

## Motor insurance: taking the fear out of driving

Motor insurance provides peace of mind to millions of motorists so they can drive their car without the fear that one misjudgement could cost them everything. But insurance also plays a major role in making cars and driving safer than they ever have been.

Safety features are not the most popular factor influencing peoples' car-buying choices, but insurance helps in improving cars and driving safety in several ways including keeping dangerous drivers off the road, incentivising new technologies that soften and event prevent accidents.

It also provides an efficient way of encouraging and rewarding safer driving while punishing unsafe behaviour.

### Peace of mind, at a bargain

In the five minutes or so it takes to read this paper, UK motor insurers will have paid out on average in 2013 nearly enough in claims to buy six brand new Ford Fiestas (Britain's bestselling car that year).<sup>1</sup>

Despite much negativity about the price of car insurance, the average premium paid in this market has fallen by 13% between early 2012 and mid 2014 (see chart at right), and the motor insurance market reported a £53m underwriting loss in 2013. In fact, the motor insurance market has not made an underwriting profit in over twenty years, suggesting the sector pays out more in claims than it collects in premiums.

But aside from giving motorists peace of mind at an affordable level, insurance plays a major role in making cars and driving safer than they ever have been.

### Making driving a safer proposition

Safety features are not the most popular factor influencing peoples' car-buying choices. Only one top ten bestseller model in 2013 was also on the list of the top ten safest models that year.<sup>2</sup>

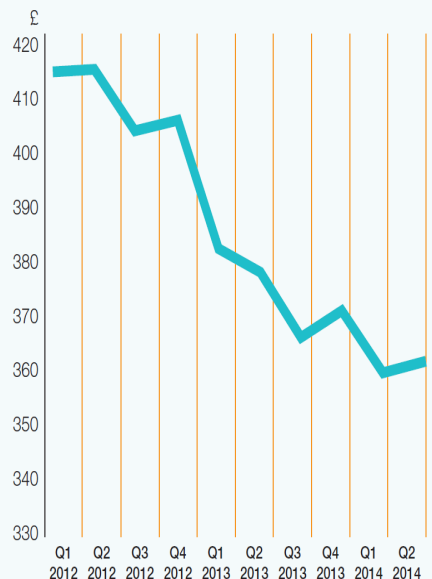
So who does care about vehicle safety? Although states set minimum standards, insurers have played a much stronger part behind the

### Motor insurance in numbers

Payout *per day* in 2013: **£17.1m**

Average cost of claim: **£2,767**

Average premium paid for private motor insurance\*, £



\*The average amount paid for a fully comprehensive private motor insurance policy where the policy holder holds a full driving licence

Source: ABI

<sup>1</sup> Based on: ABI statistics of £17.1m per day payouts in 2013 = £59,375 in five minutes; and "The 20 most popular new motors of 2013" (quoting £9,995 OTR price for base equipment trim level), in [www.thisismoney.co.uk](http://www.thisismoney.co.uk), published 23 August 2013.

<sup>2</sup> Most popular cars in 2013 (1-10): Ford Fiesta, Ford Focus, Vauxhall Corsa, Vauxhall Astra, VW Golf, Nissan Qashqui, VW Polo, BMW 3 series, Peugeot 208, BMW 1 series (source: *ibid*); Safest cars in 2013 (1-10): Volvo V40, BMW 5-series, Vauxhall Mokka, Ford Kuga, BMW 3-series, Hyundai Santa Fe, Audi A3, Renault Clio, Mitsubishi Outlander, Subaru Forester (source: Car Buyer magazine analysing Euro-NCAP 2013 results).

scenes in working with manufacturers to make cars safer. Even the Top Ten Bestsellers have become safer in the last ten years.

Insurers are active in making roads safer across all five elements of risk management. Paper 2 of our Social Value of Insurance series looked at the mechanics of insurance. This provides an application to that, starting with the obvious.

### **Accept the risk: avoid insurance and personally set aside the funds**

That is illegal. Motor insurance has mandatory status in this country. But uninsured drivers are still a problem, costing the rest of us upwards of £350 million a year. So the insurance sector has been trying to tackle this in cooperation with government, the licensing authority and the police: the Motor Insurance Database helps the police pinpoint uninsured vehicles; and Continuous Insurance Enforcement criminalises keeping an uninsured vehicle.

### **Transfer or share the risk: take out insurance**

This way the insurer meets the cost of claims. To lower your premiums, you might agree to chip in with higher excesses (deductibles). But drivers and insurers don't like accidents. Drivers don't like having them; insurers don't like paying out claims. So insurers turn to the other three elements of risk management.

### **Avoid the risk: remove from the road unsafe drivers and vehicles**

While the state plays the key role here through driver licensing and vehicle registration, insurance too plays a supportive role. It takes a lot to have a driving licence revoked. But if you have a poor driving record, with penalty points and/or a history of accidents, you'll soon find getting insurance prohibitively expensive.

### **Minimise the consequences: make crashes less dangerous**

States try to do this with speed limits and better traffic management. But remember: it was not regulation that made padded steering wheels and airbags standard in the 1970s and 1980s; it was vehicle manufacturers and insurers, working through mechanisms such as the Euro-NCAP testing system. This work continues with increasingly common standard features such as side-curtain airbags, anti-roll stability systems, and anti-whiplash seating.

### **Minimise the risk itself: limit the likelihood of the most common crashes**

A major breakthrough in the last few years have been technology that actually takes over driving functions in an emergency, thereby reducing the likelihood of some common accidents. Several manufacturers have introduced models with Autonomous Emergency Braking as standard. This comprises on-board sensors that detect impending collisions with other cars and even pedestrians and cyclists, warn the driver, and then actually apply the brakes if the driver does not.

## **Encouraging safer driving**

All in all, motor insurance plays a role in making roads safer by encouraging safer behaviours. Aside from encouraging safer cars, it also discourages more powerful models that are equipped to go faster; and it encourages safer practices through graduated licensing and now telematics which monitor everyday driving techniques.

So the next time some souped-up hot-hatch cuts you up on the roundabout, you can take heart that drivers like that are already being punished with higher premiums for driving a higher-risk model. They will be punished even more when their bad habits lead them to an accident or getting done for dangerous driving. Whereas your safe and defensive driving may well be rewarded.

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