

Comment

Hitting the hot hatches

Looking back... 1991

Twenty years ago motor insurance hikes hit the headlines. Sound familiar?

On 26 September 1991, Post reported a tale familiar to today's law-abiding general public: soaring motor insurance premiums. Current year-on-year rises cited are in the region of 30% to 40%, but the figures from 20 years ago suggested hikes of up to 74% were also being witnessed. So, has the scourge of personal injury costs been plaguing the industry — and its end customers — for two decades or were the underlying causes back in 1991 substantially different? Lynn Rouse reflects on how times have changed.

Twenty years ago, motor insurers weren't bemoaning the cost burdens of referral fees, disproportionate whiplash claims or inflationary credit hire bills. The bug bear of the day was none

other than the high-performance 'hot hatch'.

Post's coverage in September 1991 revealed rate rises of up to 74% in the wake of a veritable explosion in the frequency and cost of theft and repairs linked to these must-have high-fashion vehicles of the day — for certain sections of the population at least.

Norwich Union said premiums were being raised by at least 20% from 1 October 1991 to counter the mounting theft bill, but reported a

30-year-old motorist from Luton with a Peugeot GTi 1.9 would pay £955 — a hefty 74% increase on the previous rate of £549.

Similarly, Guardian Royal Exchange was preparing to put up premiums by 25% to 30% for lovers of those high-performance but petit-package cars; Royal Insurance's had already risen by 25% and Pearl Assurance was pondering a 20% hike over the year to come.

Interestingly, however, Direct Line claimed its own premiums increased by only 6% in the previous year, commenting that — unlike its competitors — it had

always rated 'hot hatches' higher than official ABI groups.

But it wasn't only the underlying cause of price hikes that differed to now. Twenty years ago, insurers seemed more capable of being masters of their own destiny. NU, GRE and Pearl had all introduced a 'theft excess' for cars not garaged or alarmed, while Royal had reportedly begun refusing claims in high risk area on high performance cars not garaged. It seems solutions were simpler back then.

Ironically, there is also a strong likelihood that some of those (predominantly) young drivers being penalised in 1991 — simply for the allure of their modified engines, improved suspension or 'aerodynamic' body parts — are the self same individuals now pushing through rate rises in a bid to counter the latest claims challenge. ■



YOUR SAY

The real postcode lottery

Jack Straw's Bill has not been particularly well thought out, specifically the point relating to postcode rating. In my view there are two very good reasons why this part of the bill should be changed.

First, removing postcode rating from the underwriting of motor insurance would probably result in further increases in premiums for the majority of policyholders if insurers are prevented from taking account of a fuller picture

of the level of risk for each policy they underwrite.

Risk varies massively by postcode, for both motor as well as household insurance. The majority of people's journeys are carried out within a few miles of their home and the collision rate varies hugely by geography across the UK.

We recently carried out a study analysing the local driving environment and found that, on average, the rate of accidents by postcode varies by a factor of 10 when comparing lower risk areas to highest risk ones in England and Wales. In locations where the rate is very high compared to the UK average, is it fair to ask the majority to pay increased premiums to cover these areas?

It is probably not surprising to find out that the collision

rate across Mr Straw's Blackburn constituency is higher than the UK average and also 50% higher than the average across the North West as a whole. Even within Blackburn itself the collision rate varies across the 2000 or so postcodes by a factor of four.

Would the removal of such ratings also stop postcodes being used to assess the risk of vehicle theft if Mr Straw's Bill was pushed through? Most cars are stolen during the night from outside policyholder houses and, again, there is a huge spread in levels. If this underwriting information was removed, Blackburn would once more be a winner as postcodes there have a 50% higher risk of motor theft compared to the UK average.

Second, there is the issue of

Solvency II requirements. If insurers are not allowed to rate motor on postcodes will they be allowed to use them to pinpoint the level of risk taken on after it is on the books?

More granularity in underwriting data, not less, is needed. Insurers are likely to have greater capital requirements placed on them, particularly if they can't use the postcode address to understand the risk. How many of the very highest-risk postcodes, perhaps with a few more in Blackburn than you might want, would you have across your book? Insurers need to know this to understand the level of capital required.

Mark Harrison

Managing director,
Business Insight