



Northern Ireland
Assembly

Research and Library Service Briefing Paper

Paper 000/00

25 February 2011

NIAR 000-00

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Update: Comparative Car and Home Insurance Costs in NI

1 Overview

A previous Research and Library Service Research Paper (October 2010) considered comparative car insurance costs across the UK. The analysis indicated that the cost of car insurance appeared to be relatively high in Northern Ireland (NI). This paper provides an interim update on the ongoing research being undertaken to assess whether this apparent cost differential represents price discrimination, or whether it is in fact reflective of higher costs and/or risks associated with transacting car insurance business in NI.

It is shown that there appear to be a number of factors, specific to NI, which could justify higher car insurance premiums. These include the fact that NI has a relatively young population (thus a relatively high proportion of 'higher risk' drivers), a high proportion of single carriageway roads, more traffic on minor rural roads than in Great Britain, and greater distances are travelled per person and per vehicle in NI. Furthermore, as was highlighted in the October 2010 paper, there are significant differences in the legal systems in NI and the rest of the UK, and compensation payments tend to be much higher. These factors all contribute to higher risks and/or costs for car insurers transacting business in NI, and might explain the relatively expensive car insurance premiums paid by local drivers.

Additionally, on the issue of home insurance, premium data has been compiled and mapped – it is shown that there is no significant difference between home insurance premium rates in NI and in the rest of GB.

2 Relative Car Insurance Premium Costs in NI

As described in the previous research paper (October 2010), I used a price comparison website¹ to compile car insurance premium data for approximately 1,700 postcode districts across the UK². The website provides typical quotes for individual postcode districts, based upon the following profile³:

- 2001 Ford Focus Zetec (parked on driveway)
- 25-45 yrs old
- No claims bonus of 5 years+
- No convictions
- Voluntary excess of £100-£250

N.B. Further to a Member's query in relation to the October 2010 Research Paper, I checked with the British Insurance Brokers' Association whether there is an accepted 'standard' risk profile within the insurance industry – BIBA confirmed that there is not. The important thing is to refrain from using an atypical profile, for example an 18 year old male, for which the risk is considered to be above average⁴.

The map⁵ on page 3 highlights those areas across the UK for which the typical premium exceeds the national average (£525)⁶; it can be seen that is the case for a comparatively large proportion of postcode districts within NI.

It is important to note that, whilst this does indicate that the cost of car insurance is higher in Northern Ireland, the data might over-state this differential if it includes quotes from insurers who do not wish to transact business in NI and thus provide unrealistically high quotes. Nonetheless, if insurers do opt out of the NI market in this way this is likely to have an impact on competition levels within the local market, and accordingly, cost. Thus, although the data might be slightly skewed (upwards) by the inclusion of these quotes, it should, nonetheless, be broadly reflective of relative conditions across the UK in terms of the availability and affordability of car insurance coverage.

This analysis might be supplemented by a comparison of 'cheapest' quotes. BIBA argue that this would be a preferable approach⁷. However, since the Consumer Council has identified problems with consumer inertia (a lack of 'shopping around') in NI⁸, it is debatable as to whether this would be any more reflective of local consumer buying habits than the methodology employed.

¹ www.thisismoney.co.uk

² Not all UK postcodes are covered; the website only produces an 'average' quote for a postcode district if there are at least 5 quotes available for that particular district.

³ Quotes provided by www.moneysupermarket.com

⁴ Private correspondence with BIBA official

⁵ This map has been amended since the last paper to reflect improved GIS capability – having obtained polygon data for the UK, it has been possible to enable a join between the existing data and the UK polygon set. This enables the data to be mapped on the basis of areas, as opposed to points (as was the case previously) and is considered to be a more accurate representation.

⁶ <http://www.thisismoney.co.uk/car-insurance-breaker>

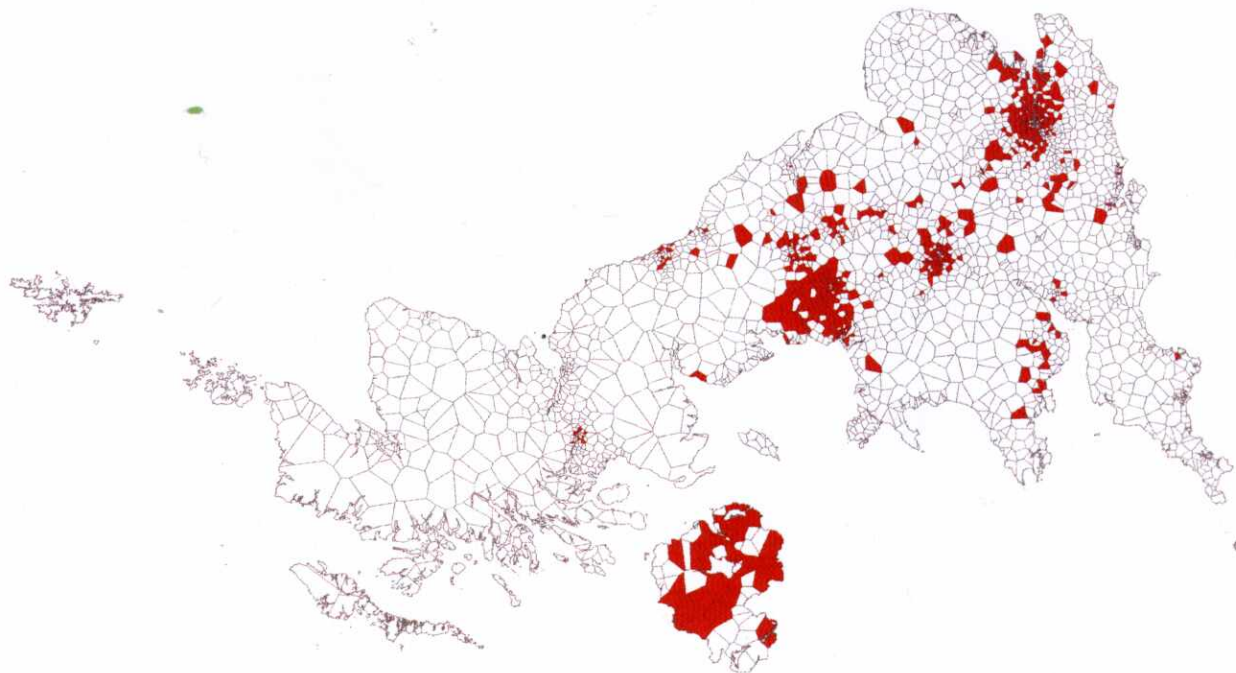
⁷ Private correspondence with BIBA official

⁸ "Quote Unquote": Consumer Council Report on Cost of Insurance in NI

Uk Post Code Districts for which typical Car Insurance Premium Exceeds National Average (£525)

Legend

Postcode Districts Above £525 (National Average)



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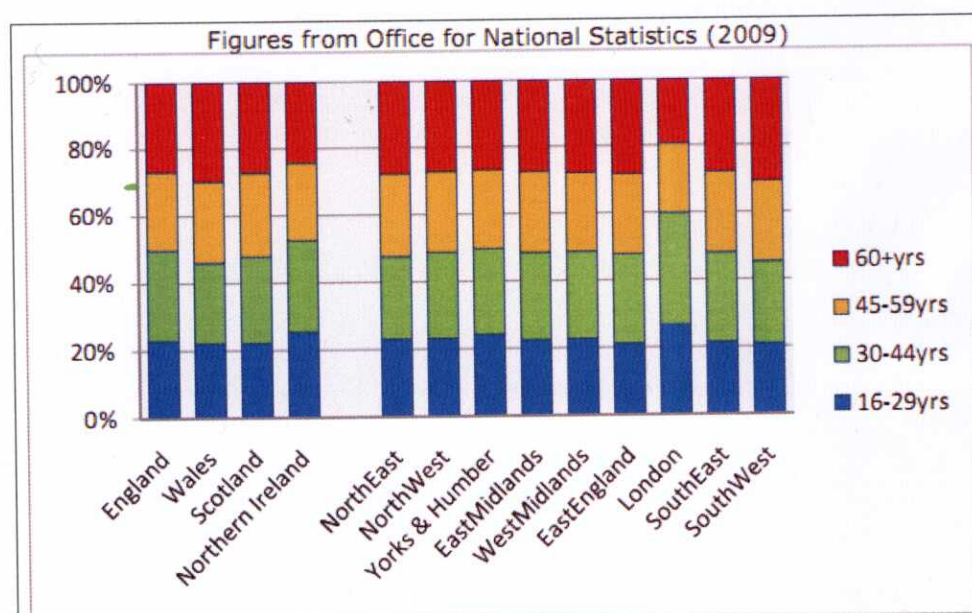
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3 Is the Cost Differential Justified – Higher Risks/Costs in NI?

In order to differentiate between price discrimination and a justifiable price disparity, it is necessary to consider whether there are higher costs and/or risks associated with transacting car insurance business in Northern Ireland. Some factors which could be relevant in this regard include:

- **Demographic Differences:** Younger, less experienced drivers are perceived as a higher risk, particularly male drivers within this category. Figure 1 suggests that there is a slightly higher proportion of the population within the 16-29 year old category in NI than in England, Scotland and Wales. This demographic factor might push up the average cost of car insurance in NI.

Figure 1 Distribution of 2007 population by age group (excluding under 16s⁹)

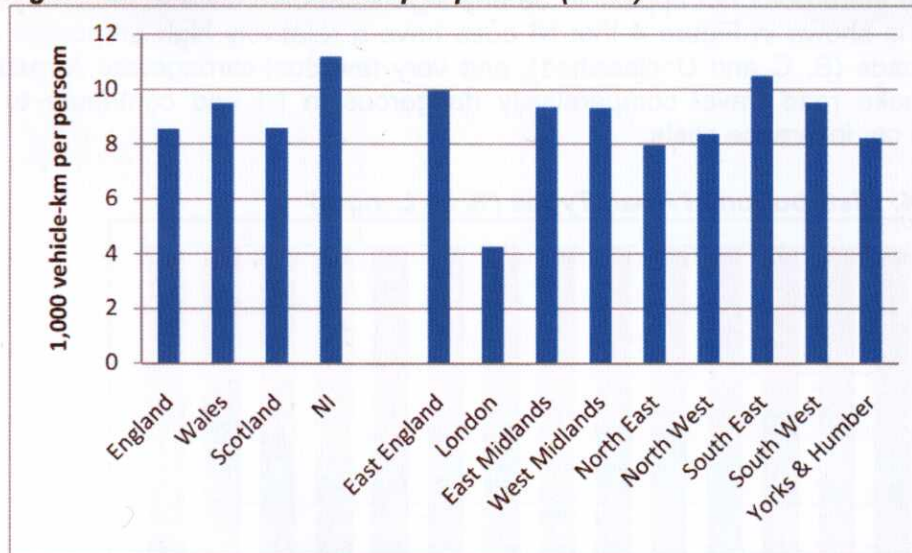


Source: Transport Research Laboratory

- **Rates of Car Crime:** Unfortunately, differences in legal systems and police recording mean that the recorded crime figures for England and Wales are not directly comparable with recorded crime figures for Scotland or Northern Ireland. However, a simple analysis carried out in the October 2010 Research Paper indicated that there does not appear to be a direct relationship between typical premiums and car crime rates across NI postcode districts (for example, the average vehicle crime rate in Newry was shown to be half of that of Belfast, yet the data indicates that the latter region might pay less (on average) for car insurance).
- **Travel Patterns:** Figure 2 below illustrates the average distances travelled per person in the UK; it shows that people drive further in NI than in any other part of the UK. People in NI drive an average of 11,200 kilometres per person, compared to 10,500 in the South East and just 4,300 in London¹⁰. It is possible that this could contribute to slightly higher car insurance costs, since the risk of accident is likely to be linked to duration of travel.

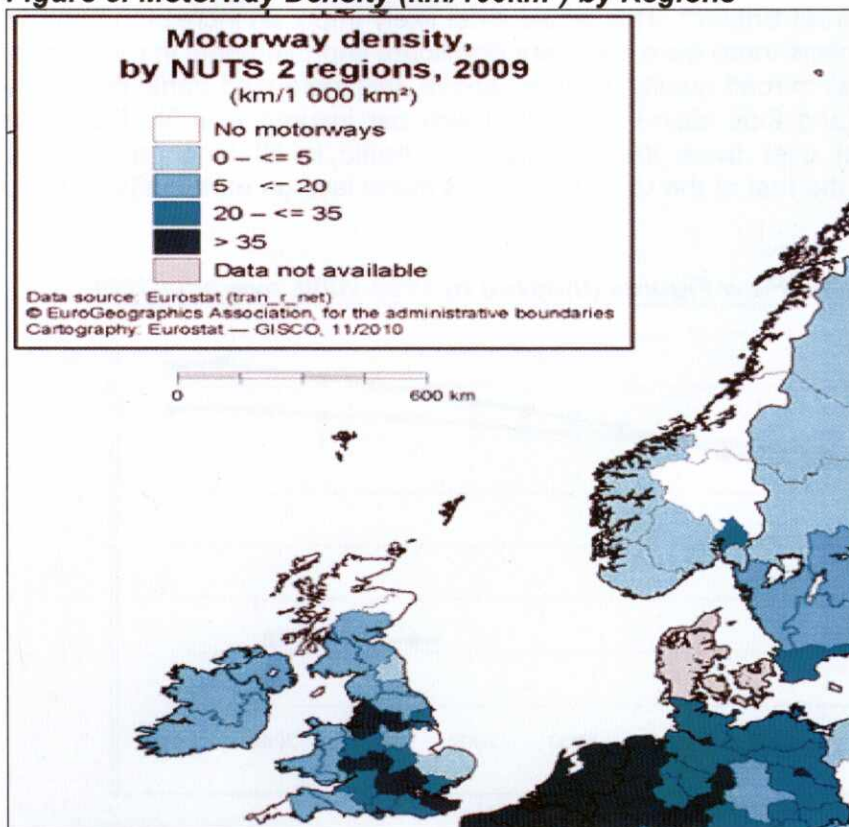
⁹ This representation is chosen since the population below 16 years will be irrelevant from the perspective of car insurance premiums

¹⁰ *Benchmarking Road Safety in NI*, Transport Research Laboratory, March 2010

Figure 2: Vehicle kilometres per person (2008)

Source: Population figures from ONS (2009), NI traffic figures from Roads Service (2008), GB traffic figures from DfT (2009c)

- **Differences in Road Infrastructure:** According to BIBA, motorway travel is the safest mode, and they state there is a relative lack of motorway coverage in NI¹¹. However, Figure 3 below suggests that motorway density in NI is comparable to the rest of the UK (and in fact the full version of the map indicates that it is also comparable with much of Europe).

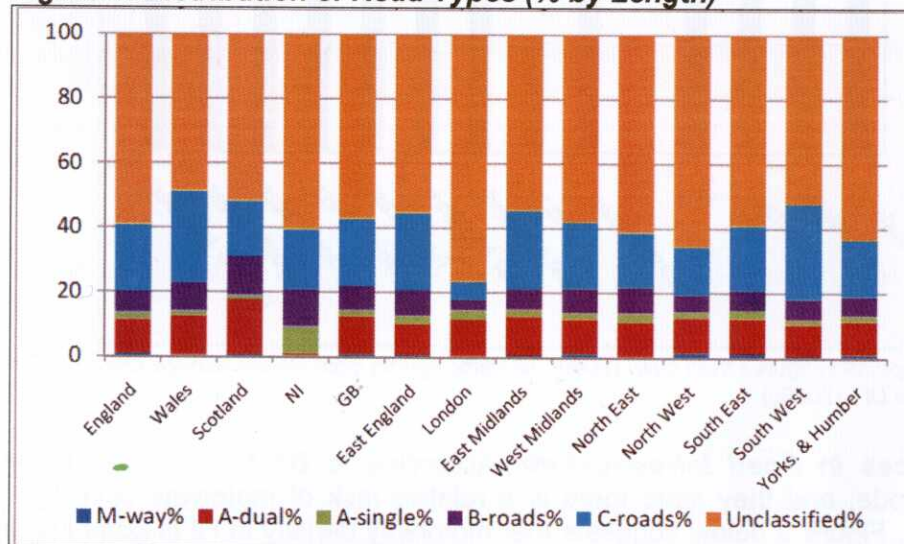
Figure 3: Motorway Density (km/100km²) by Regions

Source: Eurostat, Statistics in Focus – Transport, May 2011

¹¹ Email correspondence from BIBA

- Although there does not appear to be any significant difference in motorway density in NI, it is shown in Figure 4 that NI does have a relatively high proportion of non-major roads (B, C and Unclassified), and very few dual-carriageway A-roads. This could make road travel comparatively dangerous in NI and contribute to higher average car insurance costs.

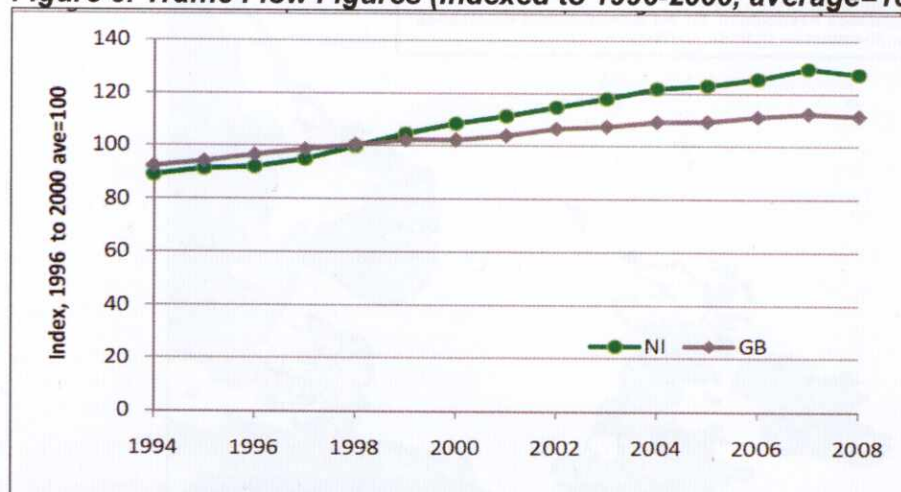
Figure 4: Distribution of Road Types (% by Length)



Source: Transport Research Laboratory

- Figure 5 shows that there has been a considerable increase in traffic flows in NI; in the last fifteen years, traffic volume has grown by 43% in NI – more than double the increase in Great Britain¹². This would most likely imply an increase in collisions and casualties, unless there were also very significant improvements in road safety. Given the differences in road quality, outlined above, this increased traffic flow adds further to the risks (and thus costs) associated with car insurance in NI. Recent research suggests that over twice the proportion of traffic in NI is on minor rural roads compared to the rest of the UK, and there is much less on motorways or minor urban roads¹³.

Figure 5: Traffic Flow Figures (Indexed to 1996-2000, average=100)



Source: Transport Research Laboratory

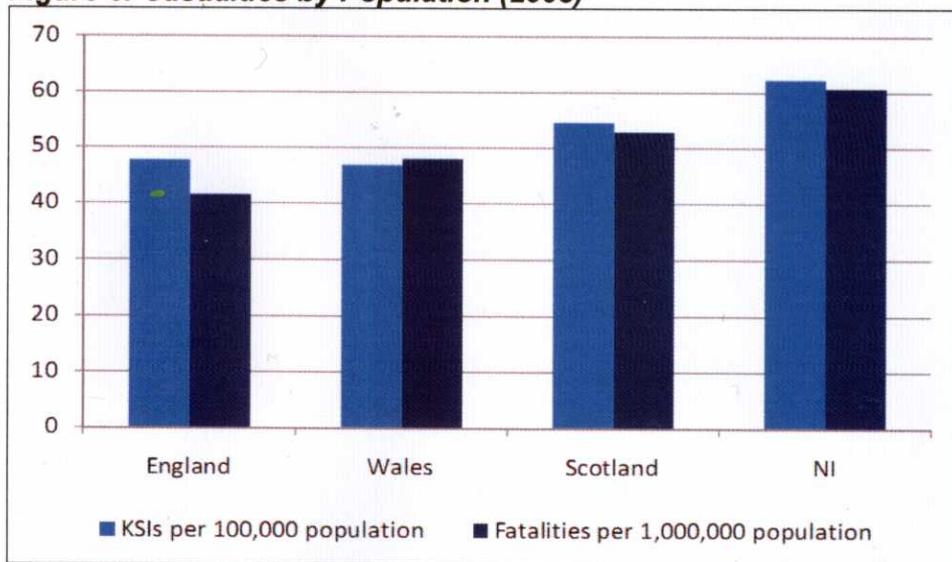
¹² Benchmarking Road Safety in NI, Transport Research Laboratory, March 2010

¹³ Ibid

- **Casualty Rate:** Given the aforementioned factors it is perhaps not surprising that NI has a higher accident rate per person¹⁴. Collision and casualty rates in NI are likely to be higher than elsewhere in the UK due to the combination of:
 - More single carriageway road
 - More traffic on minor rural roads
 - Younger population (more inexperienced, high risk drivers)
 - Greater distances travelled per person and per vehicle

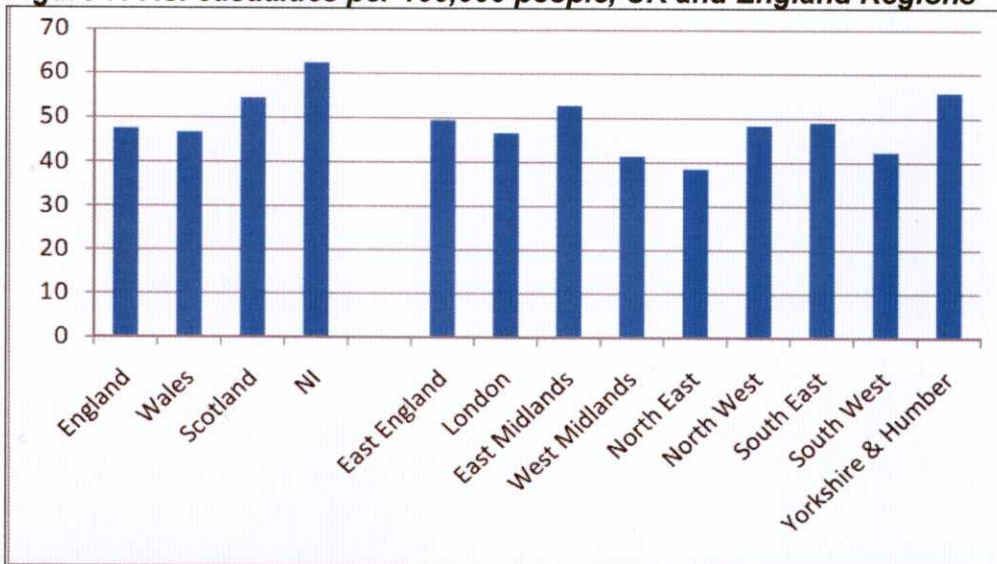
Consequently, Figure 6 shows that there is a significantly higher rate of fatality and serious injury (KSI) in NI than in England, Scotland and Wales. Figure 7 confirms that the serious injury casualty rate is also higher than in any region of England. Research also indicates that casualty victims under 30, are substantially more likely to be killed in NI than in GB.

Figure 6: Casualties by Population (2008)



Source: Transport Research Laboratory

Figure 7: KSI casualties per 100,000 people, UK and England Regions



Source: Transport Research Laboratory

¹⁴ As stated by BIBA in personal email correspondence

- **Comparative Compensation Rates/Legal Costs:** As was discussed in previous research paper (October 2010), legal costs in NI are disproportionately high because of the fact that road traffic accidents are excluded from Small Claims Courts (about 40% of claims in NI reach the courts; in England and Wales the figure is 3.5%¹⁵). Furthermore, compensation rates are considerably higher; for example, according to BIBA, claims costs for serious neck injuries in NI range from £30,000 to £265,000 whereas in GB they range from £14,000 to £86,000¹⁶.
- **Conclusion:** The relatively high rate of accidents and related casualties in NI, combined with higher compensation levels and legal fees suggests that insurers do, in fact, face considerably higher costs when transacting car insurance in Northern Ireland. Accordingly, the higher car insurance premium rates paid by NI drivers might be reflective of higher risks and costs associated with transacting car insurance business here, rather than a discriminatory pricing regime.

¹⁵ <http://www.niassembly.gov.uk/record/committees2009/FinancePersonnel/100616Cost%20of%20Insurance%20in%20NI.pdf>

¹⁶ Email correspondence from BIBA

4 Comparative Home Insurance Costs in NI

As in the case of car insurance, I have used a price comparison website¹⁷ to compile home insurance premium data for approximately 2,760 postcode districts across the UK¹⁸. The website provides typical quotes for individual postcode districts, based upon the following details¹⁹:

- Rebuild cost: £100k-£200k
- Contents cover: £20k-£50k
- Voluntary excess: £250
- No-claims bonus: 5+ years

The map on the next page highlights those districts for which the typical premium exceeds the national average (£162)²⁰. This indicates that home insurance costs in NI are broadly comparable with those in the rest of the UK.

¹⁷ www.thisismoney.co.uk

¹⁸ Not all UK postcodes are covered; the website only produces an 'average' quote for a postcode district if there are at least 5 quotes available for that particular district.

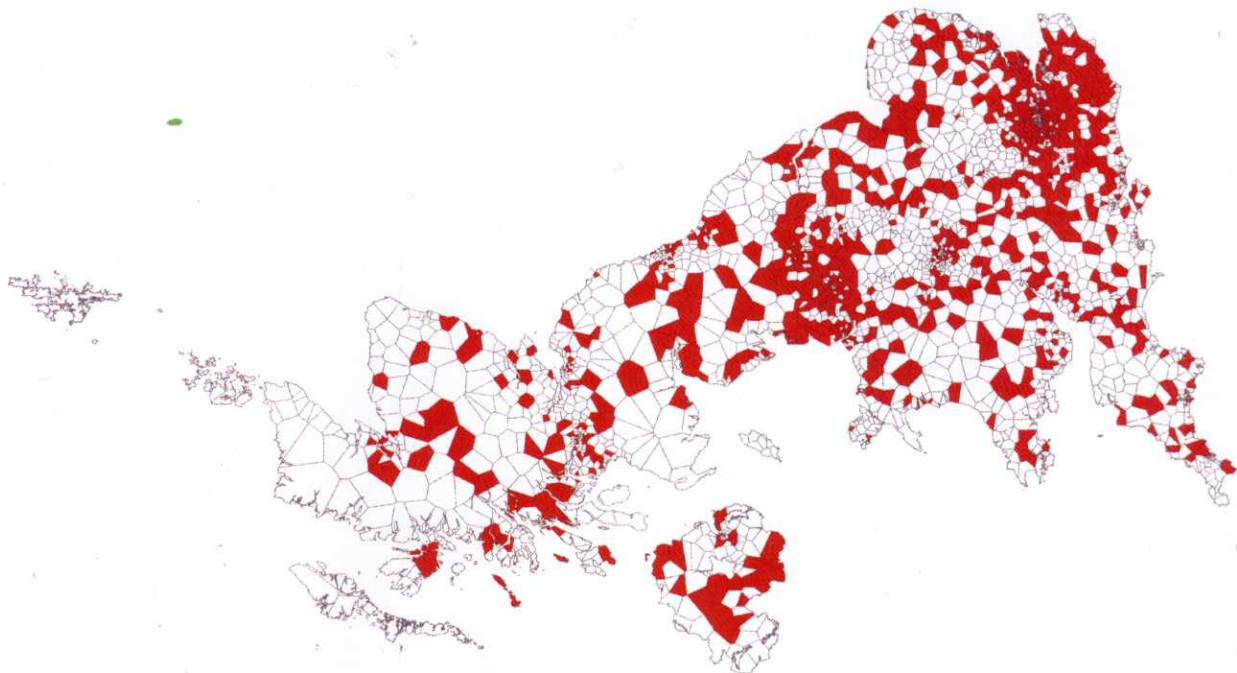
¹⁹ Quotes provided by www.moneysupermarket.com

²⁰ <http://www.thisismoney.co.uk/code-breaker#ixzz1ErhiNw6g>

UK Postcode Districts for which typical Home Insurance Premium exceeds National Average (£162)

Legend

Postcode Districts Above £162 (National Average)



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