



Briefing on the Office of Fair Trading findings on their call for Evidence
into the Private Car Insurance Market
December 2011

This briefing sets out the key findings from the Office of Fair Trading's (OFT) Call for Evidence into the Private Car Insurance Market and details the actions the Consumer Council believes are now required both at a local and national level.

1 Background

The Consumer Council has campaigned on the high cost of insurance in Northern Ireland since the publication of our 2009 report "Quote Unquote". Against a background of ever increasing prices and difficult financial circumstances for consumers the Consumer Council escalated that campaign. On 31 August 2011 we launched a four pronged campaign to reduce the high cost of car insurance in NI. The Consumer Council:

- made a formal submission to the OFT to enable them to examine the car insurance market with specific focus on NI;
- called on the Department for Justice and Justice Committee to examine the costs associated with claims leading to specific actions to reduce costs;
- called on the Environment Minister and Environment Committee for practical initiatives for younger drivers as well as tough action for uninsured drivers;
- launched a petition for consumers to support the work to reduce premiums but also put forward their experiences and concerns.

Over 5,000 consumers in NI signed our petition in a five week period and we have listened to the views of over 1,000 consumers that have left comments, telephoned our office or whom we have spoken to at our outreach events.

We welcome the political support the campaign has received from MPs, MLAs and local Government representatives. We have met with the Environment Minister and the Chair of the Justice Committee and provided evidence to the Environment Committee. We have also supported and provided further evidence to the OFT during their call for evidence.

The OFT have now reported and in light of their findings the Consumer Council recognises there is clear action that can be undertaken by the NI Assembly to make a real difference for consumers.

2 Summary of OFT Findings

Following a formal submission in August 2011 the Office of Fair Trading agreed to conduct an investigation into the car insurance market with a specific focus on NI. The OFT found that there were differences between motor insurance premiums between NI and Great Britain (GB).

The main differences are:

- Insurance premiums paid by NI consumers are 11 per cent higher on average
- That historically, over the past five years, this difference was much higher.
- That insurance quotes for consumers in rural areas of NI are between 30 and 70 percent higher than quotes for consumers in the rest of GB.

The OFT offered explanations for the differences in premiums:

Cost of Claims

The cost of private motor insurance claims in NI are higher than in GB and OFT gave two key explanations for this:

- Compensation levels for personal injury claims are higher in NI and therefore personal injury settlements are higher.
- Differences in the legal processes appear to be leading to higher legal costs in NI in comparison with GB. In particular, the absence of a compulsory pre-action protocol may well have the effect of making litigation more prevalent in NI than in GB as the applicable procedures do not appear to provide the same incentive to settle cases quickly.

Road Safety

Statistically NI has more accidents per capita and per vehicle which impacts upon private motor insurers' costs

Consumer Behaviour

OFT suggest consumers in NI are less likely to shop around for private motor insurance and less likely to switch provider. Only 54 per cent of consumers in NI shopped around for their private motor insurance at their last renewal compared to 73 per cent in GB¹. Further, of those who shopped around, only 33 per cent of consumers in NI switched their provider at the last renewal compared with 45 per cent in GB.

Issues with the UK market as a whole inclusive of NI

The OFT also found that there were issues with the UK insurance market that were responsible for higher prices.

¹ Based on a sample of 410 respondents in GB and 460 respondents in NI, 2011 OFT omnibus survey.

Costs associated with Claims

The OFT note that the costs associated with claims have been increasing across the UK. This included increasing costs regarding credit hire replacement vehicles and third party vehicle repairs. The main problem identified was that third party insurers have a lack of control over costs and drivers who are involved in accidents may be referred to certain repairers or hire companies that may not be the most cost effective.

Motor Legal Protection

The OFT also have concerns about the way in which motor legal protection cover is sold. They are concerned that the product is complex and often difficult for drivers to assess its true value. According to the OFT only one per cent of consumers in NI stated that they had specifically added motor legal protection insurance to their policy and 64 per cent in NI thought it came as standard with the policy. The OFT have reported that this does not correspond with the eight per cent of policies which have legal protection covered as standard.

Barriers to shopping around and switching

The OFT identified issues in relation to shopping around and switching. These include:

- Consumers being placed on automatically renewable contracts which may constitute a barrier to consumers being able to shop around effectively.
- Consumers having to pay a fee if they wish to cancel their policy and switch to another provider
- Difficulty in comparing policies effectively on comparison sites because of variances in policy and level of cover.

3 Next Steps in Northern Ireland

The Consumer Council believes that the measures we called for in our campaign must be taken forward as a priority.

Within the Department of Environment:

- Fast track development of the Graduated Driver Licensing system and work with the Consumer Council and Insurance Industry to develop this
- Examination of the potential to extend the “pass plus scheme” or a government recognised advanced driving course for young drivers
- Implementation of regulations and practical systems to introduce continuous insurance enforcement in NI
- A targeted public awareness campaign on uninsured drivers.

Within the Department of Justice:

- An examination of the legal system with regard to the administration, costs of claims and compensation levels leading to specific actions to bring down the cost of car insurance for NI consumers.

Within the Office of First and deputy First Minister:

- Delivery of a Financial Capability Strategy for NI to ensure consumers have the skills and confidence to manage their money and shop around for the best financial products.
- Consumers in NI have the lowest levels of Financial Capability across the UK and the OFT findings, which show that consumers are not shopping around and driving down prices, support this. It is essential that financial capability is a key priority in the Programme for Government so that people can develop their skills and confidence and keep more money in their pockets.

Within the Department of Agriculture and Rural Development:

- Financial Capability and inclusion being a key priority within the rural programme to tackle poverty and isolation committed to in the Programme for Government.

Action at a UK Level

With regard to the issues surrounding the cost of claims, the OFT intend to launch a market study into the supply of private motor insurance in the UK (including NI) with a focus on credit vehicle hire companies and insurers repair networks. As a result, the OFT may make a market investigation reference to the Competition Commission.

In terms of the Motor Legal Protection cover the OFT are calling on the Financial Services Authority (FSA) to work with insurers and brokers to ensure consumers are being provided with the appropriate information.

Aside from this work it is clear that there are a number of issues that require action by the Westminster Government to reduce the cost of high car insurance premiums for citizens across the UK. This includes any barriers to switching as well as transparency of products, additions and the cost of paying in monthly instalments.

4 Conclusion

The OFT's report makes it clear the car insurance premiums throughout the UK are unduly high and NI consumers continue to pay more. The NI Assembly has a clear role to help reduce premiums and the Consumer Council will continue to work with all Departments on the specific actions that can be taken to achieve this.

The Consumer Council will also continue to work with OFT and the FSA to ensure NI consumers' voice is heard in the ongoing investigations looking at UK wide issues.

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