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The Cost of Insurance in Northern Ireland

1 Introduction

This briefing paper was requested by the Committee for Finance and Personnel. It was written following a report by the Consumer Council for Northern Ireland (CCNI) into the high cost of insurance in Northern Ireland (NI) relative to the cost in Great Britain (GB).

The paper will provide a discussion on research into insurance costs in NI and GB and consideration of state sponsored insurance schemes.

2 Key Points

- A study conducted by CCNI was completed in 2009 and examined the insurance market following consumers and local politicians raising concerns that NI residents pay more for insurance then GB residents;
- CCNI found that on average consumers from NI were quoted premiums of **£282 more** or **84% higher** for car insurance than comparable consumers in the UK regions;

- Young, rural drivers in NI pay significantly higher premiums than their GB counterparts;
- A comparison of households found that NI households are likely to pay between £68 and £695 more for car, contents and buildings insurance;
- Consumers in NI pay 39% more for insurance, in particular consumers who live in low income and rural areas;
- A study found that many insurance companies use a rating scale which meant that people living in certain postal areas within NI were likely to pay higher premiums;
- Legal costs are, on average, about 85% of the size of the injury compensation payment, for claims between £1,000 and £25,000;
- For all forms of motor insurance the main determinate of the premium is the experience of the driver. Age and gender also have a significant impact;
- There are no state sponsored insurance schemes operating in Ireland; and
- Two examples of state sponsored car insurance schemes that have been successful in providing low cost insurance to people for whom it was previously difficult to afford are Manitoba Public Insurance in Canada and the California Low Cost Automobile Programme.

3 Background

Insurance is a complicated financial area, covering a broad spectrum of areas within a single market. Insurance itself is based around risk with insurance companies receiving premiums against various risks. Some of these premiums, such as those for insuring property, are only held for relatively short periods of time, having, apart from the profit made, to be paid out against claims[1].

Within Northern Ireland there have been increasing calls for an investigation to the cost of insurance for NI residents, with claims that premiums in the region are higher than within similar areas in GB. A research report carried out by the Consumer Council for Northern Ireland (CCNI) closely examined this issue and is discussed below.

4 Research into the Cost of Insurance in NI

4.1 Quote…Unquote: The Cost of Car Insurance in Northern Ireland

The study conducted by the CCNI was completed in 2009 and examined the insurance market following consumers and local politicians raising concerns that NI residents pay more for insurance then GB residents[2].

The review examined:

[1] Harvey, J and Jowsey, E, 2008 Modern Economics 8th Edition, Palgrave
[2] Consumer Council for Northern Ireland March 2009 Quote…Unquote – The Cost of Insurance in Northern Ireland

- Car insurance;
- Contents insurance;
- Buildings insurance;
- Life insurance;
- Health insurance;
- Income protection insurance;
- Travel insurance;
- Dental insurance; and
- Pet insurance.

In order to test the cost of insurance in NI, the CCNI developed a series of scenarios of typical customers based on social deprivation indicators and identified similar rural and urban postcode areas in NI and GB.

More than 6,000 quotations were gathered for a variety of insurance products. The main source for the data was price comparison websites with the data being complemented and confirmed through telephone based sampling.

The CCNI identified equivalent postcode areas in NI and GB although the report does state that it was extremely difficult to identify two postcodes that were exactly equivalent. However, controls used by the Financial Inclusion Centre and the high volume of data gathered, allowed for meaningful conclusions to be drawn.

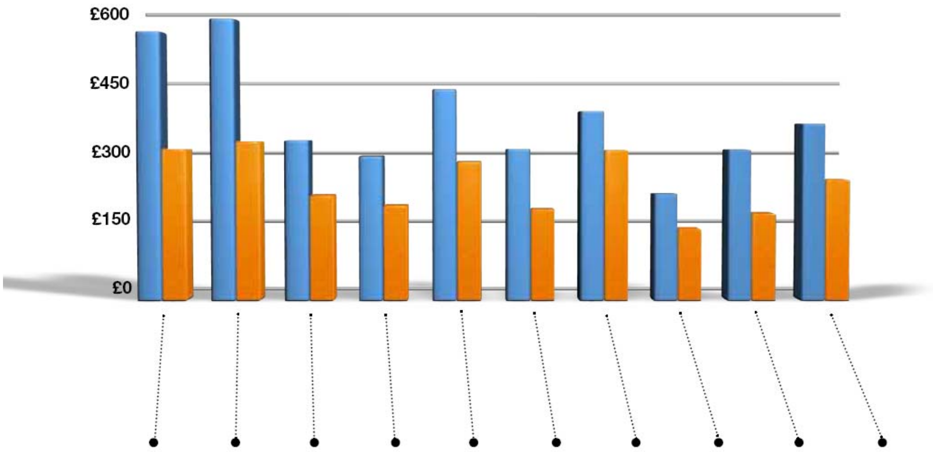
The reports main findings will now be discussed. Please note, the most significant differences in costs were found within car insurance quotations and as such this will be discussed in more detail.

Car Insurance:

CCNI found that on average consumers from NI were quoted premiums of **£282 more** or **84% higher** than comparable consumers in the UK regions.

The figures provided below display some of the costs associated with the scenarios designed by CCNI.

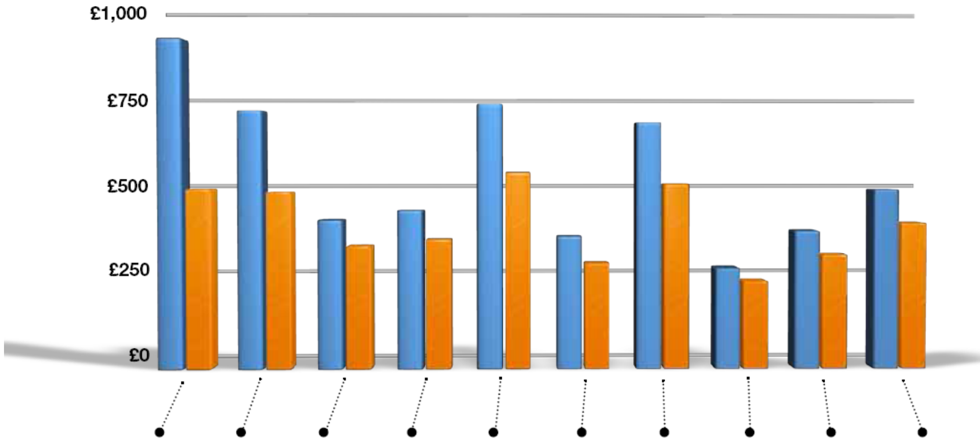
Figure 1: Car Insurance – Affluent, Urban Area, Middle Aged Driver



	Belfast	Derry	Scotland	North East	North West	Wales	Midlands	East Anglia	South West	South East
Median	£553	£578	£329	£296	£434	£311	£390	£218	£310	£363
Cheapest	£311	£326	£214	£194	£284	£186	£309	£146	£177	£248
Number of providers	13	13	48	51	51	51	51	50	49	50

As can be seen above NI residents in this category pay significantly higher than their GB equivalents.

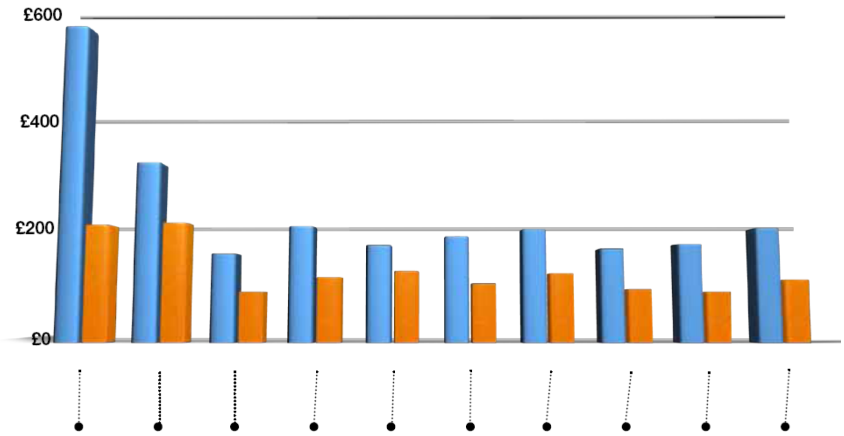
Figure 2: Car insurance – low income, urban area, middle aged, unemployed driver



	Belfast	Derry	Scotland	North East	North West	Wales	Midlands	East Anglia	South West	South East
Median	£908	£712	£410	£437	£731	£365	£680	£277	£380	£495
Cheapest	£496	£488	£339	£356	£542	£290	£510	£241	£313	£402
Number of providers	11	10	35	34	33	35	31	36	35	28

In this scenario the cost of car insurance in NI shows a large price differential with a number of the GB regions. For example, there is a difference of £543 between the NI and Welsh medians. It must be noted, however, that at the cheapest price the differences presented are much smaller, although the amount involved could still be considered significant (again using the example of Wales and NI there is a difference of £206). The North West region exceeds the median cost for Derry in this scenario.

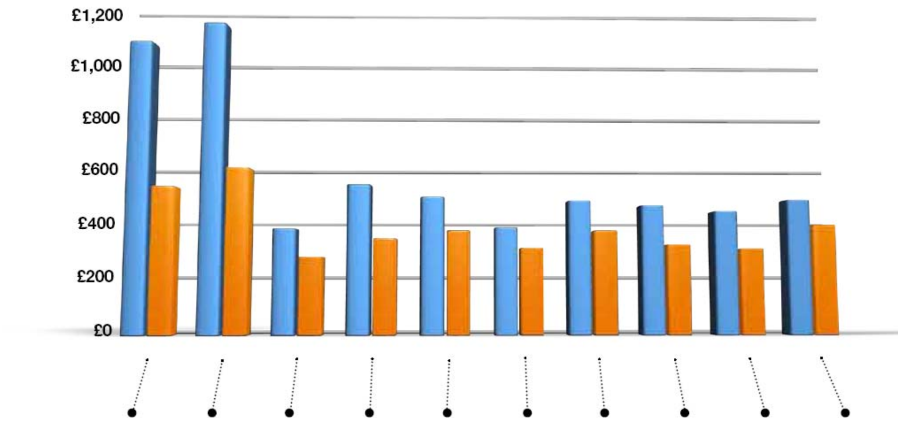
Figure 3: Car Insurance – affluent, rural area, older driver



	Fermanagh	Newry and Mourne	Scotland	North East	North West	Wales	Midlands	East Anglia	South West	South East
Median	£547	£307	£150	£197	£164	£180	£192	£158	£166	£194
Cheapest	£200	£203	£86	£111	£121	£99	£117	£89	£86	£107
Number of providers	14	13	50	51	50	51	51	50	50	43

The cost of car insurance in rural areas is the focus of this scenario, with again the NI median higher then that of the other UK regions. Fermanagh shows the largest median difference although Newry and Mourne cost the most for the cheapest quotations (however, this is only by £3). It must be noted that the growth from cheapest to median is very high for the NI regions. For Fermanagh the difference is £347 whilst the highest difference in GB is in the South East with only £87 separating the cheapest and median cost.

Figure 4: Car Insurance – low income, rural area, young driver



	Fermanagh	Newry and Mourne	Scotland	North East	North West	Wales	Midlands	East Anglia	South West	South East
Median	£1,044	£1,111	£373	£529	£486	£377	£474	£458	£437	£478
Cheapest	£522	£590	£275	£340	£367	£306	£367	£319	£305	£388
Number of providers	10	10	36	36	36	29	36	36	36	34

Young, rural drivers in NI pay significantly higher premiums than their GB counterparts. For example, the Newry and Mourne the median cost of car insurance for this scenario was £1,111 and for the nearest GB (the North East) equivalent it was £529, a difference of £582. The lowest median cost was in Scotland for £373, a difference of £738 with Newry and Mourne

The cheapest cost in NI was £522 in Fermanagh and £275 in Scotland, large cost differential of £247.

The CCNI also examined the cost of third party insurance due to its legal requirement and found that on average consumers in NI are quoted premiums of £158 more (43% higher). In most of the scenarios presented NI consumers are quoted £50 more, with the most notable differences in rural areas.

Contents Insurance: Consumers in rural areas are more likely to pay an average £20 more a year for contents insurance. Consumers living in urban areas of NI were mostly quoted lower premiums than their counterpart in equivalent urban areas of GB. NI rural consumers were all quoted higher premiums then the GB equivalent.

Buildings Insurance: Consumers in low income areas of NI are more likely to pay £20 more for building insurance then their GB counterparts. Consumers in affluent areas in NI are likely to pay £24 less.

Household Comparison: A comparison of households found that NI households are likely to pay between £68 and £695 more for car, contents and buildings insurance. This differential is in large part a result of the high cost of car insurance in NI.

Other Insurance Products: CCNI found that residency in NI does not affect how much they will pay for life, health, income protection, travel, dental and pet insurance.

CCNI Findings:

In its final findings the review stated that:

- Consumers in NI pay 39% more for insurance, in particular consumers who live in low income and rural areas;
- Consumers in NI have less choice of insurance provider, with three times fewer companies offering car insurance in NI; and
- Consumers in NI are more likely not to be insured, in particular low income consumers who may be financially excluded.

The CCNI identified a number of potential reasons for the higher cost of insurance in NI:

1. NI is a comparatively small market and the low level of uptake of insurance means that insurers have fewer opportunities to benefit from economies of scale;
2. Lack of consumer choice for insurance providers, particularly for car insurance. The CCNI states:

   It seems likely from the restricted choice available to consumers is limiting competition pressures and resulting in higher prices than there would be if there were more products available.

3. The cost of the legal process could be higher then elsewhere in the UK;
4. Compensation levels in NI could be higher than elsewhere;
5. There could be proportionally more claims made by consumers in NI; and
6. There could be a higher level of fraudulent claims.

It should be noted that the ABI responded to the CCNI report stating that there is no fundamental bias against the NI property and motor insurance markets. The ABI claim that premiums in NI are affected by the high costs of the legal system such as property damage only motor claims having to be dealt within the County Court system and small claims capped at £2,000. These higher costs are subsequently reflected in the cost of premiums.

4.2 Automobile Association (AA) Quarterly Insurance Premium Index

Each quarter the AA produces a review of insurance premiums to monitor trends within the industry. In October 2009 it was reported that insurance premiums had begun to rise with younger drivers being most effected.

The index also states that a potential reason for the price rise is a need for the insurance industry to return to profitability, with Simon Douglas, Director of AA insurance stating that:

> *Car insurers are facing fast rising costs, reserves for paying claims are depleted and investment income has fallen, largely because of the recession. I estimate that across the industry, up to £110 is being paid in claims for every £100 taken in premiums – a situation that is clearly unsustainable. Despite motor insurance being one of the most competitive markets in the UK, insurers have little choice but to put premiums up.*

The index identified five factors which caused increases in Car Insurance premiums[3]:

- Personnel injury claims and associated legal costs are rising, topping £6.6 billion in 2008 of which 40% was legal costs (£2.64 billion);
- Fraud costs the industry £1.9 billion, equivalent to £44 for every household's insurance costs. AA Insurance has seen a 30% rise in claims refused because of false information;
- Around 1 in 20 drivers is uninsured. Police success in prosecuting uninsured drivers and confiscating their cars (around 185,000 in 2008) doesn't seem to be discouraging people from risking driving without cover to save money, despite the likelihood of being caught;
- Car thefts are rising, especially expensive models, by first stealing the keys with 15% more claims over the past year; and
- Insurance underwriting losses, about £110 paid for every £100 taken in premium coupled with depleted reserves and poor investment rewards.

The cost of home insurance and contents insurance also rose with reasons cited being an expected increase in home burglaries as a result of the recession and the need for investment in flood defences and improved drainage systems following flooding events across the UK.

4.3 Driving Range: The cost of car insurance for young drivers in Northern Ireland

A 2003 study by CCNI[4] examined the high costs of car insurance for young people. It identified a number of criteria which influence how much individuals pay for car insurance:

- **Accidents:** Premiums tend to reflect the fact that relative to the total number of drivers on the road, young male drivers are responsible for more road traffic accidents than any other age group, with people generally perceived to be safer

[3] The Automobile Association October 2009 AA Quarterly Insurance Premium Index http://www.theaa.com/motoring_advice/news/aa-british-insurance-premium-index-oct09.pdf (first accessed 02/06/2010)

[4] General Consumer Council, 2003 Driving Range: The cost of Car Insurance for Young Drivers in Northern Ireland

drivers as they reach middle age. As a result, younger drivers pay a higher level of premium;

- **Location:** At the time of writing the study it was found that many insurance companies use a rating scale which meant that people living in certain postal areas were likely to pay higher premiums. The CCNI study received quotes for the same driver but gave two different post codes. For BT17, the driver was quoted £5,499 and for BT20, £2,736;
- **Certain age groups:** The majority of companies follow a policy which rewards older drivers and penalises younger drivers;
- **Certain occupations:** Most companies either totally exclude a variety of occupations or charge higher premiums if the job is to be considered high risk such as professional sports people, bookmakers and taxi drivers;
- **Car type:** Insurance companies group cars depending on the original cost, top speed and price of spare parts/repairs. The higher the car group rating, the higher the premium;
- **Car use:** There are different classes of insurance depending on what a car is used for with the premium varying accordingly. Depending on the class a vehicle falls into insurance costs can vary by up to 60%; and
- **Convictions:** Drivers with serious convictions can expect to pay higher premiums, with many companies refusing to take on a new customer with a previous conviction for drink driving.

The study made a number of recommendations to alleviate the problems faced by young people in receiving car insurance:

- All insurance companies offering car insurance should provide a “basic starter insurance package” for fully qualified first time drivers;
- More and better incentives should be provided for younger drivers to encourage and reward safer driving;
- A further incentive might be an accelerated “cash” bonus or “money-back” scheme for young drivers after a period of no claims to offset the initial high premiums;
- To encourage young drivers who have passed their test to improve their driving skills and awareness the “pass plus scheme” should be extended to Northern Ireland;
- Insurance companies should provide details of their young driver schemes and incentives in a consistent and standard format to allow easy comparisons between companies including the cost and level of cover on offer;
- This information should be made more readily accessible for young people;
- Current advertising guidelines and standards, which cover the promotion and marketing of cars to young people should be reviewed; and
- As most young people will be drivers one day ’safe driving’ should be a part of formal education.

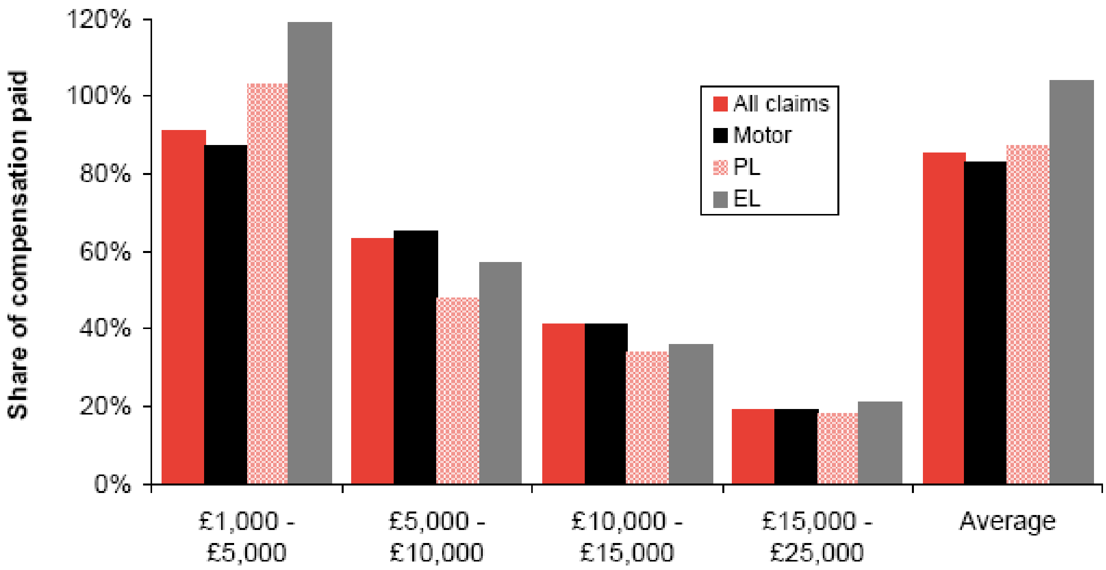
4.4 Outcomes for legally represented and unrepresented claimants in personal injury compensation

Frontier Economics was commissioned by the ABI to provide an independent evaluation of the outcome for consumers when legally and not legally represented in personal injury claims.

The study found that on average, the size of legal costs is more than half the size of the compensation. Depending on the definition of compensation the relative size of legal cost varies[5].

Limiting the comparison to personal injury compensation (i.e. removing bent metal and property damage compensation) results in legal costs that are, on average, about 85% of the size of the injury compensation payment, for claims between £1,000 and £25,000.

Figure 5: Claimant's legal costs as % share of personal injury compensation



This is significant when taking into consideration the argument that a large portion of premium costs are a result of the high cost of legal representation during the claim process. Table 1 below highlights that for a claim of between £1,000 to £5,000, as much as 87% can be legal costs and that this amount reduces as the claim figure rises.

Table 1: Claimants legal costs as share of personal injury compensation

	All claims	Motor	Public liability	Employer's liability
£1,000 - £5,000	91%	87%	103%	119%
£5,000 - £10,000	63%	65%	48%	57%
£10,000 - £15,000	41%	41%	34%	36%
£15,000 - £25,000	19%	19%	18%	21%
Average	85%	83%	87%	104%

Note: the £15,000 to £25,000 band contains very few observations because it requires personal injury compensation to have exceeded £15,000.

However, it must be noted that the Frontier Economics report examines a very narrow area within a complicated industry and fails to take into account a number of important factors such as severity of underlying injury, type of claim, legal representation and the demographics of the claimant. As this is a highly complicated area, care should therefore be taken in drawing conclusions from the results.

4.5 Retail Insurance Market Study

The European Union commissioned Europe Economics to conduct a study into the retail insurance market across the EU27[6]. The study, completed in 2009, examined three main markets within the EU insurance industry:

- 3rd party liability motor insurance;
- Comprehensive motor insurance; and
- Home/household insurance.

The study used data collected from national insurance supervisors (the ABI in the UK) regarding premiums, market structure, profitability and cross-border trade. It also used data gathered through a mystery shopper exercise, which will be discussed later on.

Europe has the largest motor insurance market in the world with almost 300 million vehicles on the road and total insurance premiums for the EU27 of €119 billion in 2008. Despite the large number of member nations, the insurance market in Europe is dominated by the UK, France, Germany, Italy and Spain which account for just under 75% of all motor insurance premiums. The cost for motor insurance in the EU increased between 1999 and 2003 but has subsequently declined in real terms.

The Europe Economics identifies a high number of insurance companies in the UK. In motor insurance it has just under 160 insurance firms in comparison to France, the next highest nation which has 81. Please note, the CCNI study identified 51 car insurance providers.

There are over 300 property insurers in the UK and just under 150 in the Netherlands, the next highest[7] number in the EU27.

Insurance is sold within the UK through a variety of outlets, including:

- Direct: 44%;
- Intermediaries: 8%;
- Brokers: 35%
- Other (bancassurance, post office, etc.): 13%

[6] Europe Economics, November 2009 Retail Insurance Market Study
[7] Ibid

In addition, the UK has one of the highest levels of provider shifting, with approximately 30% of policyholders doing so in comparison to less than 10% in Italy.

European Economics conducted a secret shopper exercise as part of its data gathering (in a similar method to that employed by the CCNI for its study). It developed six motor insurance profiles and three home insurance and received over two thousand quotes.

They then developed econometric models based on the data which was used to identify the main determinants of the cost of insurance.

Motor Insurance:

- For all forms of motor insurance the main determinate of the premium is the experience of the driver. On average a driver with an additional year of experience could save between 1.5 – 3% on their quotation;
- The power of the car also has a significant impact on the cost of the premium. The more powerful the vehicle is has been linked to a higher level of claims (for example as a result of vehicle thefts). In addition, the power of the vehicle and the per capita GDP of the country where the cover is obtained have shown links through econometric analysis. As stated by European Economics:
- Both these variables are likely to be associated with the value of claims and so have the effect of increasing the premium.
- A comprehensive policy incorporating 1st and 3rd party elements is on average 80% more expensive than 3rd party cover alone;
- Age and gender may also have a significant impact. In the UK it was found that when provided with the profile of a 22 year old driver with the only variable being gender, the difference between the lowest male and female quotes as a percentage of the female quote was 30% in the UK. This difference is explained through a tendency (on average) towards higher risk aversion amongst females then males.
- It must be noted however that the study found on average across the EU27 there was no evidence of male drivers paying higher premiums then female drivers;
- The study found that variations in quotes are larger in the bigger countries. The UK, Italy and Germany frequently had a greater degree of inter country variation in quoted premiums;

Home Insurance:

The European Economics econometric analysis identified two main determinants of the cost of Home Insurance:

- The value of the property to be insured; and
- The value of the contents to be covered.

There is some variation within countries for quotes within individual member states with the UK, Italy and Germany having the greatest price difference, although the variation is not as great as that seen with motor insurance.

Summary

As discussed above a number of studies have been conducted on the cost of insurance both in Northern Ireland itself and across Europe. These studies have identified a number of factors which affect the cost of insurance, with car insurance one of the most heavily studied areas.

Within Northern Ireland factors such as an individual's postcode, age and gender can have a significant impact on what they pay for a car insurance premium, with the CCNI studies highlighting the higher cost of car insurance in NI in comparison to GB. It is worth noting that in the CCNI study, contents insurance consumers living in urban areas of NI were mostly quoted lower premiums then their counterpart equivalent urban area of GB.

In addition, Frontier Economics identified the high level of cost involved when claimants make use of legal representation, with up to 85% of the claim going towards legal costs.

The research identified above highlights the disparity on the causes of the high cost of car insurance, although potential central factors can be identified through the studies findings:

- Legal costs;
- Postcode;
- Demographics (age, gender, etc.); and
- Driving experience.

5 State Sponsored Insurance Schemes

At the current moment in time there are no state-sponsored insurance schemes operating in Northern Ireland.

5.1 Manitoba Public Insurance

An example of state-sponsored insurance schemes provided by the CCNI is that of Manitoba Public Insurance (MPI) in Canada. It was created in 1971 to deliver comprehensive, universal coverage at a lower cost than offered by private companies.

In the late 1960s the Manitoba government decided the private sector had failed to provide Manitobans with adequate, affordable automobile insurance, and passed legislation to create a Crown Corporation to provide basic compulsory automobile insurance[8].

This decision was spurred by the recommendations of a government-led task force (the Manitoba Automobile Insurance Committee), established to investigate the auto

[8] Example provided by the Consumer Council for Northern Ireland, received 07/06/2010.

insurance business in the province. The task force identified the following problems with the private auto insurance system:

- Automobile insurance was not compulsory. The Committee estimated that at least 10 percent of vehicles on the roadway carried no insurance;
- Insurance companies denied some people coverage. These people could pay into a special fund that paid claims for damage they caused, but they were indebted to the fund and were expected to repay the full amount;
- There were huge gaps in coverage. For example, "voluntary, unpaid" passengers who were injured in an accident caused by their driver received no compensation unless they could prove gross negligence or wilful and wanton misconduct on the part of their driver;
- Rates charged in Manitoba had as much to do with claims costs in the rest of Canada as with claims costs in Manitoba. As well, the rating system was complex and confusing, with many opportunities for manipulation by private insurers;
- Based on presentations to the Committee, claimant and policy holder satisfaction was determined to be low, and the majority of the public was uninformed of their basic rights, duties and obligations; and
- The committee also heard evidence that insurers used tactics to reduce their financial exposure, rather than adjusting claims in a manner that compensated people for their actual losses.

Based on its findings, the Committee made six core recommendations to create a more equitable automobile insurance environment for Manitobans:

- An insurance plan designed to ensure that, for every $1 collected in premiums, at least 85 cents was returned to policy holders in the form of claim payments or benefits. This contrasted with the private sector at the time, which returned about 67 cents of every $1 in premium. This measure is generally recognized as the key measure of effectiveness and efficiency for automobile insurers because it can be applied without having to compensate for differences between coverage and insurance systems;
- All premiums were to be paid in cash in advance at the time the vehicle or driver was licensed. This, along with reserves for unpaid claims, would be invested and provide a source of investment income, which would provide additional revenue. As well, the investments were to be primarily in Manitoba bonds and debentures. This provided access to capital for Manitoba municipalities, universities, schools and hospitals and a secure, dependable return on investment for the insurance fund;
- The insurance plan would be administered by one government agency so that:
  - There would be consistency in the coverage provided and in the interpretation and application of the plan.
  - Duplication of administrative costs would be avoided

- The plan could be improved more easily with only one agency involved and a government agency would be sensitive and responsive to public reaction and needs.

- The plan would be compulsory. Along with that, there would automatically be guaranteed access to coverage--no one could be denied the right to insure their vehicle as long as they were eligible to register the vehicle for use on the roadway. Just as important was the provision that everyone injured by automobiles would have guaranteed access to compensation. The committee also foresaw that, by getting into the auto insurance business and with the inherent need to keep rates as low as possible, the government would be more motivated to take a lead role in traffic safety and to pursue progressive traffic safety legislation;
- The plan would provide claims processes that minimize inconvenience. Service centres would be established in the larger centres across the province to provide qualified appraisals and more efficient adjusting services; and
- The plan would provide a reasonable, basic limit of protection. Also, higher levels of coverage would be available from the private insurance industry, to the extent it wished to address these needs.

MPI began operations in 1971 to provide the basic, compulsory insurance coverage, which became known as Autopac. Both vehicles and drivers were required to be insured and the insurance was provided together with registration so that one was not available without the other. Please note, a similar system may not be compatible with EU law and as such the Committee may wish to seek a legal opinion if it decides to examine a similar methodology.

This significantly reduced opportunities for uninsured vehicles and drivers and kept administrative costs and customer inconvenience low, since it combined two processes that were normally conducted separately. In addition to providing the compulsory insurance that was required to legally operate a vehicle on the roadway, MPI offered two types of optional coverage in competition with the private sector - Autopac Extension and Special Risk Extension.

MPI has been a successful project. In 2008 it had 934,524 Autopac policies in force in comparison to 765,014 licensed drivers and has seen business grow continuously for the previous five years. In addition, it has added C$25 Million to the provincial premium taxes[9].

In order to encourage safe driving MPI has introduced a Driver Safety Rating (DSR), a programme which rates drivers on their driving records. If the driver has a clean driving record for a year they move up a merit scale, resulting in lower premiums. If a driver accumulates traffic convictions or at fault accidents they move down the scale and pay a higher premium.

[9] Manitoba Public Insurance 2008 Annual Report

At the highest DSR level, drivers receive a 25% discount on MPI insurance and a $30 discount on their driving licence premium. Individuals who have just gotten their licence start at a base level and are encouraged to drive safely in order to reduce their insurance costs.

5.2 California Low Cost Automobile Programme

The purpose of the California Low Cost Automobile Programme is to provide low cost vehicle liability insurance to good drivers who demonstrate financial need[10].

California Law requires that all drivers be insured. However, many low-income drivers remain uninsured because the costs of standard insurance premiums are beyond their financial reach. The California Low Cost Automobile Insurance Program provides affordable liability only auto insurance that meets the state's financial responsibility laws.

The programme began as a pilot programme in 2000 for residents of Los Angeles County and the City and County of San Francisco. The California Legislature wanted to address the problem of uninsured motorists in the state, proposing the theory that most uninsured drivers in California go without liability insurance because of the cost, and that if affordable coverage was available, many drivers would purchase it.

In 2005, the California Legislature passed a Bill which authorized the Insurance Commissioner to launch the programme throughout the state upon determination of need in each county. The program is administered by the California Automobile Assigned Risk Plan (CAARP) and policies are written by California Licensed Insurance Companies.

The CLCA program is not subsidized by taxpayers. Rates are set and adjusted annually in each county so that the premiums collected are sufficient to cover losses and expenses in each county.

Applicants to the programme must be at least 19 years of age or older and a continuously licensed driver for the past three years. They must also qualify as a good driver, have a vehicle currently valued at $20,000 or less and must meet income eligibility requirements.

Since the commencement of the programme it has seen a steady rise in applications from 1,116 in 2001 to 7,495 in 2009. Please note, in 2003 there were 22,657,288 licensed drivers in California[11]. As such the number of people insured under this programme is less than 0.05% of the licensed population.

[10] California Low Cost Automobile Insurance Program (CLCA) 2010 CLCA Report to the Legislature http://www.insurance.ca.gov/0100-consumers/0060-information-guides/0010-automobile/lca/2010CLCAReport.cfm

[11] US Department of Transportation, 2003 http://www.statemaster.com/graph/trn_lic_dri_tot_num-transportation-licensed-drivers-total-number (first accessed 08/06/2010)

According to statistics from CAARP, of the 7,495 applications that were assigned during 2009, approximately 4,807 or 64.1% of the applicants were uninsured at the time of applying for a CLCA policy.

A review of the programme is carried out every year. For 2009 the review found that:

Rates were sufficient to meet statutory rate-setting standards:

California Insurance Code provides that rates for the CLCA program shall be sufficient to cover losses and expenses incurred by policies issued under the program. Rate-setting standards also require that rates shall be set so as to result in no projected subsidy of the program or subsidy of policyholders in one county by policyholders in any other county.

Consistent with these requirements, the program rates in effect during 2009 generated sufficient premiums to cover losses and expenses incurred by CLCA policies issued under each respective county program.

Programme served underserved communities:

The CDI believes it is meeting this standard, as evidenced by:

- Household incomes of all policyholders do not exceed established federal policy guidelines. In fact, CAARP statistics document that 42% of policies issued in 2009 were issued to applicants whose household income was at or below $20,000 per year;
- 7,495 policies were assigned in 2009, thus providing access to an affordable insurance option for income eligible households; and
- While law states that an applicant's vehicle at the time of application can not exceed $20,000, the predominant vehicle value for policies issued in 2009 was less than $5,000.

Programme offered access to previously uninsured motorist, thus reducing the number of uninsured drivers:

Statistics compiled by CAARP demonstrate that in 2009, 64% of new policies assigned were to applicants who were uninsured at the time of application. With the implementation of the CLCA programme, thousands of formerly uninsured drivers are now insured through the CLCA programme.

Summary

As can be seen above the two examples of state sponsored car insurance schemes have been successful in providing low cost insurance to people for whom it was previously difficult to afford.