



## BRIEFING PAPER SUMMARY

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# Briefing Paper summary

By Timothy Edmonds

## 1. Motor insurance: car or driver?

A [petition](#) is scheduled for debate on Monday 5 March 2018:

Insurance should be on the car itself instead of the individuals who drive it

In some countries, such as America and Portugal, insurance is based on vehicle itself instead of being based on the individual who drives it. This is an effective method for families and friends as they are able to share a car without paying for multiple insurances.

The problem the petition is seeking to address is summarised in the further information given:

Scenario: 3 friends go on a night out in the same car, they all have driving licenses, but only one of them is insured on the car. 2 of them are under the influence of alcohol and incapable of driving, including the car owner. If the car was insured on itself, the sober friend could drive it legally. However, because each individual is insured on the car, no one would be able to drive it as it would be illegal.

### General

Motor insurance in the UK is priced according to the risk of a claim perceived by the insurance company. Factors that affect this risk include:

- Age and gender of driver
- What type of vehicle
- Where the vehicle is usually kept or used.

The petition seeks to limit the impact of the first of these factors. This would significantly benefit younger and older drivers. Insurers would then have to decide how to match risk and premium without an age filter.

In the real world, there are examples of where it is the car not the person that is insured.

Hire Car firms work on this basis. Many business fleets are insured on this basis too. Individuals can insure the car and have 'named drivers' which allows a dominant driver to occasionally share insurance with a less frequent user. So, the petition is calling for something that already exists in certain circumstances to be applied generally.

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It is not clear though that the solution proposed by this petition would solve the broader issue of the high cost of motor insurance for young people. For example, hire cars are frequently restricted to drivers over a certain age, often in the range of 23-25 years old.

Fleet operators have extensive bargaining power but even they set some restrictions – the person will be above a certain age and they are in the firm's employ.

Where the insurers could not enforce an age ban they would certainly continue to seek to set premium rates such that total premium income matches total claims. Under this scenario the people who cause the fewest claims would pay a lot more for insurance and the people who have the most and the most expensive accidents would pay much less. But, ignoring the 'equity' point, if one moved to a car based scheme to give young people cheaper insurance the likelihood is that they would be denied insurance completely due to the same sort of age filter applied to specialised circumstances.

The model that the petition argues against is one that offers an incredibly easy and efficient (cost-wise) system of quote and renewal compared to the model which saw high street brokers (on commission often) advising customers on the 'best deal'. The fact that motor insurance costs are so high is not down to the administration or distribution model.

The petition also states that the system it prefers exists in other countries such as the United States and Portugal.

In [this article](#) about the system in the United States it suggests that the system is more complicated than as it is described in the petition:

The answer to whether insurance follows the car or driver depends on many variables, most notably the kind of insurance coverage being referred to. There are coverages that follow the car and coverages that follow the driver. In general, auto insurance follows the car instead of the driver, but the specifics of a claim can differ since insurance laws and coverage vary depending on the policy, coverage and state being dealt with.<sup>1</sup>

The article continues, pointing out that in the US, as in the UK, there is a difference between requirements to have 'liability insurance' coverage on a personal auto policy which follows the driver no matter whose vehicle is being operated, provided it is an eligible vehicle. All states, except for one (New Hampshire), require at least liability coverage. Liability coverage protects the insured (i.e., follows the driver) when the insured operates a vehicle owned by someone else". Comprehensive coverage is, however, car based in most cases but:

With comprehensive insurance which covers almost everything, it is the car rather than the driver that is covered. This, however, requires many stipulations to be put in place, such as who can drive the car. If someone other than the insured is driving a vehicle covered by comprehensive coverage and is not listed as a covered driver – even if the other person has permission – the other person might not be covered in an accident. Family members (such as children or a spouse) are generally already included in the policy definition of "insured."<sup>2</sup>

The Journal continues to probe the circumstances like these suggested in the extended commentary on the petition:

When an insured allows other drivers to drive his vehicle, then, and only then, does the question of whether insurance follows the car or the vehicle become even awkwardly relevant. The right question to be asking is not whether insurance follows

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<sup>1</sup> Claims Journal *Does Automobile Insurance Follow the Car or the Driver?* 5 June 2014

<sup>2</sup> Claims Journal *Does Automobile Insurance Follow the Car or the Driver?* 5 June 2014

the car or the driver, but whether or not other drivers will be covered by the insured's auto insurance.

Unfortunately, there is no bright line answer to the question, and it depends greatly on the language of the policies involved, the jurisdiction you are concerned with, and the specific facts involved. Permissive use is generally covered under the liability terms of an auto policy. As always, however, there are exceptions.

There are certainly insurance carriers and policies that will not cover any driver not specifically named in the policy. Other relevant facts include where the "other driver" resides and if they are related to the insured. In general, if someone is living in the insured's household and regularly drives the insured's vehicle, many insurance carriers expect you to have that person named on the policy. They will need to undergo the same underwriting and qualification process as any other policyholder.

There appears to be very little readily available material on insurance in Portugal. Looking at a [website for expats](#) in Portugal, although insurance follows the car there are extensive variations in premiums depending on voluntary age restrictions. One comment was:

Joking aside & getting back to the original question, although the O/P doesn't mention what sort of cover the quote is for it does strike me as expensive & FWIW, when I recently renewed my other car the quote I took was for only drivers of 45 years or older to drive the car & that immediately knocked €50 off the premium.

The other thing that is repeated often on this website was that fully comprehensive cover was much harder to get in Portugal under their system. In the UK, comprehensive insurance is frequently cheaper to get than third party (liability insurance the UK where it is the other way around.

The Association of British Insurers are aware of the circumstances of young drivers in particular. It puts the high cost of premiums down to things like changes in the Discount rate, fraud and Insurance Premium Tax:

ABI analysis shows that 10% of the average salary of drivers aged 18-21 now goes on paying their motor insurance bills - an average of £973 for comprehensive cover. This is more than five times the average proportion among all other drivers and equates to all their salary from 1 January to today, 6 February. This highlights that younger drivers are feeling the impact of rising motor insurance bills, caused by factors such as the current way compensation pay-outs are calculated and a resurgence in whiplash-style claims, the hardest.

Just over 10% of the average annual salary of drivers aged between 18-21 is now going on paying their annual motor insurance premium. While the increase in telematics policies that monitor driving behaviour has helped stabilise costs for some, this is five times the average proportion of the typical salary for all drivers that goes on motor insurance.

Today is 'Insurance Freedom Day' because the proportion of a young driver's typical salary, at 10%, that goes on paying their motor insurance premium represents 37 days earnings – or the equivalent to all of their earnings between the 1 January and today, 6 February. The average proportion across all other drivers is 2% of salary, with drivers aged 50-59 paying the lowest proportion at 1.30% of salary on average.

More than any other sector of the driving population, young drivers need the Government to act to help them manage their motor insurance bills. This is why the ABI is urging the Government to act by:

Introducing without delay its reforms to how compensation for large personal injury compensation awards are adjusted (known as the Discount Rate) to ensure a fairer system for claimants, insurance customers and all taxpayers.

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Pushing ahead with reforms to how lower value whiplash-style claims are handled.  
Since 2013 there has been a rise in these claims reported to the Government's Compensation Recovery Unit.

Freezing the rate of Insurance Premium Tax, which currently stands at 12%.

Implementing Graduated Driver Licensing (GDL) to protect both young drivers and those already on the road. Many countries have adopted GDL and have seen a significant improvement in the safety record of young drivers as a result.<sup>3</sup>

There is a Library Paper on [Motor Insurance](#) which looks at the general issues. There was a debate on [Car Insurance: Young People](#) on a previous petition in March 2017.

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<sup>3</sup> ABI [Press Release](#) February 2018

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