



Northern Ireland
Assembly

**COMMITTEE FOR
FINANCE AND PERSONNEL**

OFFICIAL REPORT
(Hansard)

Cost of Insurance in Northern Ireland

21 April 2010

NORTHERN IRELAND ASSEMBLY

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Members present for all or part of the proceedings:

Ms Jennifer McCann (Chairperson)
Mr Jonathan Craig
Mr Fra McCann
Mr Mitchel McLaughlin
Mr Adrian McQuillan
Ms Dawn Purvis

Witnesses:

Ms Joleen Cunningham)
Ms Alison Donnelly) Consumer Council
Ms Julie McCurley)

The Chairperson (Ms J McCann):

I invite the witnesses to make a few opening remarks, and then I will open up the session to members' questions.

Ms Julie McCurley (Consumer Council):

Thanks again for inviting us to update the Committee on this matter. Insurance has been a big news story this year, and it has been a major issue for consumers in the past week. In particular, there has been the volcanic ash cloud, which highlighted the importance of having travel insurance; and the ongoing Quinn Insurance saga, which has impacted on consumers here because of the uncertainty about current policies and the inability of Quinn to be open to new business. We conducted research and published our report in March 2009. Joleen will now recap

the findings.

Ms Joleen Cunningham (Consumer Council):

I am sure that you have all received a copy of “Quote... Unquote”. In that report, we compared the costs of car, contents, building, life, health, income protection, travel, dental and pet insurance in Northern Ireland with those in GB. I will recap some of the key statistics to paint a picture for the Committee today. Households here are shelling out a staggering £278 more per annum than those in Great Britain. Some people will actually pay as much as £700 more. We are paying about 40% more than people in GB for car, contents and building insurance. That leaves consumers in the Northern Ireland market about £160 million worse off. Although we are all hit hard by that, some households are hit particularly badly. Car insurance consumers here pay 80% more, which is about £282 more, than people in GB. If one happens to live in a rural area, one can expect to pay 62% more on average, and, if one happens to be from a low-income area, one can pay nearly 50% more on average than our counterparts in GB.

Shockingly, one third of consumers here do not have their homes insured, and people on low incomes are less likely to have contents and building insurance than those on higher incomes. Other research shows that people on low incomes are more likely to need insurance protection and less likely to have savings to fall back on should anything go wrong. At the other end of the scale, people on medium or higher incomes say that they have not got round to taking out insurance, nor do they see the need for it. Before I depress the Committee completely, there is some good news. Householders who are prepared to shop around and switch between providers can save about £389. Therefore, that is worth doing.

I will now take you through what has happened since the publication of “Quote ... Unquote” in March 2009. The report made a number of recommendations. The first was to increase insurance uptake and financial inclusion. The sad news stories from last year’s floods demonstrated just how much consumers who do not have insurance in Northern Ireland are vulnerable and at risk. The worrying level of insurance uptake needs to be addressed. Insurance products need to be simple, easy to understand, easy to get, and affordable to all. To that end, we are committed to working in partnership with the Assembly, the insurance sector and the Association of British Insurers (ABI) to ensure that products are accessible and affordable.

Since the publication of the report, we have produced a home contents insurance guide for

people who rent their homes. We are working on a pilot project with housing associations in Northern Ireland to distribute the guide to about 17,000 tenants throughout Northern Ireland in an effort to increase insurance uptake among those groups. We are in the process of providing Portuguese and Polish translation for the migrant community here, and the guide is now included in the NI Direct roadshow. We are waiting for the ABI, and I have just taken a quick glance at your report, which states that the stakeholder meeting is due to take place on 13 May. That is good news for us. We have been waiting a long time for the access-to-insurance roadshow, which will bring together housing associations and those interested in financial inclusion to discuss priorities in promoting insurance, sharing best practice, and assessing whether there are any gaps that the Consumer Council and others can fill.

The second recommendation was to promote shopping around and build financial capability. Even though we are faced with restricted choice and higher premiums, there are significant savings to be made by shopping around. Empowered consumers have their role to play in stimulating the market, making it work, and demanding better deals, but it requires us as a collective to build consumer skills, confidence and knowledge. Our overall aim is to increase uptake, switching, and shopping around for better deals. We have briefed the Northern Ireland Financial Capability Partnership in a bid to ensure that shopping around is the key message in everything that we do. For example, we focused on the financial capability and the uptake of insurance in the money week recently in Fermanagh.

Our final recommendation is the investigation of the insurance market here. At this stage, I will hand over to Julie again.

Ms McCurley:

We believe that a thorough follow-up investigation is needed into the cost of insurance in Northern Ireland to identify the root causes and the extent of their impact, as well as providing recommendations and potential actions to be taken to lower insurance costs for all. We are delighted that the Committee has said that it is going to invite the Association of British Insurers to give evidence, because we believe that the Committee is placed to drive the issue forward, as well as having a debate in the Assembly, which is fantastic.

The Committee has shown leadership on the issue. A real willingness to tackle the issue is needed in the Assembly, and I believe that an investigation is within the Assembly's remit and

could go a long way towards identifying the issues and helping to shine a light on the matter. Although we understand that some issues are complex and could be reserved to Westminster, we believe that there are many facets that the Assembly could report on and look into. We are keen to discuss with the Committee today how best to progress the issue, and we look forward to hearing members' views on it.

Mr Craig:

A couple of things frustrate me about insurance. The first is education. You have clearly pointed that out and are taking action in that regard. Although I do not want to advertise for anyone, if you look at the television advert with the little furry Russian animals —

Mr McLaughlin:

The ones that are confused? *[Laughter.]*

Mr Craig:

Yes. They are confused.

If one uses the website that they talk about, one can actually save an absolute fortune. That option is open to most people nowadays. There is an education aspect to all of this.

The thing that annoys me is the excuses that insurance companies use for higher premiums in Northern Ireland. Unfortunately, one excuse that appears to be valid is that payouts are higher here. I went through figure 19 on page 35 of your report. The real problem seems to be with minor injuries. It is astonishing to see the payouts for minor injuries. For neck injuries, the payout here is twice the UK average. For a broken nose, it is seven times the UK average. When someone breaks a big toe, the payout is well over twice the UK average. Do you agree that that issue must be handed over to the Department of Justice to sort out? Clearly, there is a massive issue with minor injuries, which probably account for a huge percentage of overall injury claims. Until that is tackled, we are giving insurance companies a get-out-of-jail-free card.

Ms Cunningham:

Absolutely. I agree totally with that. The devolution of policing and justice has created the opportunity for the Northern Ireland Assembly to address issues such as higher insurance costs and compensation levels.

Compensation levels are reviewed every six years by a committee of judges, barristers and solicitors. They are not actually set in stone. Rather, they are based on the norm. We believe that an Assembly-led Committee or cross-departmental working group could look at whether the benefits of higher compensation levels here outweigh the detriment to consumers of higher insurance costs. It could also look at ways of making administration of claims more efficient and less costly. In the Republic of Ireland, the Personal Injuries Assessment Board claims that it can deliver fair compensation levels without the need for the majority of litigation, which it says adds on around 46% to the average cost of a claim. Therefore, there is definitely scope for the Department of Justice or its Committee to look at the issue further.

Mr Craig:

There is a clear case for an investigation into this matter because — let us be honest about it — the insurance industry in Northern Ireland is self-generating. It is quite clear that the system benefits the individuals who use it, and when they get more, that will lead to higher payouts.

Mr McLaughlin:

I would like some information from you, Chairperson. Obviously, the evidence that we have heard is important. At present, does it have the status of evidence that would be available to a formal Committee inquiry, or do we have to initiate that process in the first instance? I am thinking about not only today's evidence but that of others. I would like representatives from the Law Commission and industry representatives to come and give evidence. I would like to step through their claims and counterclaims in order to find explanations for the disparities. First of all, can we establish how the Committee will step into this matter?

The Chairperson:

When we talked about the matter earlier, I said that it is not within our remit to have a full-blown inquiry into the matter. However, having heard the evidence, we are concerned that we want to take the issue forward.

Mr McLaughlin:

Are you saying that we do not have the remit because it is not within our Committee's responsibility, or is it because some of the issues are reserved matters that do not fall to the Executive?

The Committee Clerk:

It is both. Some of the matters are reserved matters, as OFMDFM has highlighted in its letter to the Committee. Also, the Northern Ireland Law Commission now comes within the remit of the Committee for Justice, so the issue of costs to the legal system falls to that Committee. There are reserved matters and cross-departmental matters involved.

Mr McLaughlin:

If there were general acceptance that an inquiry is needed, can we resolve the issue of which Committees would take the lead? Our Committee would co-operate with the others to gather the evidence. Notwithstanding the fact that there are reserved matters that will have to be treated differently, can we have an inquiry and establish which Committee is appropriate to take it forward?

The Committee Clerk:

There are provisions under Standing Orders for Committees to work in co-ordination. There are three options. The first is for one Committee to take the lead; the second, for two or more Committees to meet concurrently; and the third for formation of a joint ad hoc Committee.

Just to bottom out the issues, the Committee could write, in the first instance, to the Justice Committee to raise the proposal and take its view on which of those options it considers appropriate. However, there is nothing to stop this Committee from undertaking an inquiry even into reserved matters. The issue is that recommendations would be addressed potentially to a Whitehall Department. This Committee's normal approach is to make recommendations to DFP which has no remit in this matter.

Mr McLaughlin:

The process of the inquiry would involve reporting to the Assembly to get endorsement of the report. The report would then get referred to a Whitehall Department with the authority of the Assembly's endorsement.

The Chairperson:

That is where the problem seems to lie. Do you remember that we put this to OFMDFM and then they batted it back to us?

Mr McLaughlin:

We have to stop this ping-pong. I propose that we have an inquiry, and that will force a decision on which Committee will take it forward. We may be told that we cannot do it, or that we should agree with other Committees that have an interest. I can see that the Enterprise, Trade and Investment Committee has an interest and that the Justice Committee has an obvious interest. We can formulate a joint approach or reach agreement that one or other of the scrutiny Committees will take the lead and others will feed into the overall inquiry.

I propose that we hold an inquiry and take it from there.

The Chairperson:

Do members agree to the proposal?

Members indicated assent.

Mr McLaughlin:

I do not want to discuss the circumstances of the Quinn Group at the moment. However, the Quinn Group focused on a system of bypassing the legal system here, and other companies are starting to do so too. If there were an accident or a claim, they sent someone, basically, with chequebook in hand who negotiated virtually on the doorstep. If the company obtained the necessary certificate of satisfaction, the cheque was written there and then, cutting out the legal profession. That had its advantages for the Quinn Group. It also has disadvantages, and we have heard examples of that. In some cases, although the certificate of satisfaction was signed, some claimants subsequently fought court cases and won the right to re-open claims because settlements were completely inadequate.

So, there are a lot claims and counterclaims, if that is not an awful pun to use when we talk about insurance. However, the industry seems to have been playing fast and loose. It is not, as it used to explain, a problem of companies in Britain having a bias, or discriminating, against people here. The information deficit has been exploited by operators here as well. At times, I wonder whether there is any real competition. We do not know who the clearance houses are or how many of them operate. At the end of the day, there may be different labels or High Street shop fronts but they may all be dealing with the same clearing houses. I think that there are only

two that operate here in the North, so where is the competition?

There are grounds for an inquiry, to which your report could make an absolutely vital contribution. I would like it, as soon as possible, to be evidence in a formal inquiry here to see what can be done. Thank you for your work.

I would also like the industry to come before this Committee. I would like to hear it justifying its explanation that it is all down to the legal system here. I would like the commissioners to explain to us why the costs are demonstrably higher and why there is such a restrictive access to the courts, and whether that is necessary. That is a contributory factor also. Notwithstanding the reserved issues involved, these matters are within the ability of this Assembly to do something about. You have done good work, and I hope that we will be able to take it forward.

Ms Purvis:

I want to ask about households, particularly low income households that do not have contents insurance. From experience, whether through bomb blasts or floods, many families who live in Housing Executive or housing association accommodation do not have any other savings or income. Have you found any evidence that people take up contents insurance after they have a disaster? I do not want to use the word “incentive”.

Some families on low incomes have household contents insurance, but the cover is inadequate. If their homes are flooded, or whatever, their loss is not covered because their cover is so low and the excess is too high. When people in vulnerable households that have been flooded perhaps two or three times renew their contents insurance, the premiums and the excess are quite high. Is there any way that that can be regulated?

I am very interested in your work with the housing associations. It is great and very much to be welcomed. I raised the issue of insurance with Margaret Ritchie, the Minister for Social Development, at the time of the last floods. I asked her to work with the Housing Executive to consider a contents insurance scheme for particularly vulnerable households. Are you aware of any work that has been done through the Department for Social Development (DSD) and the Housing Executive in that regard? It would save the Housing Executive and the Department an awful lot of money in the long run when they are trying to refurbish homes that have been damaged by floods.

Have you looked at the cost of insurance for businesses? Have any businesses approached you? I have been approached by a couple of businesses in relation to how the cost of employers' liability insurance increases year on year even when no claims are made. Another issue that was raised was the need for directors' insurance and its cost to businesses.

Ms McCurley:

The Housing Executive has joined the financial capability partnership and has looked at its financial inclusion strategy. It signposts its tenants to a product run by Supporting Communities. That is its method of trying to increase take-up of home contents insurance. We are working with it to give out the home contents insurance leaflet, which details why home contents insurance is important and what to look out for. It has some top tips in respect of excess and what should and should not be covered. We work with the Housing Executive to issue that to its tenants and signpost why it is important to have insurance.

On the issue of businesses, our role was to look at the cost of insurance for consumers, so we have not had any dealings with businesses that have contacted us and we have not investigated further on those two issues.

Ms Cunningham:

An interesting fact is that, this winter, around 350 homes in Northern Ireland were affected by internal sewage flooding. Insurers in the UK, as a whole, paid out £164 million on around 60,000 claims associated with the freezing cold weather. That is an average of £322 for each home. There is no evidence to suggest that people who have been affected by that do not take out insurance again. Perhaps the issue needs to be considered, but there are concerns about the way insurers handle claims and bury their inclusions in the small print. That has undermined confidence and contributes to the perception that insurance is not worthwhile. That must be addressed.

Ms Purvis:

Do you have any evidence that the excess and premiums have shot up for households that have been flooded two or three times in the past couple of years to the point where some people can no longer afford insurance?

Ms McCurley:

We do not have any specific evidence about that, but we have heard from consumers anecdotally, and we have raised the issue with the ABI, which has been working with Departments here to try to come up with mechanisms to deal with flooding.

Mr McLaughlin:

Some councils can provide that evidence. The situation that Dawn described has happened, and it is especially the case that the excess charge has become so prohibitive that people who want to insure their homes have found that insurance is denied to them because they cannot afford it.

The Chairperson:

On the back of your comments about the Department for Social Development, I remember hearing about individual homes being affected by, aside from the flooding issue, theft or fire. Home contents were destroyed, and the people did not have housing insurance; perhaps because they were receiving housing benefit. Are the Housing Executive and housing associations developing a type of block insurance for people who live in such households? It would offer them the opportunity to make a minimum payment, and they could pay for insurance through their rent. Has the Housing Executive ever offered such a scheme to people in the social housing sector?

Ms McCurley:

The Supporting Communities scheme is intended to meet the needs of Housing Executive tenants; so it can be described as a basic insurance product. The Housing Executive has not looked at how that could be collected with rent, and I think that legal reasons were given when we raised the issue. The Housing Executive is working on the matter, and it might be worth speaking to it to find out what it is doing on the issue.

The Chairperson:

A number of people think that their contents are insured with the building when they are Housing Executive tenants, so awareness about the matter must be raised. It is only when something is stolen, or is damaged by fire, that people realise that they are not covered.

Mr McQuillan:

Most of what I was going to say has been touched upon, but this is an issue on which the

Assembly can make a difference. An inquiry on the cost of insurance would be worthwhile, whether it is undertaken by our Committee or another Committee, because this is a rip-off. In your presentation, you mentioned that the cost of insurance in rural areas was so many percentage points higher. Why is that happening, and what is the justification for that?

Ms Cunningham:

We do not know. Many premiums are calculated on the basis of postcode, but we do not know why, because we do not have figures to compare the number of claims made here with those in GB. Limited data is available to suggest that there is a higher incidence of thefts or accidents in those areas.

Mr McQuillan:

Crime figures in rural areas are usually much lower than those in the city, so that goes against the idea of insurance being more costly in rural areas. We have to do something about the insurance industry. An inquiry is the best place to start. I wish you well, and I am sure that we will give you any support that we can.

Mr F McCann:

Your earlier presentation this morning opened a few people's eyes. One of my concerns was the accusation that we live in a claims culture despite there being no real evidence for that, apart perhaps from court figures. That is a slight on people who live here and does not reflect our society.

Another of my concerns has been the use of disregards in insurance, which means that people have to pay the first £200 or £300 of a compensation claim. In many areas throughout the North, people live at interfaces and may get their windows broken or their roofs or cars damaged. The cost of most of that damage falls just below the disregard level, so it is almost pointless for the people affected to enter into insurance agreements.

A while ago when I was going on holiday, I went on the internet and was surprised by the wide difference in the prices of holiday insurance and how cheap it can be.

There are instances in which joy riders, or death drivers, have driven through yard walls or front gardens, and, after a while, insurance companies are very reluctant to offer policies in those

areas. This is a serious problem, because companies seem to pick and choose, especially in areas of high deprivation.

Mr Craig:

What are your opinions about the postcode lottery for insurance? Is the way that insurance companies use postcodes justifiable? That is a pertinent question for the Lagan Valley area, a huge chunk of which is classed as being part of Belfast because of the way in which postcodes are used. Hence, one can go from one postcode to another, and the insurance cost will double. No account is taken of crime levels in the areas where applicants live. Is that a justifiable situation?

Ms McCurley:

We have spoken to the ABI about that. Obviously, insurance has to be based on risk, so insurers should be able to justify the evidence that they use to measure risk. That is important, because, if there is no evidence of a higher number of accidents or a higher level risk in an area, insurance should not cost more for people who live there.

Mr Craig:

Is the postcode system a sensible one to use?

Ms Cunningham:

The ABI would say that the evidence here is not as up-to-date as that used in other parts of the UK. The reason why that data has not been refreshed or updated would come out in an inquiry. Updating the data would provide greater nuances, so instead of using a lump postcode, areas would be much more narrowly defined.

Ms Purvis:

One of the reasons that the ABI gives for the higher cost of insurance here is the cost of fraud. The Insurance Fraud Bureau said that fraud costs the insurance industry £1.5 billion every year. Has the bureau provided you with any statistics on the level of insurance fraud in Northern Ireland compared with the rest of the UK?

Ms Cunningham:

No. When compiling our report, we found that the relevant agencies were reluctant to disclose the data. As a result, it is not possible for us to assess whether fraud is a big issue here.

Ms McCurley:

Again, that is something that the inquiry could look at.

The Chairperson:

I thank Julie, Joleen and Alison. The Committee has agreed that the way forward is an Assembly inquiry. We will liaise with the other Committees and decide on the best way to take that forward, whether that is an inquiry by this Committee, a joint-Committee, or whatever. We will be in touch soon to sort out how that will be taken forward.

Ms McCurley:

That is great news. We really appreciate the support of the Committee. If there is anything that the Consumer Council can provide, please get back in touch with us.