

Research Briefing
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The cost of motor insurance: impact of the Vnuk case

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Background: motor insurance

The obligation

The Road Traffic Act 1960 defines a motor vehicle as “a mechanically propelled vehicle intended or adapted for use on roads”. It includes typical cars, lorries, and motorcycles.¹

It has been compulsory for drivers of motor vehicles to take out insurance policies since the Road Traffic Act 1930.² The current requirement is set out in the Road Traffic Act 1988 (RTA 1988).

[Section 143](#) of the RTA 1988 says that a person must not use a motor vehicle on a road or public place, unless there is an insurance policy in force relating to the use of that vehicle. Failure to comply is a criminal offence. The policy must cover “third party” injury and property damage (meaning to other people).³

¹ See [section 253](#)

² 12 King’s Bench Walk, [Motor Insurance Indemnity And Hierarchy](#), October 2020, p2

³ Section 145

The market

In 2016, there were over 33 million insured motor vehicles in the UK.⁴ Three quarters of UK households – around 20 million – had a motor insurance policy in 2018.⁵

There are three main types of motor insurance cover available in the market:

- a) Third party cover. This is the most basic and the minimum legal requirement. It insures against injury or damage to third parties, not the driver;
- b) Third party, fire and theft (TPFT). In addition to third party cover, TPFT also covers the driver if their vehicle is stolen or damaged; and
- c) Comprehensive. This includes TPFT but also covers injury of the driver or damage to their vehicle.⁶

Logically, you might expect comprehensive insurance to be the most expensive, because it covers the most things. But in fact the opposite is true. TPFT and third party policies tend to be more expensive because they are more likely to be taken out by higher-risk drivers who just want to satisfy the minimum legal requirement.⁷

Insurance premiums have reduced significantly over the past year, especially for third party cover. This is likely due to reduced vehicle usage during the pandemic. People using their vehicles less is likely to mean fewer accidents and claims, so lower risk to insurers.

The average price of a comprehensive car insurance policy was £562 in the second quarter of 2017. In the second quarter of 2020, during the first national COVID-19 lockdown, this had fallen to £475. This further reduced to £417 in the second quarter of 2021.

Third party cover policies averaged £881 in the second quarter of 2021, a significant fall from the previous year's figure of £1,340.⁸

The most expensive place to insure your vehicle is London, and the cheapest is the South West of England. Regional differences exist because insurers think policies in some areas are higher-risk than in others (for example, because more accidents happen there, or because a car is more likely to be damaged or stolen).⁹

⁴ Statista, [Number of insured vehicle years* in the United Kingdom \(UK\) from 2004 to 2016](#), February 2019

⁵ Statista, [Number of households with motor insurance in the United Kingdom \(UK\) from 2013 to 2018](#), February 2021

⁶ The AA, [What are the levels of cover, and how does excess work?](#)

⁷ MoneySuperMarket, [Car insurance: UK price index](#), last updated 2 July 2021

⁸ Ibid

⁹ Ibid

The players

Four big players together have a majority of the UK motor insurance market. These are Admiral (15.4% market share), AXA (12.9%), Direct Line (11.8%), and Aviva (11.6%). Other sizeable insurers are Liverpool Victoria, Hastings and esure.

One company will often own several brands. This may be because it helps them tailor their products to attract different customers. For example, Admiral also own Bell and Diamond, and Direct Line also owns Churchill.¹⁰

Around 20% of UK motor vehicle policies are issued by insurers based in Gibraltar. According to Gibraltar's Minister for Digital and Financial Services, this is because of Gibraltar's "agility as a jurisdiction and the accessibility of the regulator."¹¹

2 The Vnuk case

Mr Vnuk is a Slovenian farmer who was knocked off a ladder he had climbed on a private farm by a reversing tractor with a trailer. The tractor was insured, but it wasn't clear whether the insurance extended to the use of it on private land. Mr Vnuk sued the insurance company for compensation. The European Court of Justice (ECJ) held in 2014 that the insurance should cover vehicles moving on private land. It also extended the categories of vehicles that need insurance.¹²

The Government has estimated that implementing the ECJ ruling in the Vnuk case would cost policyholders £1.227 billion – or an average rise of around £50 in the premiums of 25 million customers. PwC consultant Mohammed Khan said it could result in the average motor insurance policy rising between £5 and £20.¹³

The UK left the European Single Market on 31 December 2020. Because the ECJ ruling was before this date, it has effect in the UK, unless the UK decides to change the law to reverse it.¹⁴

The UK Road Traffic Act 1988 currently only mandates insurance for accidents on roads and other public places and has a narrower definition of the categories of vehicles that need insurance. So it would need to be amended change in order to implement the ruling. The Government initially said it

¹⁰ Statista, [Market share of leading motor insurance companies in the United Kingdom \(UK\) in 2020](#), September 2020

¹¹ Financial Services Bill Public Bill Committee, [Fourth sitting](#), 19 November 2020, col124

¹² Eur-Lex, [Judgment of the Court \(Third Chamber\)](#), 4 September 2014

¹³ The Express, [Car insurance price hike for all UK drivers due to this 'INSANE' European court ruling](#), 3 April 2017

¹⁴ House of Commons Library, [The status of "retained EU law"](#), 30 July 2019

would amend the Road Traffic Act to comply with the Vnuk ruling. As the scope of insurance policies would need to get wider to comply with it (to cover more things), the cost of policies would likely rise if it was implemented.¹⁵

2.1 MIB v Lewis

The [Motor Insurers' Bureau](#) (MIB) compensates victims of accidents caused by uninsured drivers, or drivers who can't be traced. It was set up in 1946 and is funded by insurers. It paid out over £305m in claims in 2019.¹⁶

Two agreements between the MIB and the Government [set out the circumstances](#) in which the MIB will pay out – an Uninsured Drivers' Agreement and an Untraced Drivers' Agreement.

These Agreements cover incidents on roads or public places – they were not intended to require the MIB to pay out for incidents involving vehicles used on private land.

In MIB v Lewis,¹⁷ however, the Court of Appeal ruled in June 2019 that the ECJ ruling in the Vnuk case now required that the MIB pay out in such cases, even though the Agreements with the Government did not contemplate this. The Government had not amended the Road Traffic Act 1988 to mandate insurance for vehicles on private land, as required by the Vnuk case, so the MIB would have to pay out for such claims.

As the MIB is funded by insurers, an increase in its liabilities would likely mean insurers charging policyholders more to reflect their increased costs.¹⁸ This would mean the cost of motor insurance rises for everyone.

2.2 Government response

In a Daily Telegraph column in 2017, Boris Johnson (then Foreign Secretary) described the ruling as “insane” and a “perfect example of...the over-regulation that has sapped the competitiveness of the EU”.¹⁹ The Road Traffic Act was never amended to implement the Vnuk ruling.

¹⁵ [Letter from Robert Goodwill MP to Louise Ellman MP](#), Chair of the Transport Committee, 22 December 2014

¹⁶ Motor Insurers' Bureau, [Annual Reports and Accounts 2019](#), p31

¹⁷ MIB v Lewis [2019] EWCA Civ 909

¹⁸ according to insurance broker Lockton. See Lockton, [UK court decision set to boost motor premiums](#), 18 June 2019

¹⁹ Daily Telegraph, [Compulsory motor insurance for lawnmowers, golf buggies and mini quad bikes? Thank god we voted to leave the EU](#), 1 January 2017 [paywall]

In February 2021 Transport Secretary Grant Shapps [announced plans](#) to “do away with the controversial EU ‘Vnuk’ law”, saying it would mark the start of a “new and prosperous future for the UK outside the EU”. The MIB [said it was](#) “delighted” by the Government decision, saying it would mean cheaper insurance for motorists.

It was initially unclear what steps the Government planned to take to reverse the Vnuk decision. However, Mr Shapps [pledged in June 2021](#) to “remove the impact of the Vnuk decision” by introducing primary legislation “at the earliest possible opportunity”.

2.3 Backbench and EU response

In June 2021 Conservative MP Peter Bone [also introduced](#) a Private Members’ Bill (Presentation Bill) which sought to amend the law “relating to compulsory insurance for the use of motor vehicle” and looks intended to reverse the Vnuk decision. It is unlikely to progress without Government support, although Mr Shapps said that the Government “will follow passage of this bill will interest”.²⁰

The European Parliament and the Council have also reached “provisional agreement” on changes to the law which are intended to reverse some of the impact of the Vnuk decision – in particular, by excluding on-road vehicles (such as garden tractors, mobility scooters, toy cars) as well as excluding electric bicycles from insurance obligations. However, these changes will only enter into force over 2 years after the agreement is formally approved.²¹

2.4 Westminster Hall debate

A Westminster Hall debate on the Vnuk case took place on Wednesday 22 September 2011. It was secured by Conservative MP Theresa Villiers.

Ms Villiers said she “welcomed” the Private Members’ Bill introduced by Mr Bone on this issue, noting her understanding that the “Department for Transport had advised on the drafting of the Bill”. However, since such Bills “almost never [get] the parliamentary time needed to reach the statute book”, she requested that the Government bring “forward their own Bill in Government time so that we can make repealing Vnuk a demonstrable benefit of leaving the European Union”.

Conservative MPs Sir Greg Knight and Sir Bill Cash noted that Mr Bone’s Bill is due to have its Second Reading on 22 October 2021, and will receive its

²⁰ [Statement UIN HCWS131](#), 29 June 2021

²¹ European Parliament, [Deal reached on new rules to better protect road accident victims](#), 22 June 2021

Second Reading if no MP objects to it. They therefore urged the Government not to object to the Bill – this would allow it to pass as long as no other MP objects.

SNP spokesperson Alan Brown said he would “welcome” action to lower drivers’ insurance premiums, but was “not convinced of the merits of Government time” to repeal the Vnuk ruling through primary legislation”. Shadow Minister Kerry McCarthy said she agreed, “as there are so many other pressures” on Government time.

Newly-appointed Transport Minister Trudy Harrison said the Government would “continue to explore bringing forward the necessary legislation” to reverse the Vnuk case “as soon as parliamentary time allows”. She however confirmed that the Government is “supportive” of Mr Bone’s Bill, and encouraged “the whole House to lend their support” to it. She confirmed that if Mr Bone’s Bill failed to proceed – for example, because an MP raised objections to it on 22 October – the Government would explore bringing forward the necessary legislation in Government time.²²

²² See [HC Deb 22 September 2021, vol 701, col 172-186WH](#)

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