opportunity to price based on risk in real-time.

"We've come a long way from a dongle that just said when you go faster, you go slower and when you brake hard. Now, with the type of connectivity you've got sensors, dash cams, and cameras all around the vehicle.

“We have so much more rich data that you can then start to do underwriting in real-time, based on real data about the driver, vehicle, and road conditions.

Going even further, once repair networks are interconnected with insurers, McAllister says that will then become part of the claims journey with providers able to quickly move a car to a garage that can repair the vehicle most efficiently and effectively.

The bump in the road to get to that connected economy is the fact providers today face macroeconomic headwinds.

However, McAllister says providers are positioning their digital transformation to ensure as much operational efficiency as possible can be achieved today along with flexibility to change the system if driving habits, vehicles, etc, transform in the years ahead.

He adds: “Risk will only continue to evolve the technology. You’ve got to build that flexibility and agility into your technology stack because the one thing I think we can guarantee moving forward is change.”

Tom Lawrie-Fussey, senior director of product management for insurance at LexisNexis Risk Solutions, agrees that while tackling claims costs, operational efficiency, and fraudsters gives insurers a “fighting chance” of reducing premiums today, “there are still some big hurdles to overcome” if you want to ensure the vast volumes of customer data insurance providers typically manage today is joined up and can be used to price appropriately for a driver’s unique risk in the coming years.

Today, he says the same individual may appear multiple times across different databases within an insurance group, without the dots being joined up.

“This may lead to inaccurate pricing at renewal, the risk of fraud, wasted marketing budgets and increased operational costs, as well as lost cross-sell and upsell opportunities.

As we see inflationary pressure begin to lift, we do expect it to be followed by a reduction in the cost of cover.

Marco Distefano, managing director of Axa Retail

“This highlights the importance of gaining a comprehensive real-time view of the customer at each stage of the journey but most importantly at the point of quote. By linking and matching disparate customer data within the business, insurance providers can create a single customer view.

“This can help determine that the right product is being offered for the risk presented, and at the right price. It can provide a sound basis for all future interactions with that individual and for effective data enrichment to understand a great deal more about their risk and needs.”

Lawrie-Fussey adds connecting information about driving behaviour with granular real-time data about a vehicle has the power to reduce loss costs for motor insurance providers and in turn, lower premiums, for those who act sensibly on roads.

He says: “Knowing to what extent the safety technology on a car cuts accident risk is crucial and is becoming more critical as car technology evolves.

“Already, eight in 10 new cars have some form of driver assistance and our data shows that cars with advanced driver assistance systems are 30% less likely to have a claim.

“The more intelligence insurance providers can access on the specific vehicles they are insuring, the more accurate the premium and the more likely they are to be able to deliver a swift claims experience.”

Price appropriately

Damian Baxter, chief executive at Machine Learning Programs, says given the direction of traffic suggests the UK is heading towards being a connected economy, with motorists willing to share information if they see the benefit in doing so, the industry should be stating it isn't looking to reduce premiums so much as price policies appropriately for risk.

He adds: "When we analyse insurance books, we frequently see groups of people MLP believe present a higher risk but are priced too low which has a negative effect on loss ratio.

"Conversely, we also see low risk groups priced too high which normally means 'good' customers are priced out of insurance which also negatively effects loss ratio."

Opinions are divided as to whether the industry will quickly get to a place where low risk motorists will be rewarded with cheaper premiums than drivers who bomb down pot-holed roads like they are rally tracks.

What is clear, is that if the sector is to move towards rewarding responsible motorists with reduced premiums, then MLP's Baxter says there needs to be an openness with the flow of information: "Most consumers who buy insurance don't fully understand the complexities of how it works and why the price of premiums fluctuates. When we consider what is the right premium someone should be paying, it is not necessarily the lowest.

"Some individuals should be paying more, and some should be paying less. It's about ensuring cover is at the right level to offer the best protection based on an individual's requirements.

What's unhelpful, Baxter observes, is making a general statement telling consumers that "people are paying too much for their insurance".

He says: "There are significantly more external pressures driving these increases beyond the insurance industry trying to make money. Not least the impact of decisions made by government."

Motor insurance pay-outs in 2023

- In total insurers paid out £9.9 bn in motor insurance claims – theft, repairs, replacement vehicles and personal injury.
- The cost of vehicle repairs at £6.1bn, jumped by 31% from the £4.7bn paid in 2022.
- Payouts for vehicle theft (of and from a vehicle), and the average theft claim were both at record levels. The £669m paid out rose by 23% on the £543m paid in 2022.
- The cost of providing temporary replacement vehicles, at £597m, leapt 35% on the £444m paid in 2022.
- Insurers paid out £2.4bn in personal injury claims, down 8% on the previous year's figure of £2.6bn.

***Source:** ABI, 2024*

Labour's next steps

While insurer's attempts to achieve operational efficiency and efforts to make the most of the data vehicles and drivers share continues, what will need to be swift in the next 12 months is Labour follow-through on their promise if they win the general election.

Andrew Wild, head of legal practice at First4InjuryClaims, reckons establishing an independent not-for-profit body, with clear governance and reporting including publishing information on average settlement times, cost per claim figures, fraud, and causes of claims, would be a way for Labour to show it is taking the matter seriously.

Many experts though reckon the first and easiest step that Labour could take to push down motor insurance premiums would be to reduce insurance premium tax, which stands at 12%.

DAC Beachcroft's Fuller adds continued whiplash reform is another way a Labour government could help push down premiums, and any work to support the repair sector as the increasing cost of fixing cars is one of the main reasons for the continued premium rises would be welcomed.

"Ensuring better availability of parts and investing in training and apprenticeships to ensure a highly skilled repair labour force is more readily available will directly impact claim costs," she observes.

Given the price of replacing vehicles, Alex Johns, Altelium partnership lead, says Labour could play an important role in ensuring drivers can buy and insure a reliable second-hand electric vehicle.

He say: "The second-hand market is where 80% of people source their cars. In 2023, used EV sales grew by 90.9% to 118,973, but this was just 1.6% of all used car sales. Sales of used EVs may be in excess of 700,000 by 2030, over 9% of all used car sales."

For these used EVs, Johns says a battery health certificate will be vital proof that the vehicle is worth buying as: "who otherwise will trust what the vehicle's true range is, or that the battery will last?"

Natalie Larnder, head of market affairs at Keoghs, says a substantial portion of motor insurance claims comprises of damages for injuries falling outside the fixed tariff framework for whiplash injuries, a measure which was originally introduced to reduce the cost of motor insurance premiums, but which has seen an increase in non-tariff damages as a result.
The Labour Party could implement measures to address this surge in non-whiplash claims, such as extending the existing Tariff to include these types of claims, Larnder notes.

She says: "Escalating legal costs associated with motor insurance claims significantly contribute to rising premiums.

"By increasing the limit of the Small Claims Track, the Labour Party can prevent more claims escaping the Small Claims Track threshold, in turn alleviating further pressure on the ever-increasing court backlogs, as well as reducing legal costs.

“By investing further in technology and the extension of existing digital platforms to facilitate online dispute resolution, enhance accessibility and efficiency in the handling of claims, this would further reduce costs and speed up the settlement of claims, which could further drive down premiums.”

When it comes to UK infrastructure, Larnder says preventative measures aimed at reducing accidents and mitigating risk would also have a profound impact on lowering motor insurance premiums: “Implementing comprehensive road safety campaigns targeting driver behaviour, vehicle maintenance and road infrastructure improvements could also decrease insurance claims and associated costs.”

Ultimately, tackling potholes, is likely to be something that put a smile on every road users face.

The AA estimate that pothole damage to vehicle tyres, wheels, steering, and suspension cost £474m in 2023.

As Ageas’s Clarke observes, the current Conservative government has committed £8.3bn pothole funding for England but a quick win for Labour could be achieved by accelerating the delivery of this funding and ensuring all local authority road maintenance budgets should be ringfenced “to ensure that the maintenance of local roads is not the victim of other budgetary pressures”.

Smooth roads, rather than bumpy rides, are bound to make voters who moaned about their motor insurance premiums feel that things have truly got better under a Labour government.