



DEBATE PACK

Number CDP2017-0088, 14 March 2017

Cost of car insurance for young people

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Summary

There will be a Westminster Hall debate on Monday 20th March 2017 sponsored by Steve Double MP. The debate was triggered by [e petition 166847](#) which has gained over 185,000 signatures. The petition calls for :

Put a max of £1200 on car insurance for 18-25 year olds

Insurance companies are making it harder and harder for people aged 18-25 years of age to start driving. I myself am looking at a £2500 insurance for my first year driving which is completely unaffordable as i am earning minimum wage £5.30 per hour and am also having to pay bill for my property.

According to a survey, 96% of young drivers think they are being priced off the road.

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The House of Commons Library prepares a briefing in hard copy and/or online for most non-legislative debates in the Chamber and Westminster Hall other than half-hour debates. Debate Packs are produced quickly after the announcement of parliamentary business. They are intended to provide a summary or overview of the issue being debated and identify relevant briefings and useful documents, including press and parliamentary material. More detailed briefing can be prepared for Members on request to the Library.

1. Background

Summary

An e petition calls for a ceiling on the cost of *car insurance for 18-25 year olds of £1200. This level would be significantly below the average cost of insurance for young drivers.*

High car insurance premiums act as a barrier to young people having access to further education or employment. The problem is widespread though particular attention is paid to rural areas.

The insurance industry justify high premiums by pointing to the fact that young drivers are more likely to have accidents and much more likely to have 'catastrophic' accidents which can result in multiple £million settlements.

Accident statistics support this contention.

The government points to a wider range of measures it has taken to reduce premiums for all drivers.

1.1 Introduction

An e petition has attracted over 185,000 signatures. It calls for:

Put a max of £1200 on car insurance for 18-25 year olds

Insurance companies are making it harder and harder for people aged 18-25 years of age to start driving. I myself am looking at a £2500 insurance for my first year driving which is completely unaffordable as i am earning minimum wage £5.30 per hour and am also having to pay bill for my property.

According to a survey, 96% of young drivers think they are being priced off the road.

Aside from the cost to the individual of the premium, there is a broader public policy issue of mobility of the workforce. If individuals cannot travel any significant distance to work then the labour market becomes more fragmentary and inefficient. Similarly, if young people cannot attend college then society loses a potential skill base.

Lastly, if premiums are exceptionally high, the temptation on young people to drive without insurance rises. This imposes a cost on all car drivers. Claims arising from an accident involving an uninsured driver will be met by the [Motor Insurers Bureau](#) a fund financed by other premiums.

1.2 Scale of the complaint

There are numerous examples of how expensive insurance is. According to the AA British Insurance Premium Index (January 2017), average premiums for young drivers aged 17 to 22 are up to £1,436. However, many other 'typical' figures can be produced as they frequently reflect personal, extreme examples. The level suggested by the petition would,

on the basis of these figures, represent a *maximum* significantly below the average cost of insurance for a similar age band.

The Petitions data map shows that the source of many signatories was either in the North West or outside the central conurbations. This does not imply that insurance in say the centre of Birmingham would be cheaper in absolute terms than in rural Staffordshire, but that in cities there are far more transport options. Outside, the options are more limited. A 2012 Report, [Barriers to education, employment and training for young people in rural areas](#) by the Commission for Rural Communities commented:

For many rural young people, having a driving licence and being able to afford a car is essential. Many young people in rural areas prioritise saving to buy an old car as the only viable means of accessing further education, employment and social activities.¹⁴ However, even if a young person, usually with support from their parents, is able to afford driving lessons and purchase a car, high insurance costs are often prohibitive. On a visit to Kendal College, Cumbria, CRC heard from a number of students who were paying upwards of £200 per month in car insurance. One apprentice at the college stated that he was using some savings built up from a previous period of employment to fund his car insurance.

In oral evidence to the Petitions Committee Elizabeth Box, head of research at the RAC Foundation said:

From work we have done looking at the Department for Work and Pensions database, we see that one in five job adverts requires people to have access to a vehicle. On the apprenticeship database, one in six requires some sort of access to a vehicle. Given that often young people try to access employment, we know that is a big issue. We know that 63% of people travel to work by car and that figure is higher in rural areas, so it is a big issue.

[...] We know that in London about 22% of 17 to 34-year-olds need to travel to work by car, so it is not just a rural issue; it can be a city location issue as well.¹

Similarly young people are often excluded from car hire or car share initiatives. Elizabeth Box again:

When we looked at that we could see that young people were often excluded from access to car-share schemes. There was one in London where people had to be aged 23 or have two years' experience before they could even get access, so it is hard for people to start engaging in alternative car options.²

It is worth remembering that insurance is only one part of the cost of 'getting on the road' with the cost of lessons, the car and car maintenance, representing about 2/3rds of the total.³

¹ Petitions Committee [Oral evidence: The cost of car insurance for young people](#), HC 940; 28 February 2017

² Petitions Committee [Oral evidence: The cost of car insurance for young people](#), HC 940; 28 February 2017

³ [Daily Telegraph 10 March 2017](#)

1.3 Insurance industry response

Premiums reflect the claims history of each insurer and quotes are based on a wide range of factors:

- Geography
- Usage – total and time of usage
- Type and value of the car
- Experience of the driver
- Desire of the insurer to win market share
- Cost and frequency of likely claims

Over a significant period of time there have been a number of concerns about the market for car insurance. Periods in which premiums rose sharply are followed by periods of decline and later substantial rises. The industry expects there to be a new round of significant premium price rises.

The industry, however, points out that the market is fiercely competitive, driven by price comparison websites, and is periodically unprofitable as the table below illustrates:

TABLE 4: UK MOTOR REVENUE ACCOUNT (ANNUAL BUSINESS) £ millions

Domestic market	NET WRITTEN PREMIUM	Expenses				UNDERWRITING RESULT
		TOTAL	of which:			
			NET CLAIMS INCURRED	COMMISSION & EXPENSES	CHANGE IN PROVISIONS	
2007	7,912	8,287	6,316	1,756	216	(375)
2008	8,146	8,713	6,802	1,900	11	(568)
2009	7,727	9,215	7,542	1,742	(69)	(1,488)
2010	8,344	9,982	8,302	1,425	254	(1,638)
2011	9,345	9,588	7,431	1,782	375	(243)
2012	8,749	8,931	7,087	1,993	(149)	(182)
2013	8,407	8,402	6,473	2,070	(141)	5
2014	7,830	7,858	5,991	1,908	(41)	(29)
2015	7,816	7,860	5,796	1,879	185	(44)

Source: ABI

It has always been the case that (all other things remaining equal) that young people (and the elderly) pay more for car insurance than drivers in middle age. The particular issue which insurers say affects young people is that they are far more likely to have expensive accidents (see statistics section below).

In part it is the dramatic improvement in car safety which has cost the insurers so much. 30 years ago if a car hit a tree on a bend carrying four young people in it they might have all died. Now, with the advent of things like crumple zones and airbags, it is much more likely that some of the occupants will survive – but survive needing ongoing medical care. Increased longevity means that the insurance pay-out will now have to cover medical care for 50, 60 or 70 years, compared to a one-off ‘death’ payment: comparatively a far cheaper insurance figure. Now, an accident might cost an insurer £1million+ to provide a lifetime of care for multiple occupants of a car involved in a typical ‘losing control’ crash.

The Association of British Insurers gave evidence to the Petitions Committee in connection with this debate. They claim that the frequency and cost of claims made by young people exceeds that of other groups and this justifies the extra premium:

- Average claims cost: ABI statistics show that this is £3,787 (ages 18 – 20) and £3,293 (ages 21 – 25). This falls considerably as drivers get older (£2,798 for drivers aged 26 – 30).
- Claims frequency: 13% of drivers aged 18-20 make a claim and 11% of drivers aged 21-25. This falls to 10% for drivers aged 26 and above.⁴

They are also against the idea of a price cap:

The insurance industry would oppose any proposal to cap premiums at an artificial rate. It is important that premiums reflect the actual risk posed, and an artificial cap would mean that these costs would be passed onto other consumers. It would also potentially remove the incentives that currently exist for young people to choose safer vehicles and drive cautiously.⁵

Box 1: Price caps evidence from other sectors

The ABI did not employ the usual argument by economists against price caps – that it distorts the efficient allocation of resources and can lead to a cessation of supply. If the ABI is correct that the average costs of young people's insurance is accurately reflected in the premium, then any price cut would reduce profits. Insurers would therefore have an incentive to not offer the product for this group.

Statutory price caps are rare. Recently one was introduced as part of measures to regulate the payday lending market. Post price-cap average lending rates have fallen substantially as intended, but the number of companies in the market has fallen from the hundreds to only a few, and the rejection rate for credit applications is now above 90%.

Since so much of the motor insurance market is sold through comparison websites and other on-line channels, filling in the 'age' box in a post cap world might lead to far few quotes.

Ultimately the industry thinks that only by being better drivers can premiums fall:

The only way to bring down the cost of motor insurance for young drivers is to make them better, safer drivers. Last year, the ABI launched its [Campaign for Safe Young Drivers](#). We are calling for changes to the way young people learn to drive, proposing measures such as a minimum one-year learning period and restrictions on night-time driving.⁶

Material on a broader industry campaign on young drivers can be found [here](#).

1.4 Government Response

The official government response to the petition is shown below. It includes references to specific issues to do with young drivers and more

⁴ Petitions Committee [ABI written evidence](#)

⁵ Petitions Committee [ABI written evidence](#)

⁶ [ABI website](#)

general attempts to bear down on premiums through action against fraud etc.:

The Government is aware that the cost of motor insurance can be high for new and inexperienced drivers. We have taken forward a programme of measures to strengthen the way that people learn to drive and are tested. We have engaged insurers in this process, so that they can have confidence that additional measures will make a real difference that can be rewarded with lower premiums.

Motor insurance premiums can vary according to the risks associated with different types of driver, vehicle and other factors such as age and driving experience. Motor insurance is a very competitive market and shopping around for the best possible option before making any decisions is likely to benefit customers. The British Insurance Brokers Association (BIBA) run a not for profit 'find a broker' service where there are many broker products for young drivers. Further information can be found on their website: www.biba.org.uk. New rules coming into force next year will require motor insurers to disclose last year's premium at renewal and prompt customers to shop around for the best deal.

Some insurers have introduced the use of telematics or in-car black boxes to allow better risk-based pricing for new drivers. It means insurers now have a real time data feed, which allows them to see an individual's driving behaviour, which had not previously been possible in the past. There is some evidence that suggests new drivers could see their annual premiums fall by 20% or more if they show good driving behaviour with a black box installed in their cars.

The Government recently announced reforms aimed at tackling the continuing high number and costly whiplash injury claims that were having a negative impact on the price of motor insurance premiums. These reforms will end the cycle in which motorists pay higher insurance premiums due to minor, exaggerated and fraudulent whiplash claims by others. The government fully expects insurers to pass on the savings from these reforms to consumers through lower premiums and leading insurers have already committed to do this.

1.5 Accident statistics

Whatever the cause and whatever the solution there is no denying that being young and behind a wheel, or on a motorbike/scooter is a risky activity.

The Parliamentary Advisory Council for Transport Safety (PACTS) wrote:

Biological and social changes between the ages of 15-25 affect the risk perception of young people, according to the report. A lack of experience on the road also means that they are worse at anticipating and reacting to hazards, and less aware of how best to drive and ride in particular road conditions and situations.

A range of impairments and distractions affect young people, linked to increased social activity, greater exposure to alcohol and drugs, the influence of peer-age passengers and the effects of fatigue. In-car distraction from mobile devices is also a problem. Young people tend to drive smaller and older vehicles. These cars often have a lower crashworthiness star rating, and lack the safety

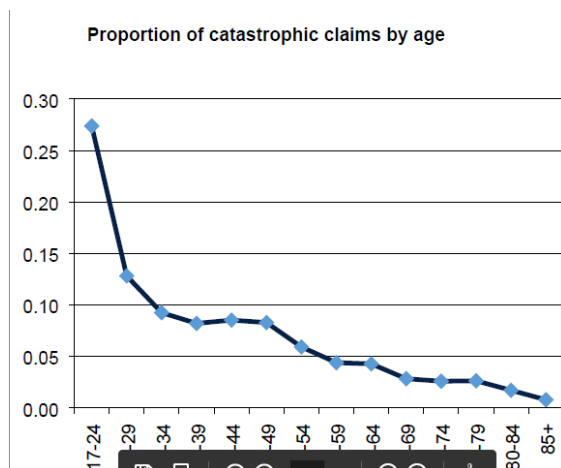
technologies featured in newer models. The use of seat belts and protective clothing is also poor amongst young people.⁷

The ABI highlighted what they call the substantial likelihood of ‘catastrophic’ claims amongst the youngest groups:

A survey of ABI members clearly showed that young drivers (aged 17-24) were far more likely to have made a catastrophic claim (a claim for more than £500,000) than drivers in other age groups. These claims are not ‘bumps and shunts’ but major crashes that will have serious consequences for the driver, their passengers and other road users, often involving lifetime care requirements for those injured in the accident.

This survey also showed that drivers aged 17-24 were far more likely to make a claim that included 3-5 bodily injury claims, showing that their crashes usually involve more passengers.⁸

A very detailed cohort study of newly qualified drivers (most of whom are young) was produced for the Department for Transport in 2008. The chapter on its findings on accidents – who had them, what type of accident, who was to blame etc. can be found [here](#). The change over time is shown graphically below:



The RAC Foundation’s research was quoted in a Guardian article:

More than four teenage passengers die or are injured a week in car accidents, according to figures from the RAC Foundation.

In 2013 – the latest year for which figures are available – 234 teenage car passengers were killed or seriously injured in Britain when the young driver (17-19) they were travelling with was involved in a crash. It is the first time that the foundation has calculated accident figures for teenage car passengers.

If slight injuries were included the figure rose to 2,144, or around 41 each week. The foundation’s previous research showed that while 17 to 19-year-old drivers made up only 1.5% of licence holders, they were involved in 12% of deaths or serious injury accidents.

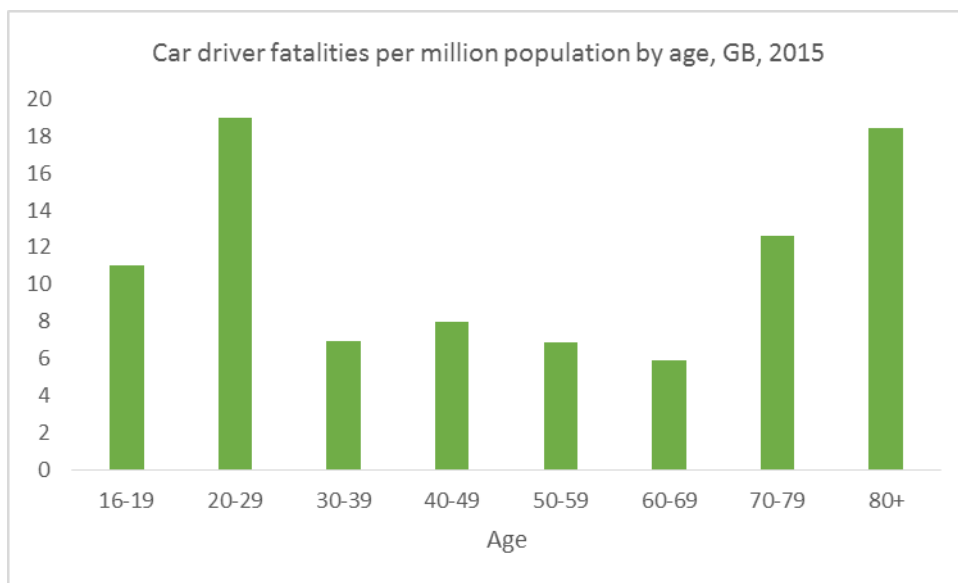
One in five newly qualified young drivers will have an accident within six months of passing their test, figures show. In an accident in February, [the driver of a runaway tipper truck](#) involved in a collision that killed four people, including a four-year-old girl,

⁷ PACTS; [press notice](#); January 2017

⁸ Petitions Committee [ABI written evidence](#)

was a teenager who had celebrated qualifying to drive an articulated lorry just five days earlier. The 19-year-old was driving a 32-tonne truck that careered out of control on a very steep and narrow hill on the outskirts of Bath.⁹

DfT Road Accident statistics provide data on both the number of people of different age groups who are killed or injured in reported¹⁰ road accidents, and the proportion of the relevant age-group population this represents. Young drivers are significantly more likely to be killed or injured in road accidents than older drivers – per million population the rate of both fatalities and injuries is more than twice that of any other age group below the age of 70¹¹.



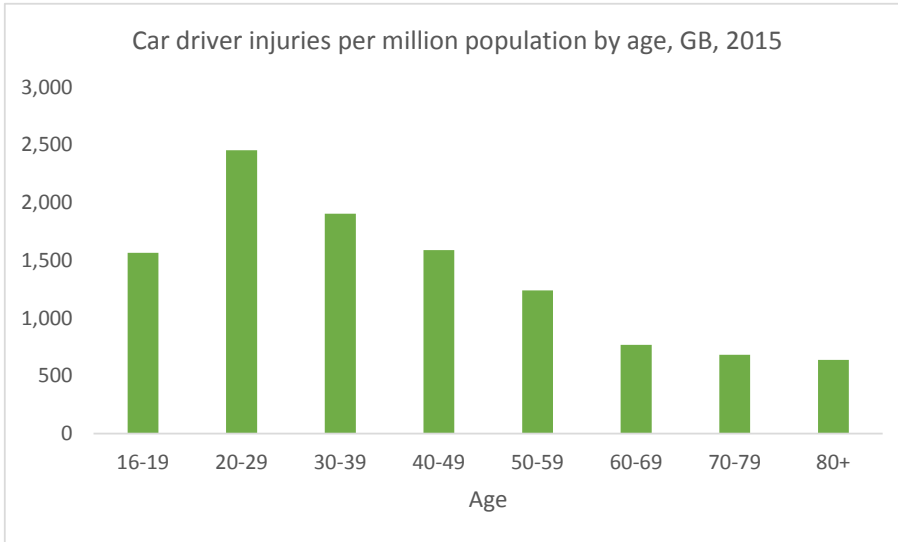
The rate of teenage (16-19) driver fatalities is higher than for any other age group. Allowing for the fact that only a third of young people in this age group have full driving licences¹², compared with at least two-thirds of older age groups, the fatality rate would be higher still.

⁹ Guardian [13 May 2015](#)

¹⁰ Data refer only to road accidents reported to police as involving personal injury. The number of fatalities is thought to be robust, but the number of injuries will be an under-estimate, as some minor accidents involving only slight injury will not be reported to police, and hence will not appear in the official statistics.

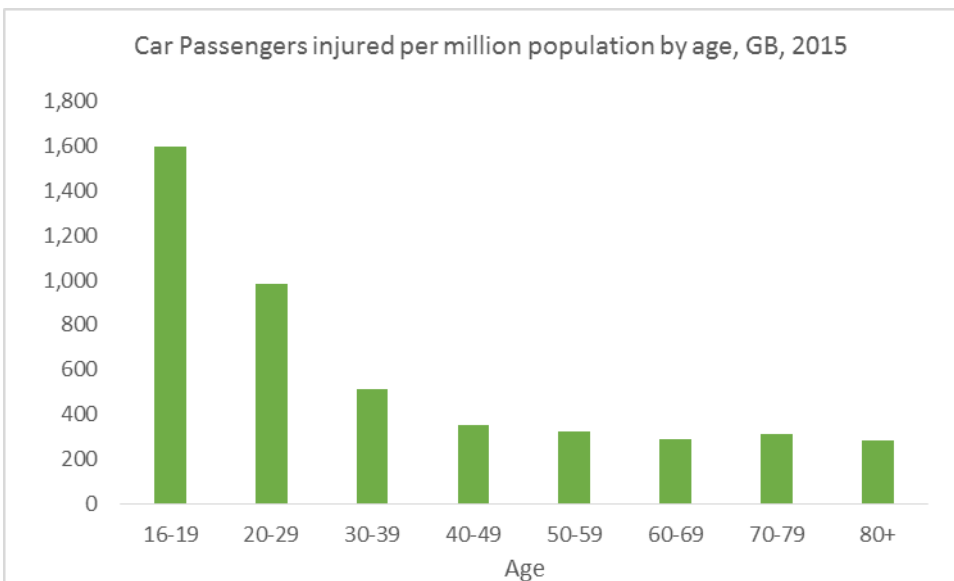
¹¹ DfT Table [RAS 30025](#)

¹² DfT Table [NTS 0201](#), 2015, England only.



A similar pattern is seen when considering all injuries to car drivers, rather than just fatalities. Almost one in 400 people in their twenties was injured while driving a car in 2015, compared with one in 1,500 in the oldest age categories¹³.

As well as having higher risk as drivers, young people also have higher risk of injury when riding in cars as passengers. Injury rates for passengers age 16-19 are 5.5 times those of people aged 60 or above.¹⁴



¹³ DfT Table [RAS 30025](#)

¹⁴ Ibid.

2. Further reading

There is a further Library briefing on the cost of car insurance for all age groups: [Motor Car Insurance](#)

Another Library Paper looks at the specific issue of whiplash claim reform. [Small claims for personal injuries including whiplash](#)

Since 2010, the House of Commons Transport Committee has published a number of reports on the cost of motor insurance. Among other things, the Committee looked at the extent to which the cost of motor insurance is influenced by the prevalence of road accidents; insurance fraud; legal costs; and the number of uninsured drivers: [Transport Committee: Cost of motor insurance: whiplash](#)

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