



Northern Ireland
Assembly

**COMMITTEE FOR
FINANCE AND PERSONNEL**

**OFFICIAL REPORT
(Hansard)**

Cost of Insurance in Northern Ireland

16 June 2010

NORTHERN IRELAND ASSEMBLY

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Members present for all or part of the proceedings:

Ms Jennifer McCann (Chairperson)
Mr David McNarry (Deputy Chairperson)
Dr Stephen Farry
Mr Simon Hamilton
Mr Mitchel McLaughlin
Mr Adrian McQuillan
Mr Declan O'Loan
Ms Dawn Purvis

Witnesses:

Mr Nick Starling } Association of British Insurers

The Chairperson (Ms J McCann):

We will now take evidence from the Association of British Insurers (ABI). I welcome Nick Starling, ABI's director of general insurance and health, to the meeting. I invite him to make his opening remarks, after which I will open up the meeting for questions.

Mr Nick Starling (Association of British Insurers):

Thank you for your welcome on this beautiful, sunny day. It is a pleasure to be here. I wish to make a couple of opening statements. Insurance is widely available across the UK, including in Northern Ireland. It is an extremely competitive market, with a large number of suppliers providing different types of insurance. People can buy insurance from supermarkets, online, from brokers or directly from insurers; there is no shortage of supply. Insurance is a simple concept:

payment for claims needs to be covered by premiums that are based on the risk that drivers present. Essentially, the more risk an individual presents, the higher his or her premium will be. That is essentially how insurance operates.

The Chairperson:

You will have heard me ask the researcher, Eoin Murphy, about that fact that insurance is based on a person's risk. Why is the postcode of the area in which a driver lives also a factor? Surely, every driver and the risk that they pose is looked at differently, so why is insurance higher for those who live in certain postcode areas, such as BT17, than for those who live elsewhere in the North?

Mr Starling:

Does your question relate to motor insurance only?

The Chairperson:

Yes.

Mr Starling:

Insurers calculate their premiums for motor insurance on the type of car being insured, the driver's age and gender — age is a critical determinant, because young drivers, particularly young male drivers, are disproportionately more dangerous on the roads than others — and his or her claims experience. One of the difficulties with having average premiums data is that most people, and most of us in the room, have no claims discounts and are paying less than what a premium would normally be.

Premiums are also based on the areas in which people live and on insurers' experience of the claims made in those areas. Increased personal injury accidents or increased vehicle thefts in an area are determinants. Insurers base their premiums on the data around claims, and some of the data relate to the areas in which people live.

The Chairperson:

Basically, you are saying that BT17 is the area from which most claims come.

Mr Starling:

Insurers have different ways of rating factors, but the price that they charge will be based on their experiences of claims from particular areas. People in London, where I live, generally pay more for their motor insurance, but some parts of London pay even more again. That relates to insurers' experiences of claims.

Mr O'Loan:

Thank you very much for coming to the Committee.

Your submission does not appear to challenge the findings in the Consumer Council's research study that car insurance here is remarkably more expensive than it is in other parts of the UK.

Mr Starling:

The report by the Consumer Council was disappointing and based more on anecdote than analysis. It indicated that, in some areas, particularly property insurance, some consumers here pay more and some pay less. We acknowledge that motor insurance is more expensive in Northern Ireland, although the report exaggerates the extent. The higher cost of car insurance is based on the fact that the cost of the personal injury compensation system in Northern Ireland is higher than it is in other parts of the United Kingdom.

Mr O'Loan:

The Consumer Council report quotes figures from several sources. The use of median figures is what persuades me. You can find highs and lows by shopping around, but if the median premium paid here for a particular category of insurance is far in excess of the median that is paid in other parts of the UK, I cannot but conclude that there is a real issue. Do you accept that?

Mr Starling:

I accept that there is a real issue, but the real issue does not relate to how insurers here distribute and price their products; it is simply due to the fact that the costs that relate to motor insurance are that much higher.

Your researcher talked about the breakdown of an insurance premium. I cannot give you details, but a very large part of the insurance premium is due to personal injury costs, which can

be extremely high, as can the associated legal costs. That is what adds to the cost of a premium.

Mr O’Loan:

According to Auto Express, personal injury compensation accounts for about 17% of a car insurance premium, although I do not know how solid that research is. Is that a sustainable figure?

Mr Starling:

I do not have any data on that, but the percentage is probably higher. Perhaps I can give you a breakdown of what makes up an insurance premium. If you have an insurance premium of £400, 5% of it is used for insurance premium tax and £30 pays for uninsured drivers. Compensation for injuries caused by uninsured drivers is paid by the Motor Insurers’ Bureau, which is fully funded by the insurance industry and costs about £400 million a year. All of us around this table are paying for uninsured drivers.

Another £40 pays for generalised insurance fraud, which is a problem across the UK. Lawyers take £1 in every £9, which is another £40. Of your £400 premium, £270 is working for you; the rest is paying for tax, fraud, uninsured drivers and personal injury lawyers. You can see how costs mount up. A major component — at least half, I imagine — of the £270 is used to pay for personal injury cover. I do not want to bore you with figures.

Personal injury costs can be extremely high. We are aware of cases of individual accidents costing the UK insurance market upwards of £20 million. That figure comes from two or three young passengers in a car receiving lifelong disabling injuries. The costs of personal injury can be extremely high.

Mr O’Loan:

Is there is an open and competitive market here? If there is not, it could be because some kind of cartel is operating, or it could simply be because there is a tradition of higher premiums here that has not been challenged. The Consumer Council’s report notes that far fewer companies operate in the market here than operate in Great Britain. Why is that the case?

Mr Starling:

I am quite clear that there is not a cartel. There is no collusion between companies. Most are

members of our organisation, but they all compete fiercely. The report greatly underestimates the number of companies that operate here; we do not know how the Consumer Council came to that conclusion. Our analysis shows that about 55 providers operate here; we gathered that information from going to just one comparison website. As I said earlier, one can buy insurance from many places, including insurance companies, the post office and online. It is an extremely — and increasingly —competitive market.

Ms Purvis:

You talked about personal injury claims, legal costs and insurance fraud adding to the cost of insurance. What are the costs of those in Northern Ireland?

Mr Starling:

I do not have figures. In some cases, we know that costs are higher in Northern Ireland; in other cases, we do not have figures on specific costs. Insurance fraud is a problem across the UK; we reckon that there is about £2 billion worth of undetected insurance fraud a year. More cases go to court in Northern Ireland than are settled out of court, and the amounts paid in claims tend to be higher: about 40% of claims in Northern Ireland reach the courts; in England and Wales the figure is 3.5%. Historically, claims have also been higher in Northern Ireland.

Moreover, fees do not relate to the size of the claim so there is a fixed fee across different claims; that too adds to the costs. In the rest of the UK, a lawyer can take a great deal more money than the person who is being compensated. That is a general problem, and it is compounded in Northern Ireland by the way in which the system operates and by the higher compensation that is paid.

Ms Purvis:

You understand that I am talking about Northern Ireland, and I understand that you are talking about the UK as a whole. Why are there no figures on fraud in Northern Ireland, the cost of personal injury in Northern Ireland and the legal costs in Northern Ireland?

Mr Starling:

We do not collect those figures generally; they are not straightforward figures to collect. The figure that I gave you on fraud was calculated from our research and analysis. By definition, fraud is undetected, and we cannot detect where it is happening.

Ms Purvis:

You can understand why there is a lack of public confidence when the figures are not open and available. We have to take your word that costs are higher; we cannot see clearly what the costs are. One of your priorities is building consumer confidence. What steps have you taken to build consumer confidence, particularly in Northern Ireland, given that there does not seem to be much transparency on costs?

Mr Starling:

I am surprised to hear you say that there is not transparency, as we try to give as much information as we can. I can give one or two examples of costs. For example, a minor whiplash claim in England and 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 and Wales and from £17,000 to £35,000 in Northern Ireland. There are very big differences in the size of claims, although I do not know whether that is a matter of public record.

Despite what we have said, we do not accept the assertion that there is a huge discrepancy in costs. I realise that there is a danger in swapping anecdotes, but my people visited websites this morning to consider typical cases. They found that a person who lives in Leeds will pay 15% more than a person who lives in BT14. I accept that that is a major differential, but it is not as high as suggested by the Consumer Council's figures, and it is readily explained by the different legal systems.

Ms Purvis:

Do you not accept that there are huge cost differences?

Mr Starling:

There is always a huge variety of costs. Committee members are busy people and may not have much free time; however, if they visit a price comparison website and enter exactly the same details, they will be quoted an enormous range of costs. My first advice is to shop around. My recent motor insurance renewal cost £440; however, I found a renewal for £280, which is an immediate and enormous variation in cost. In almost all cases, it is possible to find a lower cost. Our members operate in a very competitive market in which costs are not nearly as different as has been portrayed.

Ms Purvis:

It is difficult to assess that. Since clear figures are not available for the independent assessment of the cost of insurance in Northern Ireland, it is probably difficult for the Consumer Council to assess that. Without figures, as the industry claims, on how much insurance fraud, personal injury claims and legal costs add to the cost of insurance, it is difficult for us and other organisations to assess the situation.

What steps have you taken to address your priority to build consumer confidence? How will you measure that?

Mr Starling:

That is a big question. Consumers are confident if they are knowledgeable about the product that they are buying; they know what to look out for and how to manage their own risk. Aside from buying a smaller car, one of the quickest ways to reduce the cost of motor insurance is to drive without accident. Insurers operate a system of no claims discounts. Given that that is a gross cost, it is difficult to give an average cost for insurance. Most people have a discount. No claims discounts build up extremely quickly and have a substantial effect on the cost of insurance. Therefore, to build confidence we must make people aware of what they are buying, how to shop around and how to consider the quality of the product as well as the price. Above all, when they make a claim, they should be confident that it will be dealt with quickly and efficiently.

Ms Purvis:

You mentioned no claims discounts. Many people think that no claims bonuses are non-existent, since premiums increase every year.

Mr Starling:

I do not understand your point.

Ms Purvis:

If no claims discounts exist, drivers should, surely, be rewarded for not making a claim in a year. Premiums should go down, not up; however, they go up every year.

Mr Starling:

I am not sure that that is necessarily the case. Premiums have gone up in the past year right across the UK because of the cost of personal injury compensation. However, they always vary. It is a competitive market, and most people shop around.

No claims discounts can be 60% or 70% if people build them up long enough; that makes a substantial difference to premiums. However, I come back to my original point: insurers compete, but if the amount of money that comes in from premiums is less than what is paid out in claims, that will lead to a problem. Premiums exist to cover the cost of claims, which is what they do. The variation in that reflects the claims costs.

I will add a rider: despite road safety increasing year on year, claims rise all the time; that is a problem across the United Kingdom. That may be a societal issue, but it is the case nevertheless. There are more claims than ever before.

Ms Purvis:

I want to ask you about home insurance, and about contents and buildings insurance in particular. My constituency has suffered from floods in recent years. The cost of insurance for householders in those flood-risk areas has increased to the point at which the excess on insurance policies is prohibitive in respect of taking out insurance. The excess on one householder's insurance was £5,000. How do you hope to market a policy to a customer with such an excess?

Mr Starling:

An important component of property insurance risk is where a person lives and where their house is located; if a person lives in an area of high flood risk, that will be reflected in their premium. I live in an area of London that is prone to subsidence, and that affects my premium; however, the flood component is less. That is universal in how insurance operates.

One of the ways in which insurers can reduce the premium that they charge is to have an excess; in other words, the amount that a person pays towards a claim. I will come back to that in a minute. There is a choice of whether to pay a higher premium or an excess, which means that the first part of a claim is not paid. An excess of £5,000 is at the higher range; it is not usual for it to be so high. The cost of a typical flood claim is anything between £20,000 and £40,000, so the substantial part of a claim will be paid by the insurance company. However, that does not mean

that the customer has to pay that £5,000; it means that if they had a complete renewal of the house, the contents, the building and everything at a cost of £40,000, the insurers would pay £35,000. The customer can elect not to replace some of the furniture or carry out the decoration themselves; it does not mean that it is necessary to pay that sum of money. Even with such an excess, most of the claim would be paid nevertheless.

Ms Purvis:

According to your paper, the ABI has organised a round-table meeting of stakeholders to discuss how to improve the take-up of home insurance in Northern Ireland because you support the Consumer Council's recommendations. Why did it take so long to arrange the meeting?

Mr Starling:

My answer will sound slightly like a debating point: we got no takers for the first meeting that we arranged. We have done a great deal of work, particularly since the widespread floods in 2007 from which we took various learning points, including some about social exclusion. I think that Northern Ireland experienced it first on that occasion. One point was the extent of non-insurance, particularly by people who live in rented accommodation and also the extent of underinsurance.

One reason why people found that their premium went up after being flooded is that, having paid the claim in full, the insurance company pointed out that they were underinsured: they did not have enough insurance to cover all their possessions. The increase covered the fact that they had more possessions.

We reckon that some 75% of people in the UK have contents insurance. However, in areas of social deprivation where people live in rented accommodation the figure can be as low as 50%. Therefore we have been working to promote the uptake of tenants' contents insurance, which is extremely cheap; often as little as £1 a week. It has no excesses, and the risk is spread across several tenants. It ought to be a no-brainer for housing officers and officials to recommend it.

The Association of British Insurers is a fairly small organisation, so we cannot do everything at once, but we have been going around the country. On 21 June — at the second attempt — we hope that enough people will come along to enable us to spread the word about the importance of tenants' contents insurance. Tenants' contents insurance should solve quite a few social

deprivation issues, given that, if I am correct, most people live in rented as opposed to owner-occupied property.

Ms Purvis:

Is the Department open to the idea of tenants' home contents insurance?

Mr Starling:

I would hope so. You talked about consumer education; it is a matter of educating consumers that tenants' contents insurance is not hugely expensive, so people should be more aware of it.

The Chairperson:

I spoke to some of the insurance companies that were involved in the project to visit various areas to promote tenants' contents insurance. We suggested that they should link in with the Housing Executive and housing associations to enable them to be proactive in informing people. Many people who live in social housing believe that their contents are insured because their building is insured. Is awareness being raised? Some of the housing associations said that if such a link existed, they would come on board to help, but I do not know how far that has progressed.

Mr Starling:

That is the purpose of having round-table discussions. The best way forward would be for other people, particularly interlocutors who are known and trusted, to sell the message that people ought to buy a particular insurance; the point of the round table is to inform those who can exert such influence. If we want building work done at home, we often rely on a neighbour to advise us about whether a given contractor is good. It is exactly the same for people who are advised that they should take tenants' contents insurance because someone whom they trust has taken it themselves and thinks that it is great. It is a case of the more the merrier for those who spread the word by coming along to the round table. Everyone around this table is invited.

The Chairperson:

I would be interested to know how that initiative progresses.

Dr Farry:

Welcome, Nick. Would it be better for the UK industry to demonstrate greater clarity about regional differences in premiums, or do companies not wish to publicise such information

because they consider it to be commercially sensitive? What are your stakeholders' views on the issue?

Mr Starling:

All our member companies take different approaches to different areas; they have different appetites for risk and they may specialise in particular areas. Therefore, to get an overall picture of what they do is extremely difficult if not impossible.

Dr Farry:

Is it in the interests of the industry to be as transparent as possible about regional discrepancies?

Mr Starling:

It is good for the industry to be clear about what contributes to the cost of insurance. However, insurers will not give away their commercial reasons for pricing in particular ways, and they will not produce a regional breakdown of information. Nevertheless, we can point to where costs are associated with particular regions or areas, such as high crime rates, high flooding risks or particularly high legal costs.

It would be extremely difficult to break that down further and to publish details.

Dr Farry:

In a sense, there is a partnership in that we will challenge you to ensure that there is a properly competitive market in our region and across the UK. However, if public policies are contributing to differences, I imagine that you will be equally frank in encouraging policymakers like us to level those conditions.

Mr Starling:

That is absolutely right. There are opportunities to tackle legal reform; there are certainly opportunities to reduce flood risk. Northern Ireland is at less risk of flood than other parts of the UK, but flood defence expenditure and flood risk management expenditure have fantastic returns. I imagine that members have constituency experience of the misery that flooding causes households and communities. For every pound paid by insurance companies in flooding costs, countless pounds are spent meeting social disruption and wider costs. Therefore, the more Government do to mitigate that risk and allow insurers to carry the residual risk, the more the

flood risk will reduce, which will lower premiums in high-risk areas and make everyone happy.

Dr Farry:

Some of my colleagues are among those critical of the Consumer Council report, but, based on the figures that we have and the graphs that were produced, it struck me that the council compared regions elsewhere in the UK but discrete areas in Northern Ireland. We do not have a snapshot of how Northern Ireland as a whole compared to any other region in the UK. That is why I enquired how the industry could help to provide more solid, reliable figures.

Mr Starling:

That is difficult for the industry to do. It is probably not too difficult for a couple of researchers with a computer to spend a couple of weeks building up quite an analysis of the variation in costs.

Dr Farry:

Are you saying, in essence, that it is preferable for independent researchers to compile an impression — albeit of 80% or 90% accuracy — rather than for the industry to provide its definitive view that researchers would then critique?

Mr Starling:

First, the industry's data are almost certainly not kept in a form easily analysed or used, because all our members use different approaches and they will, understandably, protect their data fiercely for commercial reasons. Comparison websites can provide a quick idea of costs across regions, which is as good a parameter as any to assess.

I come back to the fact that our members' approaches are very diverse. I live in London and even I have found that some companies do not particularly want to quote because they think that my area has a high risk of subsidence. Other companies do quote. They each have different appetites for risk and approaches to rating factors. For example, some of our member companies target older drivers — they have a more sophisticated approach to them, understand them better, and they rate them and deal with older driver issues differently from other companies.

Dr Farry:

That touches on the segmentation of the market and the fact that insurers may not want to quote for certain areas. You also referred to the Consumer Council perhaps not presenting an accurate

picture of those companies operating in Northern Ireland. Does the industry see Northern Ireland as an integral part of the UK market, or is it regarded as a discrete market that some people will enter and others will not?

Mr Starling:

It varies from company to company. Some companies tend to look at the whole market in Ireland, north and south. The ABI does not go into detail with its members about their commercial approaches, because we are not there to do that as a trade association. They will have various reasons of marketing, expertise, presence on the ground, and so on, for concentrating on some areas rather than others. There is no overall answer to that question.

Dr Farry:

Essentially, you imply that there is a degree of segmentation: Northern Ireland is separate from the rest of the UK.

Mr Starling:

A large number of companies operates in Northern Ireland. I have not done specific analysis other than to be aware that there is a thriving market here.

Dr Farry:

Do UK companies insure, for example, in England and Wales, or Wales and Scotland, or England but not Wales and Scotland? Do companies treat the other three UK counties as a single market?

Mr Starling:

I do not know what approaches they take. The reason that it is difficult to answer that question is because, historically, many of our member companies are located in particular areas and are amalgams of companies that were there to serve those areas. There was a tradition of local insurance companies based in particular areas and serving their communities. You might find that some companies, historically, have that footprint.

For example, one of our member companies was particularly exposed after the floods in Cumbria at the end of 2009 because it had bought a local insurance company that had been based in Carlisle and had, therefore, traditionally insured much of the area. It picked up much of the risk. Similarly, Scotland has always had a large insurance presence of companies that serve

particular local markets. Therefore, it is difficult to give an overall answer to that question.

Dr Farry:

To what degree are postcodes a factor in determining premiums? Differences between postcodes can be fairly arbitrary. Postcodes can cover a range of areas. Surely postcodes would be of greater consideration with regard to property insurance, because property is fixed in a particular location and could be prone to problems such as flooding, as opposed to car insurance, because drivers operate beyond the areas in which they live. There is much more mobility.

Mr Starling:

I want to move away from the idea that companies use postcodes to determine premiums. All our member companies use geographic information. Depending on the company, there are different levels of resolution. Therefore, with regard to property insurance, for example, some of our member companies use extremely sophisticated mapping techniques so that they can look at elevation, soil type, and so on in a particular postcode area. Therefore, in most cases, it is not just as arbitrary as a postcode.

However, they do base their pricing on many issues and profiles, one of which is claims. In certain parts of the country claims are higher for personal injuries and accidents than in others. The companies that compete well and are ahead of the game are those that are most sophisticated about how they price risk. They always look at better ways to price risk and move towards more sophisticated models.

The Chairperson:

Although it was mentioned earlier, there seem to be no statistics specifically for insurance costs in the North of Ireland. For example, how many accidents are there? How much is paid out in fraudulent claims? If we are to conduct an inquiry, we need more information. Is there a willingness to compile and provide that information if we were to ask for it?

Mr Starling:

Our members do not compile information on that basis.

The Chairperson:

It would help to inform our inquiry.

Mr Starling:

I understand that. We know from our figures the average claims that are paid, and we can provide you with that information. However, we could not provide details of how our members calculate that information.

Essentially, our member companies are customer-focused. When they deal with a claim, they concentrate on the claim itself rather than on where it is. They calculate the cost of the claim for their overall management information. Their key concern is not where the claim is but to help the person who makes it, which is what they tend to concentrate on.

The Chairperson:

Yet when they set the premiums they consider the person, particularly in the case of car insurance.

Mr Starling:

Anyone who has filled out an application form for car insurance will know that companies consider various personal characteristics, such as our age, which is a huge determinant, what car we drive, whether we have made claims in the past, and so forth. However, against that, they will take the overall background, which is part of the claims background, of the cost of the system in which they operate. The system in which they operate in Northern Ireland means that costs are higher due to personal injury claims; whereas parts of England, Wales and Scotland have substantially higher property insurance costs than other areas because they are very prone to flooding.

The Chairperson:

One of the indicators in the rating system is the geographical area or BT code. How do you know that more people make claims in one particular area if you do not have the data to support that?

Mr Starling:

That comes from companies' individual claims experience. What I am saying is that we do not collect any of that data.

The Chairperson:

Do the individual companies have that data?

Mr Starling:

Companies will have different ways of approaching risk; each will calculate different factors. However, that information is not available across the piece. Of course, there may be commercial considerations. Simple things such as distribution costs may affect how companies price.

The Chairperson:

Thank you very much for your help. We will try to get some information from individual insurance companies.