



Northern Ireland
Assembly

Research and Library Service Briefing Paper

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Cost of Car Insurance in NI: Scoping Paper

1 Overview

The Consumer Council's report, *'Quote...Unquote. The Cost of Insurance in Northern Ireland'* (March 2009), indicated that local consumers appear to be paying considerably more than those in the rest of the UK for certain lines of insurance. Car insurance emerged as a particular issue, with the report indicating that, on average, consumers in Northern Ireland pay 84% more than those in the rest of the UK.

This paper scopes the availability of alternative data sources and, in the absence of these, carries out an additional analysis of the cost of car insurance across approximately 1700 UK postcode districts. It produces evidence which is consistent with that of the Consumer Council paper; on average, NI consumers pay significantly more than any other UK region for car insurance. Furthermore, at a city level, the five NI cities rank amongst the 'top ten' most expensive areas in the UK; thus relatively expensive car premiums prevail *throughout* NI.

2 The Evidence on Relative Car Insurance Premiums in NI

2.1 Consumer Council Evidence

The March 2009 paper "Quote...Unquote: The Cost of Insurance in Northern Ireland" suggested that local consumers were quoted car insurance premiums of £282 (84%) more, on average, than comparable consumers in Great Britain. The paper is important in that it highlights a significant issue for consumers in NI; however, it is worth raising the following factors, which might be developed further:

- **Consumer Inertia vs. Higher Costs?** The paper quotes higher insurance premiums (of £282, on average), but goes on to say that 'even with our higher premiums, consumers who shop around could save as much as £267'. This could be interpreted as indicating that the problem is more one of consumer inertia (i.e. a failure to shop around) than a pure cost issue.
- **Regional Comparisons:** The Consumer Council research compares the median cost of car insurance in 'Belfast' and 'Derry' with that in 'Scotland', 'Wales', etc. It could be argued that in comparing cities with entire regions¹, any variations in costs within those regions are masked.

2.2 Alternative Sources

In an attempt to 'complete the picture' as to comparative premium rates, the following potential sources of data/information on comparative insurance costs in Northern Ireland have been explored:

- **Organisation for Economic Co-operation and Development (OECD):** The OECD does compile data on the level of insurance premiums and claims; however, this is collected at a country level and is not sub-divided into regions. The data therefore does not enable a comparison of inter-regional pricing.
- **The Financial Services Authority (FSA):** With regards to the pricing of insurance premiums, the FSA's view is that "the premiums charged for insurance policies are to be decided and agreed upon by the contracting parties. The pricing of insurance premiums is a commercial decision to be left between the insurer and firm and one which the FSA does not intend to impose requirements upon"². Thus the FSA does not hold related data/information.
- **Insurance Companies' Financial Accounts:** An enquiry might have been feasible if it were possible to determine, by looking at insurance companies accounts, whether their operations were more profitable within particular regions (i.e. NI). Higher profitability levels might have indicated that the pricing structure in Northern Ireland was discriminatory, rather than being attributable to higher costs of transacting business here. However, financial data is not reported to this level of detail – the insurance companies' accounts are presented at a national level.

¹ Or with a particular address within these regions

² The FSA may, however, consider on a case by case basis whether any increased premiums for second and subsequent years are merely an artificial step up to an unrealistic premium.

http://www.fsa.gov.uk/pubs/international/orsg_7jul08.pdf

2.3 Additional Analysis

In the absence of alternative price/cost information, I have used a price comparison website³ to derive car insurance premium data for approximately 1,700 postcode districts across the UK⁴. The quotes are based upon the following standard 'profile', enabling a consistent price comparison across regions⁵:

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

Typical quotes were obtained for each postcode district to derive median values for UK regions/cities. This analysis enables an assessment of comparative costs across Northern Ireland and the UK as a whole; the maps attached overleaf illustrate this. The first map shows that there are numerous 'hotspots' across Northern Ireland, where the cost of insurance is high; the national average is £525⁶, so the vast majority of local postcode districts overpay relative to the UK as a whole. The regions that are 'blank' are those for which there were less than 5 insurance quotes⁷ - this might be interpreted as indicating an issue in Northern Ireland with regards to insurance coverage⁸.

The second map presents a UK-wide overview of relative median car insurance costs. Specifically, it flags those postcode sectors in the UK for which the median cost of car insurance exceeds the UK average⁹. This illustrates that Northern Ireland consumers are within a small minority that over-pay relative to consumers in the rest of the UK. Interestingly, there are no postcode sectors in Scotland or Wales for which the median cost exceeds the UK average cost, and those that do exist elsewhere are concentrated around the Greater London and Manchester areas, (with a few other cities in the West Midlands area). Thus the issue appears to be one which is relatively unique to Northern Ireland.

³ www.thisismoney.co.uk

⁴ 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.

⁵ Quotes provided by www.moneysupermarket.com

⁶ This is the 'national average' according to the website. It is worth highlighting that if the median value for the UK is manually calculated on the basis of the data collected, the value is very similar (£509). Therefore, if median values for cities are compared with this instead of the 'national average' the analysis remains relatively unchanged.

⁷ Refer footnote 4

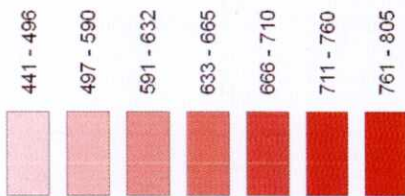
⁸ However, further analysis would be required to consider this in a comparative context, i.e. to assess how this relates to 'coverage' in other UK regions. Furthermore, as discussed in part 3, this is a rather crude measure; further research might be carried out to better assess competition levels using concentration ratios/Herfindahl indices.

⁹ These are compared with median values for 5 cities in NI. Ideally the comparison would be with 'postcode sectors' within NI, however NI is relatively unique in that it does not have different postcode sectors – all local postcodes are preceded with BT. This differs from other UK regions; for example, within Scotland, Glasgow has a different postcode sector (G) to Aberdeen (AB), etc. Thus, the 5 NI cities are used in order to sub-divide NI to allow for some comparison between costs across NI with those in the rest of the UK. (This was confirmed by LPS as a reasonable way of overcoming differences in the postcode structures between NI and the rest of the UK).

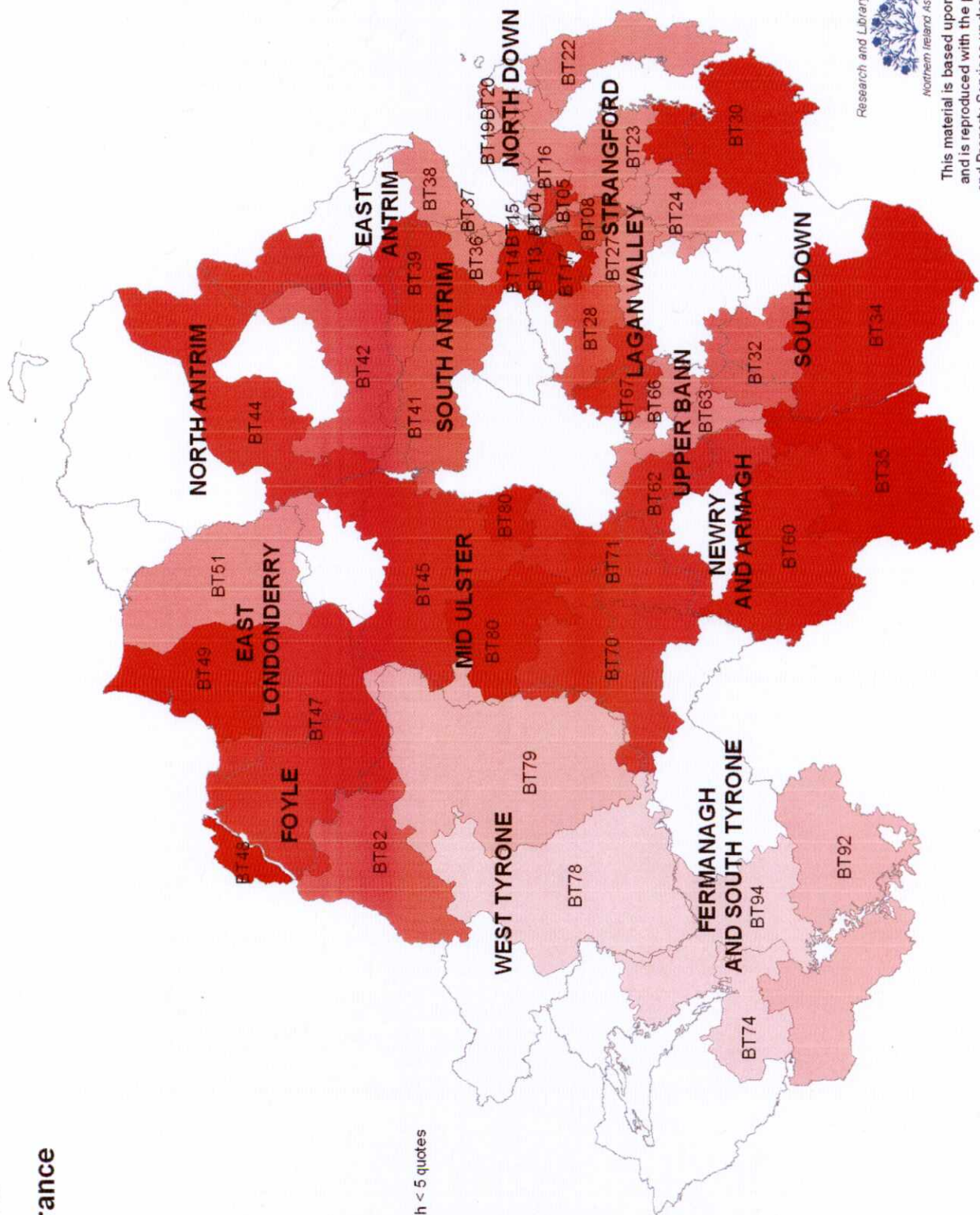
Northern Ireland Car Insurance: Median Rates by Postcode District

Legend

NI Car Insurance



Regions with < 5 quotes



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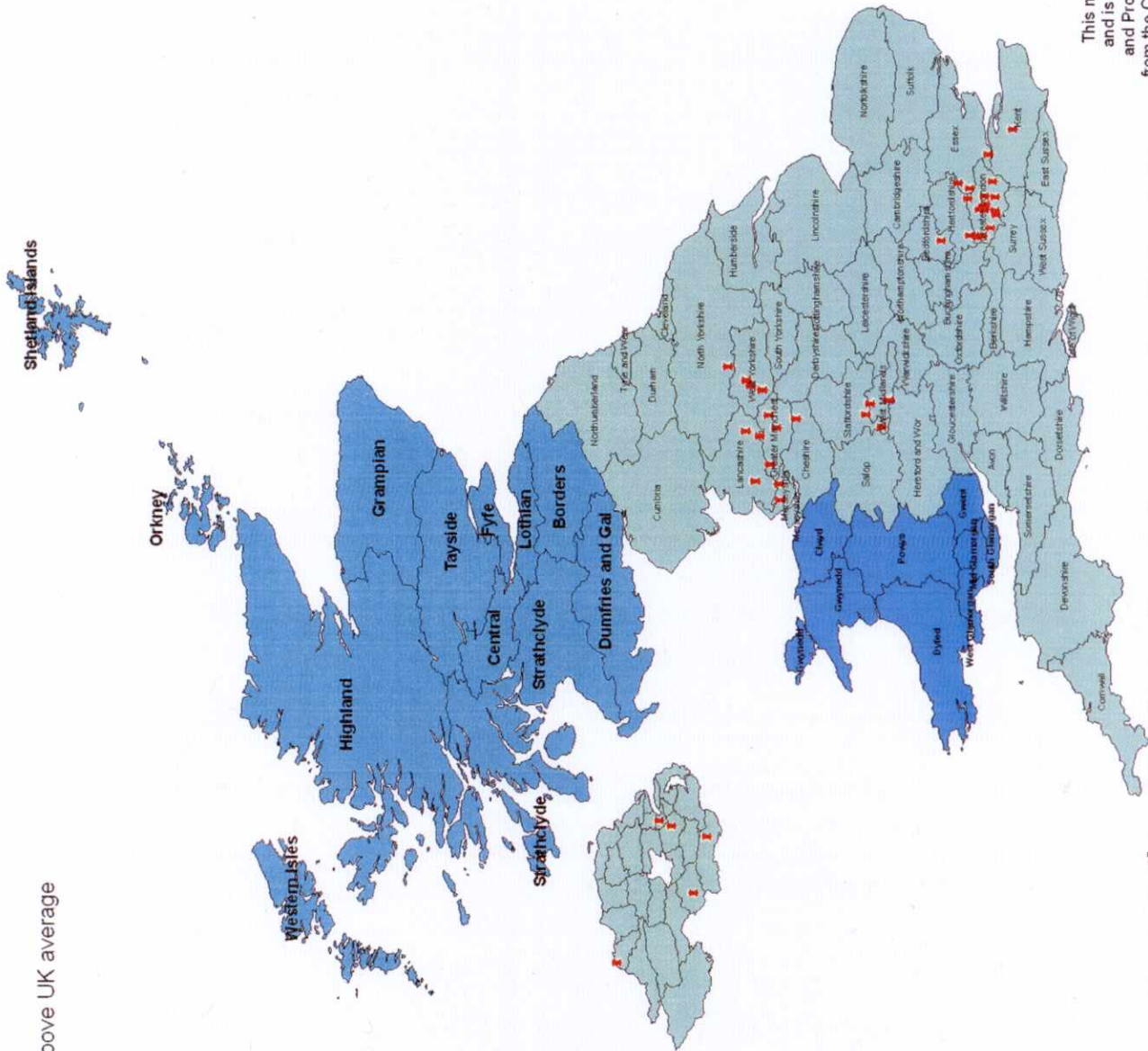


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UK Car Insurance Median Rates: NI Cities / UK Postcode Sectors above UK average

Legend

■ Postcode Cities / Sectors above UK average



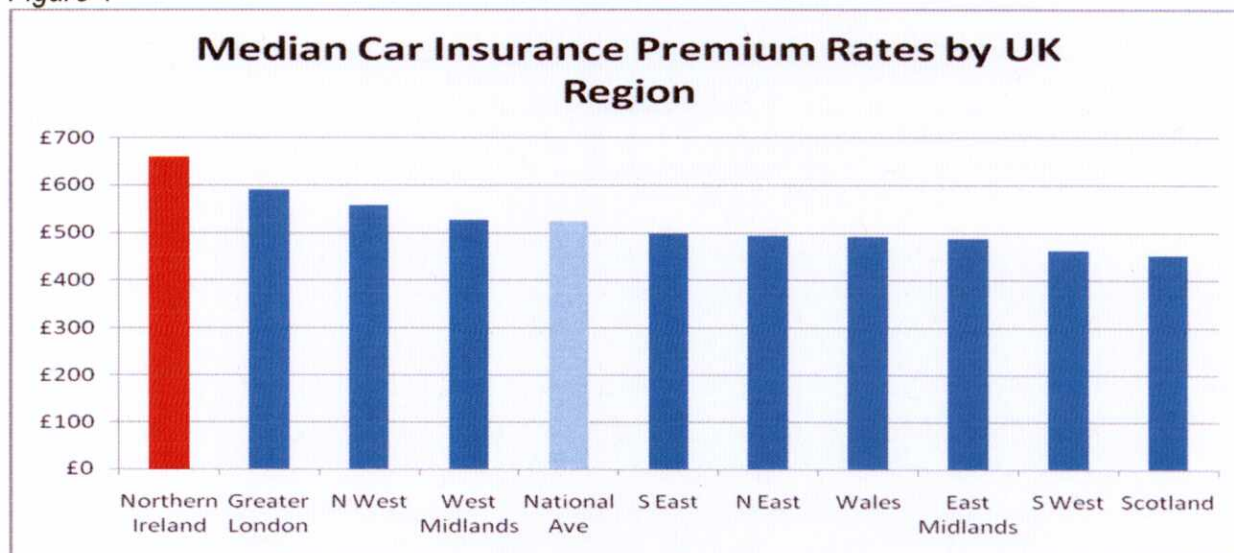
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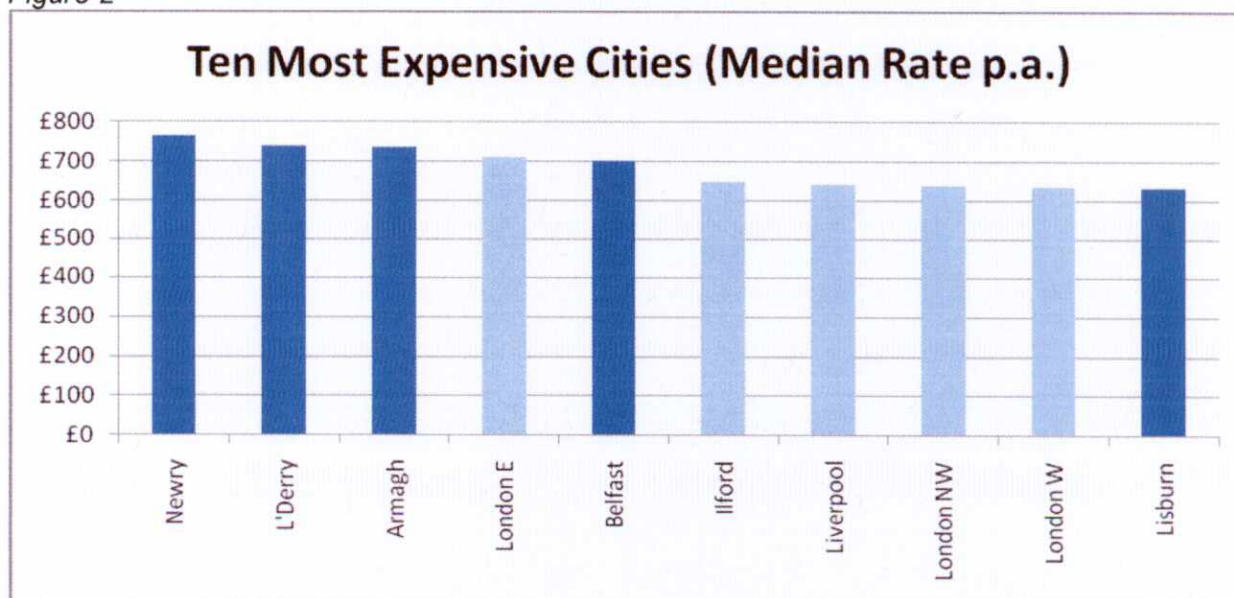
To quantify some of the data illustrated in the maps, Figure 1 graphs the data at a regional level; this shows that the median cost of car insurance in Northern Ireland (£659) is considerably above the national average (£525¹⁰) and is the highest of any UK region, even ranking above Greater London (£596). Scotland is the least expensive region, with a median value of £453.

Figure 1



As shown below, in Figure 2, the variation in costs is even more evident at a postcode sector level¹¹. Newry has the highest median value £766, followed by Derry (£739) and Armagh (£735). Belfast ranks fifth, with an average value of £702 and Lisburn (tenth place) has an average premium cost of £632. These costs are considerably above the UK average rate (£525) and that of the 'cheapest' city - Inverness (£387). In fact, the data indicates that consumers living in Newry are paying almost twice as much for their car insurance as those in Inverness.

Figure 2



¹⁰ Based upon the data collated and compiled by www.thisismoney.co.uk. Using a manually derived median value based upon all 1700 quotes does not alter these trends; the same regions fall above and below the median rate.

¹¹ Refer footnote 9.

3 Determinants of Insurance Premiums: Further work?

The analysis above indicates that, on average, consumers in Northern Ireland are paying more for car insurance than those in the rest of the UK. However, in order to determine whether consumers are *truly* being overcharged (i.e. whether there is price discrimination), it would be necessary to assess the relative *risks* and *costs* associated with transacting car insurance business in Northern Ireland.

In order to determine the risk/cost-adjusted price of insurance in Northern Ireland, and to compare this with other regions, the following factors must be considered:

3.1 Age profiles: Younger, less experienced drivers are a higher risk, particularly male drivers within this category. A higher proportion of young, male residents may well push up the 'average insurance premium' in an area. It is unlikely that this will differ significantly on an inter-regional basis; however, it might explain some differences in costs within regions (for example, it is possible that there is a higher proportion of young males within West Belfast than in other local regions and that this contributes to the relative cost of insurance).

3.2 Comparative crime rates: Higher premium rates would be anticipated in regions with higher rates of crime. However, Table 1 below shows that the average vehicle crime rate in Newry is half that of Belfast, yet the latter region pays less (on average) for car insurance. Similarly, there is less vehicle crime in Armagh than in Lisburn and average insurance premiums are not reflective of this.

Table 1: Vehicle-owning Households victims of vehicle-related theft in NI

Policing District	Consists of:	%
A&B (Belfast)	<i>Belfast</i>	4.3
C	<i>Ards, Castlereagh, Down & North Down</i>	2.5
D	<i>Antrim, Carrickfergus, Lisburn & Newtownabbey</i>	2.3
E	<i>Armagh, Banbridge, Craigavon & Newry&Mourne</i>	2.1
F	<i>Cookstown, Dungannon & South Tyrone, Fermanagh & Omagh</i>	1.6
G	<i>Foyle, Limavady, Magherafelt & Strabane</i>	2.3
H	<i>Ballymena, Ballymoney, Coleraine, Larne & Moyle</i>	2.2

Source: "Experience of Crime: Findings from the 2008/09 Northern Ireland Crime Survey", NIO, 11/09

However, it is worth highlighting that crime rates tend to fail to pick up fraudulent behaviours, such as claiming for non-existent personal injuries or providing false information. It is difficult to assess how Northern Ireland fares in relation to the rest of the UK in this respect. However, it might be reasonable to assert that a 'claim culture' prevails locally, with an unfavourable impact on the cost of insurance. The ABI estimates that the total cost of undetected general insurance claims fraud in the UK is

in the region of £2bn per year. This adds approximately £40 a year to the insurance premiums paid by all policyholders.

It may be possible to carry out some additional work to assess whether average vehicle crime rates in Northern Ireland differ from those in the rest of the UK, and, as such, whether there is a justification in this respect for higher insurance premiums.

3.3 Competitiveness of the Local Insurance Market: A lack of local competition would negatively impact upon average insurance premiums. The Consumer Council paper suggested that there is a lack of insurance providers in NI; it states that there is a maximum of 15 insurers offering quotations in Northern Ireland, compared to 51 in other parts of the UK.

As already discussed above, in the analysis I carried out regarding 1700 UK postcode districts, there were a large number of districts for which no data was available; the website states that this is because there were fewer than five insurance quotes. As a crude measure of the level of competitiveness in a particular area, I have calculated what percentage of postcode districts there were fewer than five insurance quotes for, within each UK region, (Table 2).

	% of Regions < 5 Quotes
Northern Ireland	38
North West	20
East Midlands	28
West Midlands	28
Greater London	33
North East	35
South East	35
South West	48
Wales	59
Scotland	70

This might be interpreted as indicating that Northern Ireland ranks fairly well in terms of the level of insurance coverage (in terms of the availability of 5+ quotes) across postcode districts. Regions such as Wales and Scotland might have a greater proportion of areas for which there is a relative lack of competition.

As stated above, this is a crude measurement of the level of competitiveness within a region; however, it might serve to provide some indication. It could be possible to carry out additional research to assess the concentration ratios (and/or Herfindahl Indices) for UK regions to more accurately assess the relative competitiveness of the industries.

3.4 Comparative Compensation Rates:

In Northern Ireland, compensation payments account for half of the total costs of claims and ***rates are roughly double those paid in England and Wales.*** The rates are set by the Judicial Studies Board for Northern Ireland. Payments to claimants' solicitors and barristers amount to c. £1m per year and have increased by more than four times the rate of inflation over the last 10 years.

According to the Association of British Insurers (ABI), the disproportionately high legal costs in NI arise because road traffic accidents are excluded from the Small Claims Court, (about 40% of claims in NI reach the courts; in England and Wales the figure is 3.5%¹²). This is despite the fact that the majority of claims are relatively straightforward and for small sums, and that these are successfully handled by the small claims track in England and Wales, (where fixed costs are recoverable but not the costs of legal representation). In Northern Ireland, these claims come within County Court; this means that once a claim is issued, costs will automatically attach. For example, if a claim for £100 is issued, the claimant's solicitor will claim £344 costs (+VAT), even where liability is not in dispute and the claim is settled immediately. ***The ABI suggests that moving these cases to a small claims track would reduce the cost base of insurance in Northern Ireland and could have a positive effect on local costs.***

With regards to comparative compensation rates, a minor whiplash claim in England/Wales tends to be between £500 and £2,000; in Northern Ireland, it can be up to £8,000. Severe whiplash claims range from £7,000 to £13,000 in England/Wales and from £17,000 to £35,000 in NI. The Public Accounts Committee (PAC) has expressed, in its report of 11 March 2010, that it takes exception to the higher compensation rates in Northern Ireland and the significant real-terms increases in legal fees¹³. ***The PAC has recommended that DFP consult with the Northern Ireland Court Service to determine how more effective arrangements might be put in place to reflect the views of key stakeholders in future decisions on scale fees and compensation.***

The PAC has also recommended that DFP and the Court Service consider how the guidelines for compensation in NI could be harmonized with levels in England and Wales. The Committee might therefore wish to seek to be kept informed of how these recommendations are received/develop.

As indicated above, further research could be carried out into the key determinants of insurance premiums, to determine how these factors compare between Northern Ireland and other UK regions. The preliminary analyses carried out above indicate that the issue may not necessarily be related to higher crime rates or lower competition levels in Northern Ireland; however, further analysis would be required to determine this conclusively.

¹² <http://www.niassembly.gov.uk/record/committees2009/FinancePersonnel/100616Cost%20of%20Insurance%20in%20NI.pdf>

¹³ http://www.niassembly.gov.uk/public/2007mandate/reports/2009/report_48_09_10r.htm