

PREMIUM DRIVERS REPORT

DECEMBER 2017

Your quarterly motor insurance 'savings index'



comparethemarket™

Introduction

The rise in car insurance premiums over the past five years has been well reported. **comparethemarket.com**'s Premium Drivers index has tracked a steady and continued increase in premiums since its records begin in 2012, demonstrating the mounting financial pressures that drivers have been facing when getting, or staying, on the road.

There is no single factor that explains this prolonged rise in insurance costs for UK motorists. However, multiple increases in Insurance Premium Tax (IPT), announced by successive chancellors, has been one of the primary drivers behind the rises. The cost of the tax, which is levied as a percentage of the insurance premium, is often passed on by insurers directly to the customer. In March 2015, IPT stood at 6% and has since then doubled to its current level of 12%, with the most recent hike being announced by Philip Hammond.

Other Government policy changes have added to the cost of motor insurance. In February 2017, the Ministry of Justice announced a radical change to the personal injury discount rate, also known as the 'Ogden' rate – the way in which compensation is calculated – forcing insurers to hike premiums to

cover increased pay outs. When the changes were implemented in March, premiums increased by over £20 in two months.

However, following a consultation in September 2017, the Government announced that the way in which compensation is calculated would change, rising hopes that a favorable adjustment for insurers would be passed on to drivers in the form of cheaper premiums. However, the news wasn't enough to move the dial, and in that month, premiums actually rose by £12.

The Ogden rate reforms are still going through the legislative process and a new rate is yet to be set. The future costs of personal injury claims are not yet certain and many of these complex claims take years to finalise, so insurers are having to be cautious and plan for

higher costs in the future. In October, premiums remained flat at an average cost of £753, but eventually rose in November to £767, indicating that the proposed change has done little to reduce premiums for motorists so far.

The average spread between the cheapest and average premiums reach its highest level this past quarter, standing at £128.90. This widening gulf does present drivers with an opportunity to save money at a time when the cost of getting on the road becomes increasingly expensive. The increase in the difference means that those who take the time to shop around for the best deal could secure real savings on their car insurance – potentially having a very positive impact on household budgets.

The ‘Savings Variable’

The Premium Drivers index reveals the monthly percentage difference – or the “savings variable” – between the cheapest and average quotes across all age groups.

This is tracked throughout the year and compared quarter on quarter. The

“savings variable” tells us about current and historic prices, it also provides insight into the motor insurance sector.

It highlights cyclical trends and allows comparethemarket.com to make statistics-driven predictions on the future direction of the motor insurance market.

If the difference between the cheapest and the average price is narrowing, it suggests competition may be improving; if the price disparities are widening, then it suggests competition may be weakening.

Key Statistics

Savings variable dropped from 17.27% to 17.01%

Gap between average and cheapest premiums narrows marginally

Gulf suggests competition among motor insurers is stalling

The latest Premium Drivers research from **comparethemarket.com** has found that the savings variable – the percentage difference between the cheapest and the average policy on the market – fell for the fourth consecutive quarter, decreasing from 17.27% in Q3 to 17.01% in Q4. This follows a significant drop in the variable for the first half of the year, where the savings variable dropped from 17.62% in Q1 to 17.35% in Q2.

The decrease in the savings variable marks a relatively stable year and bucks the trend compared to 2016, which

saw the savings variable increase every quarter throughout the year. However, the stability shouldn't be overlooked. Now standing at 17.01%, the savings variable is significantly higher than when records began in 2012 when the variable stood at 15.63%. The drastic increases in the difference between the cheapest and average premiums indicates just how much drivers can save at a time when getting on the road is becoming increasingly expensive.

Since Q4 2012, the savings variable has broadly been on an upward trajectory

averaging 15.93% in 2013, 16.40% in 2014, followed by a slight drop in 2015 of 16.08%. This then significantly rose to 16.97% in 2016 and 17.23% in 2017, after prices shot up in response to IPT hikes.

Despite moderate improvements, it's clear that the saving variable remains high, and people with policies up for renewal in the coming months could be stuck with higher bills if they do not take the time to find a better deal.

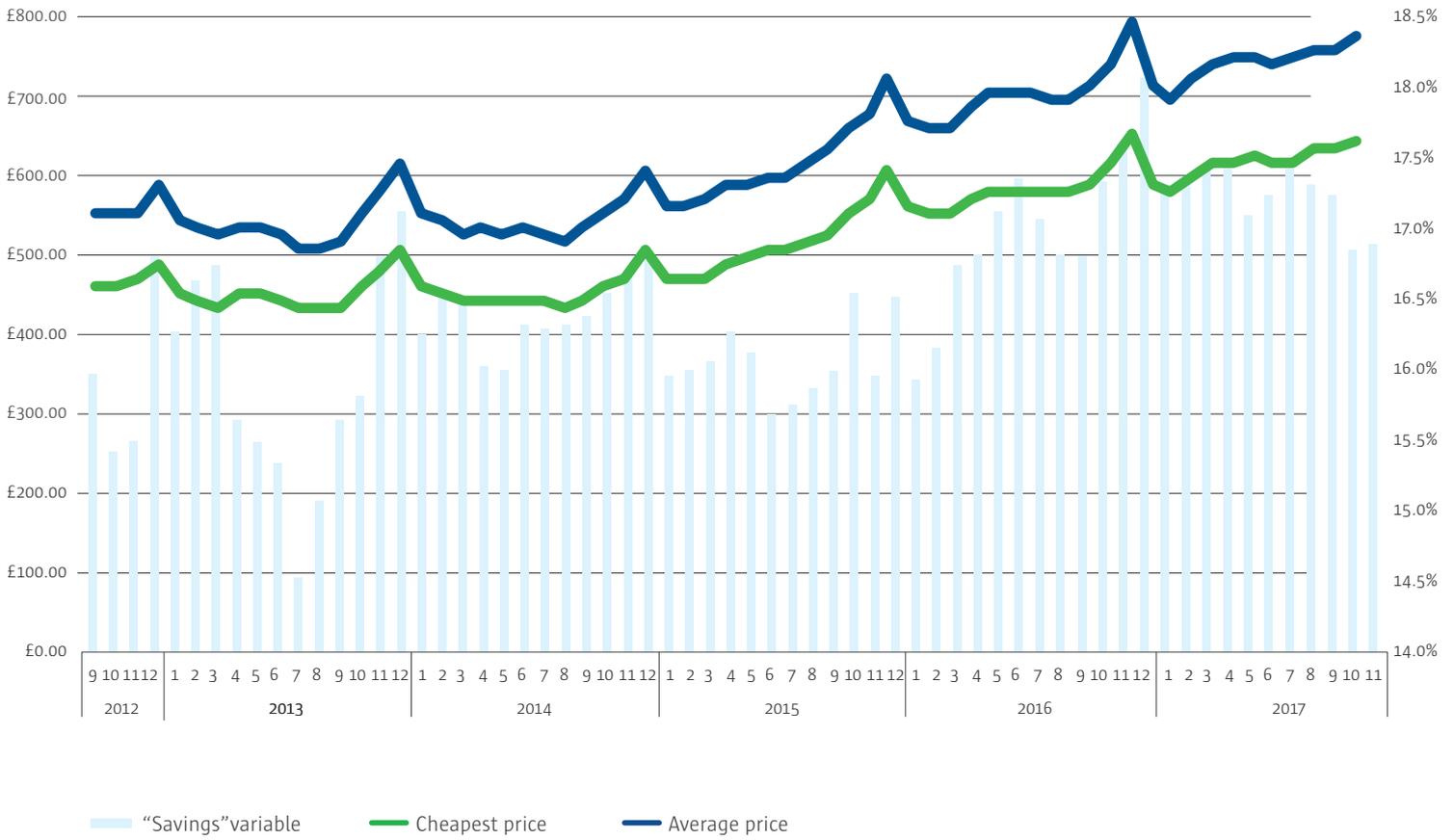
“ Despite the saving variables holding steady in 2017, the difference between the average and cheapest premium still remains at record levels. 2017 has seen the largest gulf between the cheapest and average premiums emerge, which ultimately means that drivers who auto-renew their car insurance policy will likely face significantly higher bills. With this gap still set to remain significant, it is more important than ever to shop around for the best deal on car insurance to ensure that they are not paying over the odds for cover. ”

Simon McCulloch, Director at
comparethemarket.com

Savings variable across all age groups year on year August 2016 – August 2017:

	Month	Savings variable
2016	November	17.63%
	December	18.21%
2017	January	17.31%
	February	17.34%
	March	17.45%
	April	17.47%
	May	17.14%
	June	17.20%
	July	17.37%
	August	17.25%
	September	17.20%
	October	16.85%
	November	16.97%

Premium Drivers: Savings Variable



What's the cost?

Key Statistics

Average premiums have increased by almost 6% in Q4 2017 compared to the same period in 2016

Prices have risen by almost £200 in the past five years

Changes to Ogden calculations yet to impact motor insurance premiums

The average motor insurance premium in Q4 2017 stood at £758; a £43 year on year increase and an £18 increase on the previous quarter. The cheapest premiums available also increased significantly over the past year; standing at £629 compared to £591 in the same quarter in 2016. The year on year increase of 6.39% in the cheapest premiums compares to a 6.07% increase in the average premiums, which explains the savings variable decreases over the period.

The gap between average and cheapest premiums now stands at £129 – the highest recorded level since records began in 2012.

The continued growth of car insurance costs, which have accelerated in the past three years, demonstrates the impact that the changes to Insurance Premium Tax have had on motor premiums. Since the

first hike was announced in March 2015, average premiums have risen by £185, which had a significant impact on some drivers ability to get on the road. The cost of insurance is particularly high for young drivers, who face an average insurance cost of £1,081 – an unaffordable price for many young drivers and households.

The changes to the 'Ogden', or Personal Injury Discount Rate, announced earlier this year has equally impacted the cost of insurance for motorists. In February 2017, the then Lord Chancellor, Liz Truss MP, announced that the rate would be moved from 2.5% to -0.75%, which meant insurers needed to increase their pay outs, forcing up premiums. After the changes were implemented in late March, premiums rose by over £20 in April and continued to rise steadily thereafter. By September, average motor insurance prices had risen by £36.

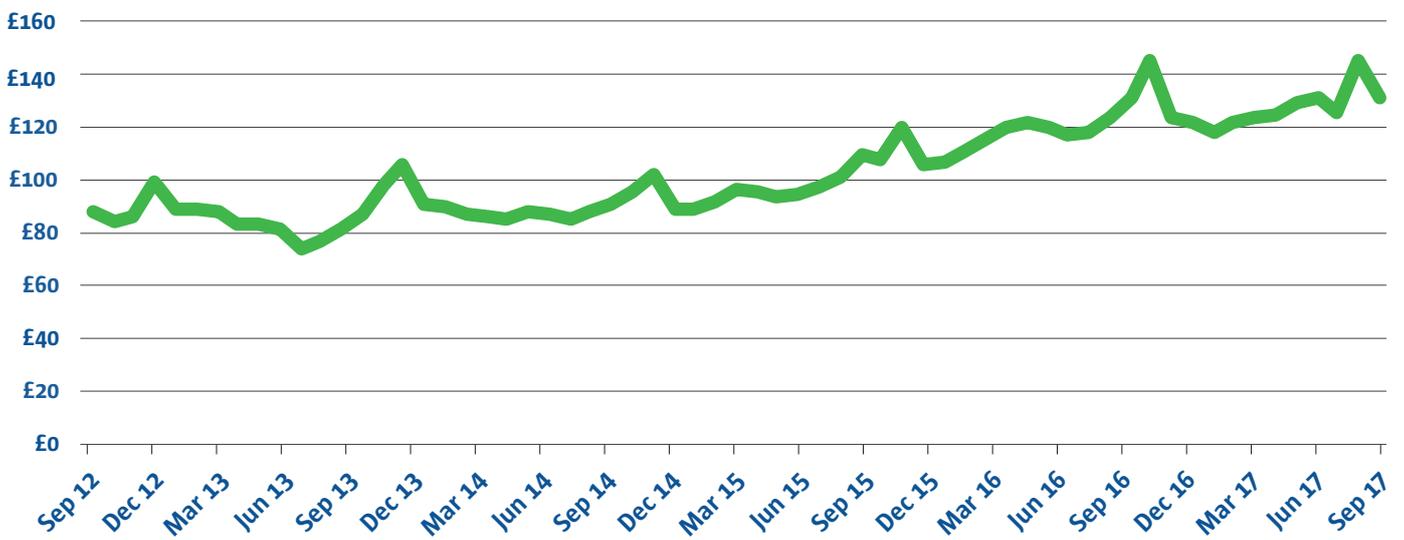
After much criticism from the insurance industry and some sections of the media, in September the Government announced a consultation which is likely to result in a change to the way in which major pay outs are calculated. Despite assuming this development would lead to a fall in costs relating to payouts after an accident – and therefore a fall in premiums – there was no immediate impact, with average prices remaining static in October at £753.

However since then, insurers appear to have hiked prices slightly, with the average premium in November standing at £767. As the new Ogden rate still needs to be finalised, the future of motor insurance premiums remain uncertain.

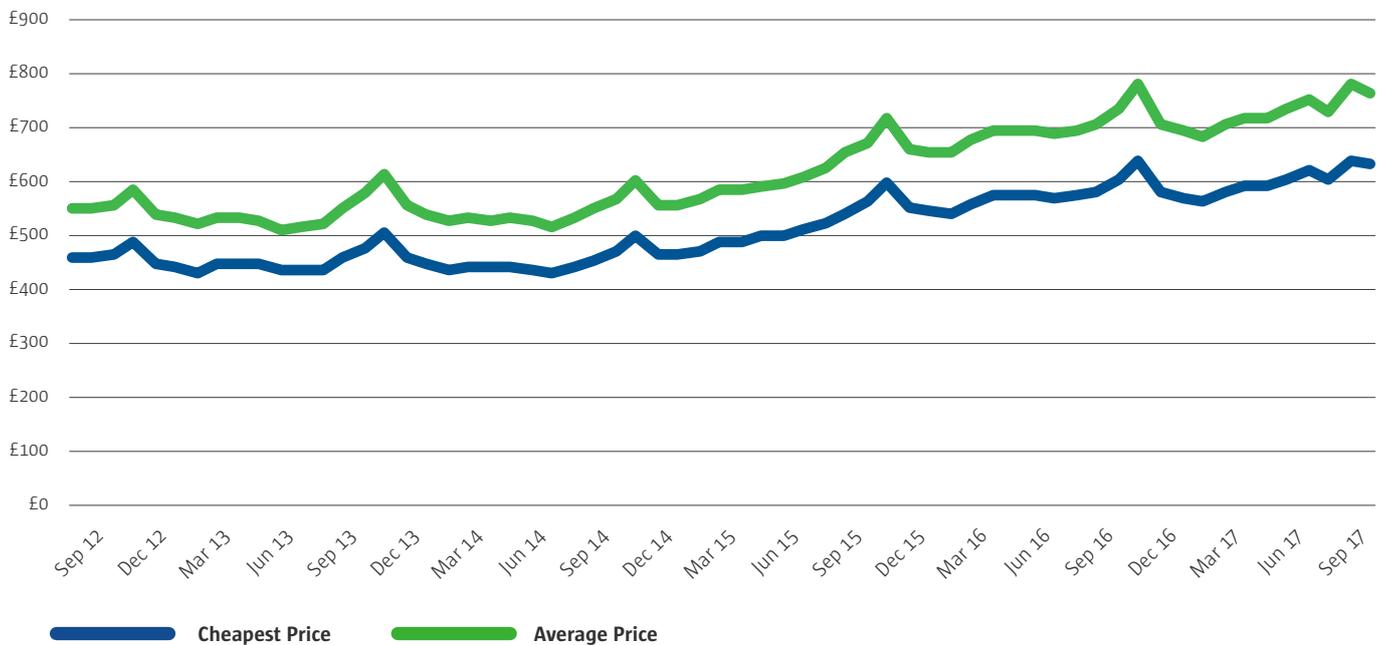
“ The saga of the Ogden rate change in February, followed by a consultation and subsequent amendment to the way in which it's calculated, has resulted in a volatile year for insurance premiums. After insurers successfully lobbied for a review, most expected premiums to fall and stay lower, however there is still some uncertainty and it is likely to still be a lower discount than what was previously applied. The real impact of the Ogden changes will be easier to analyse later in 2018 but for now, drivers are still having to face record level motor cover costs. ”

Simon McCulloch, Director at
comparethemarket.com

Average Price Difference Per Quarter



Cost Difference Between The Cheapest And Average Premiums



Methodology

All data, other than that referenced in the footnotes, is sourced from **comparethemarket.com**.

When the “average price” is referred to, this is the mean average of the top five cheapest prices presented to a customer, where a consumer has clicked through

to buy. Buying from the top five cheapest prices presented represents 90% of all car insurance sales. When the “cheapest price” is referred to, this is the average cheapest price presented, where a customer has clicked through to buy.

Premium Drivers calculates the cost of premiums where the customer has clicked through to buy the policy. If the average premium cost was instead calculated on the basis of all prices returned then the average cost would be significantly higher.