

# PREMIUM DRIVERS REPORT

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JUNE 2018

Your quarterly motor insurance 'savings index'



**comparethemarket™**

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# Introduction

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Since we started regularly reporting the cost of car insurance in 2012, we have seen a major shift in the market. Premiums have soared, government policy has changed and the type of cars – and way we use them – has fundamentally altered.

Over that period, we have seen an increase in the use and discussion of hybrid and electric cars. Governments of advanced economies have tried to get ahead of the curve by introducing a time frame to phase out new diesel and petrol vehicles. Initiatives in parliament such as the 'Automated and Electric Vehicles Bill' have made steps to radically update Britain's infrastructure to a point where it can handle this electric, and one day autonomous, revolution. However, little thought is now being given to the status quo and its current pressures things we are leaving behind.

As part of this edition of Premium Drivers, we take a deep dive into the cost of insuring diesel cars, including the continuing disparity between the cost of insurance between men and women following the EU Gender Directive, and the high premiums young people face.

As ever, this report also takes an in-depth look at the current state of the car insurance premium market. For years, we have seen premiums continuing on an upward trajectory, causing many to question whether drivers are being priced off the road as the cost of

insurance becomes prohibitive for some age and income groups. In September 2012, the average premium for car insurance stood at £559. Nearly six years later, in May 2018, Premium Drivers finds an average premium standing at £766 – a 37% increase.

Between 2012 and 2014, premiums held reasonably still apart from the usual season fluctuations which sees premiums spike in December before falling back down in January.

However, since then, government action has radically impacted the cost of insurance. First came the increases to insurance premium tax (IPT), which doubled in a two year period from 6% to 12%, which forced insurers to hike their prices to cover the increased tax costs. When the first change to IPT was announced at the Summer Budget in July 2015, the average insurance policy stood at £601. Three years later, the average cost of car insurance has increased by £165.

In February 2017, the Ministry of Justice then announced the result of a review of the Personal Injury Discount

Rate (or Ogden Rate) which is used to calculate insurance pay outs for significant injuries. The changes implied significant extra costs for the insurers and, in return, costs have been passed on to customers. Compare The Market estimated at the time that the changes to the Ogden Rate would add another £60 on to people's premiums across the country, while the IPT hike added around £66 to the cost of cover. These predictions have been realized.

Premium Drivers also takes a close look at the difference between the average and the cheapest premiums on the market. As of May 2018, the average cheapest premium available to consumers stands at £644. This is an increase of £148 compared to September 2012, when data was first collected.

It also means that there is greater opportunity to save a significant amount of money for those that take the time to shop around and ultimately switch provider. The average difference between the cheapest and average premium over the past three months stands at £117.

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# The ‘Savings Variable’

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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 **Compare the Market** 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.

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## Key Statistics

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**Quarterly savings variable remains subdued at 16.7%**

**Difference between cheapest and average premiums stands at 15.92% in May bringing it below 16% for the first time since 2015**

**Narrowing gap suggests competition among motor insurers may be improving**

Premium Drivers research has found that the savings variable in Q2 (March 2018 – May 2018) fell to 16.7%, the smallest difference between cheapest and average premiums in three years. This also is the second consecutive quarter of reductions in the percentage difference between the cheapest and the average policy on the market, down from 16.74% in Q1 2018 and from 17.01% in Q4 2017.

The savings variable was broadly flat for most of 2017, after a significant rise in 2016. In 2017, the average savings

variable was 17.23% compared to 16.97% in 2016. Since the end of 2017 however, the gap between cheapest and average premiums has steadily fallen month on month dropping from 17.25% in December 2017 to its current level of 15.92% in May 2018.

The savings variable decline is a continuation of the recent decline after a number of years of growth and having stood at its highest level since Compare the Market’s records began at 17.62% in the first quarter of 2017. This

fall is potentially good news for drivers as a narrowing gap suggests a higher level of competition amongst providers and therefore possibly lower prices for motorists.

However, despite some downward pressure on prices, motorists are now still facing far higher motor insurance premiums when they come to renew their policies than they were a few years ago, especially if they fail to shop around.

“ The difference between the cheapest and average motor insurance policies available has continued to narrow in 2018. There was some expectation that the difference may increase again, as the first few months of the year are often subject to significant seasonal change. However, the continued reduction in the savings variable could herald good news for drivers, as it potentially suggests that competition in the car insurance market is increasing, which in turn could lead to lower prices as insurers try to undercut each other to attract and retain customers. Despite these changes, the gap is still significant, meaning that motorists who auto-renew policies will very likely be paying over the odds for their cover ”

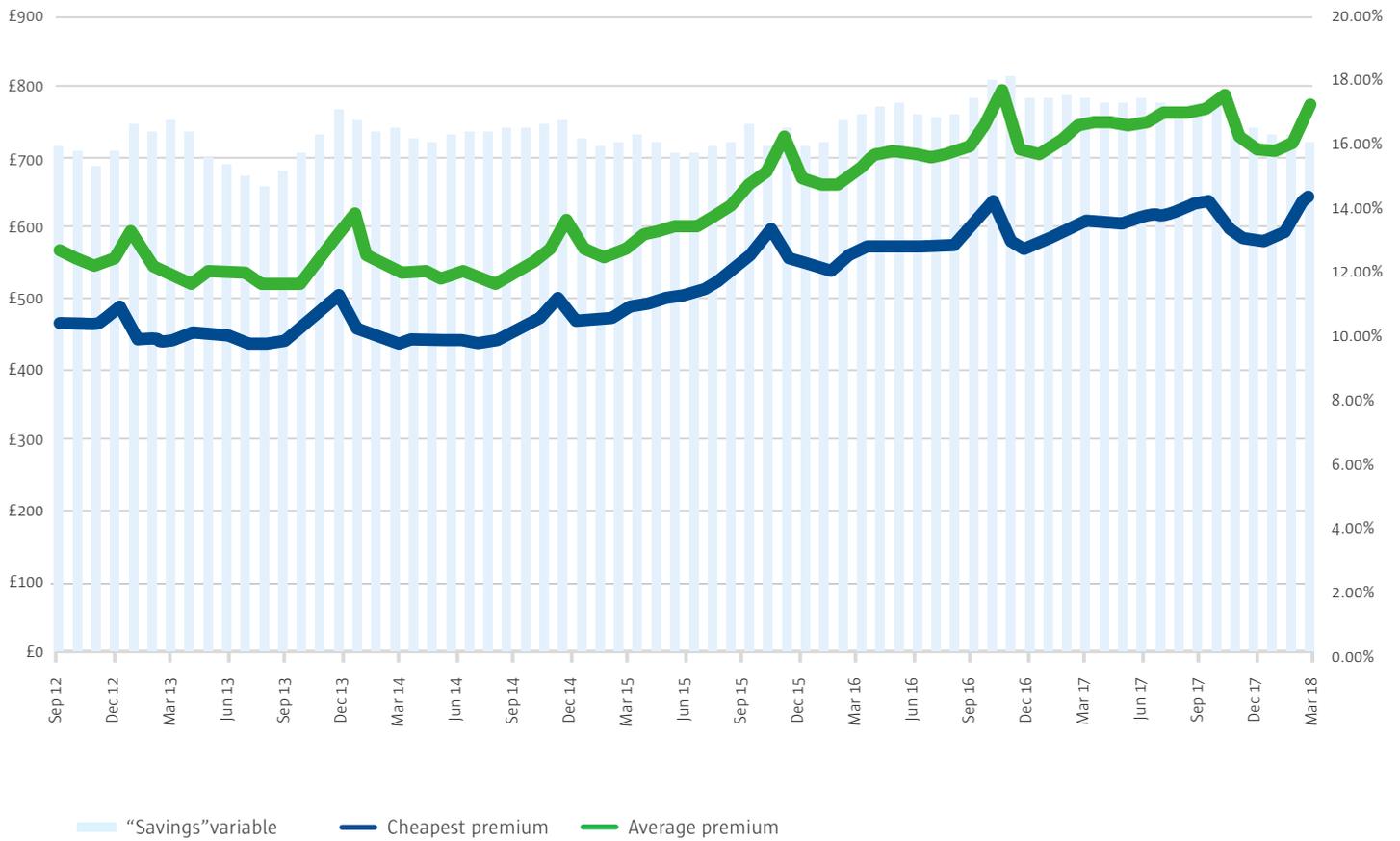
Dan Hutson, Head of Motor, Compare the Market

## Savings variable across all age groups year on year June 2017 – May 2018:

	Month	Savings variable
2017	June	<b>17.20%</b>
	July	<b>17.37%</b>
	August	<b>17.25%</b>
	September	<b>17.20%</b>
	October	<b>16.85%</b>
	November	<b>16.97%</b>
	December	<b>17.25%</b>
2018	January	<b>16.64%</b>
	February	<b>16.33%</b>
	March	<b>16.20%</b>
	April	<b>16.40%</b>
	May	<b>15.92%</b>

<sup>1</sup> Premium Drivers records begin in September 2012

## Premium Drivers: Savings Variable



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# What's the cost?

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## Key Statistics

**Quarterly average motor premium has hit £727, a fall of £7 compared to the previous quarter**

**Average premiums experienced a significant spike in May 2018 to £766 following a subdued March and April**

**Quarterly cost difference between cheapest and average premiums also slightly reduced by £3 to £117**

**Average premiums have risen £200 since records began in September 2012 where they stood at £559**

Insurance premiums have seen a slight drop during the second quarter of 2018, as prices have failed to immediately rebound as they usually do following the seasonal reduction at the start of 2018. The average cost of motor insurance in the second quarter of this year – blended across all age groups – was £727, representing a three-year increase of over £140. The average motor premium was £731 for the same period a year ago, £679 in 2016 and £586 in 2015.

The cost of insurance remained fairly subdued for the first two months of the second quarter with premiums standing at £701 in March and £714 in April. However, average premiums then spiked

by £52 in May, to reach the current level of £766. The rise was a return to more normal levels for this time of year.

The cost of the cheapest premiums available on the market has also fallen, if marginally, across the quarter from £611 in Q1 to £609 in Q2. The cheapest premium in May was £644, compared to £597 in April and £587 in March. The significant jump in the last month of the quarter is similarly a return to more normal levels following the seasonal reduction at the start of the year.

Average motor insurance premiums have fallen slightly more steeply than the cheapest premiums this quarter, down

£7 vs. £3 respectively. The difference between the cheapest and average premiums available on the market fell marginally over the quarter to £117, compared to £120 in the previous quarter.

For younger drivers, the cost of automatically renewing motor insurance policies is even greater. The average quarterly premium for drivers aged 17 – 24 is now £1,367. Savvy drivers, however, can somewhat offset this high cost by shopping around; 17 to 24-year olds can save an average of £260 by comparing providers – the highest saving of any age group.

“ The past quarter has been a tale of two premiums. The cost of insurance for motorists stayed unusually low for March and April following the usual seasonal drop at the start of the year. However, May saw a marked change with premiums jumping by over £50 in a return to the levels that are generally expected at this time of year. More broadly, the trend line for insurance premiums has remained to be upward facing following a torrid two years for drivers facing regular hikes on the back of government policy changes ”

Dan Hutson, Head of Motor, Compare the Market

## Average Price Difference Per Quarter



## Cost Difference Between The Cheapest And Average Premiums



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# Diesel Cars

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## Key Statistics

**The average diesel car policy for a man was 23% higher than that for a woman**

**Narrowing gap between insurance costs for diesel and petrol cars**

**Young drivers of diesel cars pay £220 more on average on insurance than their petrol car counterparts but can save nearly £300 by switching**

**Diesel drivers do not believe in the Government's plans to eradicate petrol and diesel cars by 2040**

Male motorists driving diesel-fueled cars are paying significantly more for their car insurance than women according to new data from Compare The Market.

According to Premium Drivers data, between April and June 2018, the average cheapest car insurance policy for a man was almost 23% higher than that for a woman, at £758 compared to £616. In December 2012, the EU Gender Directive explicitly banned companies from using gender as a factor when pricing policies. However, insurers tend to use a range of factors to price insurance premiums which ultimately results in prices for men being significantly higher than women, due to the differing risk profiles.

The average cheapest premium across all age groups for diesel drivers is £606.91, versus £609 for all cars in the quarter. Traditionally, diesel cars have been more expensive to insure than their petrol counterparts. This cost difference – with diesel, historically, on average, being at around 10-15% more expensive than petrol to insurance – is largely attributed to the extra cost of repairs and replacement in the event of theft. This

gap appears to be closing, rendering petrol and diesel cars very similar in cost to insure.

However, whilst the gap between diesel and petrol is generally closing across the board, variances in insurance costs for diesel cars versus petrol begin to appear across different age groups, particularly when it comes to young drivers. The cheapest premium for young diesel drivers (aged 17-24 years old) averaged over the last quarter was £1,161.68 versus £994.74 for the same age group of petrol drivers – a difference of £166.94. The gap widens when it comes to the average premium – over the same quarter premiums were £1,458.84 for diesel versus £1,238.40 for petrol – a difference of £220.44.

The gap is much smaller for all other age groups. Those diesel car drivers aged 25 years or more paid just £55.64 more for the cheapest insurance option than their petrol car driving counterparts. This grew to £64.03 for the average premium.

In a survey of 2000 drivers, commissioned by Compare the Market, nearly half of respondents (48%) said they were

less inclined to purchase a diesel car due to the Vehicle Excise Duty, which is impacting purchasers of diesel cars registered after 1 April 2018 that do not meet the real driving emissions standard. A further 42% were concerned about the current value of their diesel vehicle. This concern is starting to be felt with the latest Society of Motor Manufacturers and Traders (SMMT) data showing that diesel car sales fell by 28.2% last month.

However, nearly a third (29%) did not think that the taxes on diesel cars would deter drivers from buying diesel cars in the future and 52% of diesel drivers felt that the Government's plans to eradicate petrol and diesel cars by 2040 were too difficult to implement.

Encouragingly, people did recognise that change was coming, and nearly two thirds (63%) feel that the public will adapt to the changing market, in order to lessen the country's reliance on damaging fossil fuels.

“ This data shows how little difference the EU Gender Directive has had on insurance premiums, with providers still giving reduced premiums to women. The directive removed the ability of providers to give default discounts to women, however the statistics and risk models used by insurers means that the result largely remains the same.

It is somewhat perverse that young drivers are paying so much more for driving diesel vehicles than petrol. Given the high price many young drivers already have to pay for their insurance, having to pay a premium on top of the premium just for driving a diesel car feels like a bit of a kick in the teeth. Based on our findings, it is hard to conclude anything other than people should consider and do the relevant research on their next vehicle purchase very carefully, factoring in the higher cost of diesel cars into their thinking. Given the increased public negativity around diesel engines, it is clear that these vehicles are not in the government’s long-term vision of the future of driving. ”

Dan Hutson, Head of Motor, **Compare the Market**

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## Methodology

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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.