

UK Private Motor Insurance 2010

<https://marketpublishers.com/r/U1198E4D903EN.html>

Date: July 2010

Pages: 128

Price: US\$ 4,495.00 (Single User License)

ID: U1198E4D903EN

Abstracts

Introduction

UK Private Motor Insurance 2010 contains a comprehensive overview of the market. It provides the total market size, policy numbers, profitability ratios, claims costs, premium rate changes, car registrations, distribution, penetration, competitor analysis and forecast for up to 2014 for both market size and profitability ratios.

Scope

Detailed information and data about the current state of the market and how insurers are responding to poor profitability.

The findings of Datamonitor's 2010 consumer survey which assessed the opinions and purchasing trends of over 3,000 individuals.

An update of the latest developments in the aggregator space.

Financial results of the top UK, Lloyds of London and non-UK domiciled insurers in the market.

Highlights

In 2009, the non-comprehensive motor sector experienced a further decline and it now accounts for only 8.2% of all private motor policies in force. This share has fallen from 16.3% (2.9 million) in 1999 as private motor insurers have moved away from this sector of the market.

The market made little reserve releases, indicating that the pool of reserves which is often used to protect an insurer against prior years' claims has all but dried up. In fact a few insurers, such as RBS, made a reserve strengthening, thus making its reported year COR higher than its accident year ratio.

Datamonitor's survey showed that over half of all car insurance policyholders surveyed are now visiting price comparison sites at renewal. This comes as no surprise considering that these websites have heavily advertised throughout the past few years and so generated sufficient traffic from consumers.

Reasons to Purchase

Comprehensively understand most aspects of the market and the views of market players interviewed by Datamonitor.

See how the industry is responding to poor profitability and rising claims costs.

Make conclusions based on the current purchasing trends and preferences of UK consumers buying private motor insurance.

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Executive Summary

The private motor market shrunk slightly in 2009

The total market declined by 1% to ?9.2 billion GWP

Over the past decade, the proportion of non-comprehensive policies has fallen

Claims costs are continuing to escalate

Claims inflation has been driven by personal injury claims and credit hire costs

Although claims frequency fell slightly to 16.7% in 2009

RBS Group is the largest provider of car insurance in the UK

There were a number of exits and sales within the market

Lloyds Banking Group is no longer in the market

GMAC Financial Services is looking to sell Provident

HSBC has placed its motor insurance business into run-off

QBE has also exited that market

KGM Motor had a difficult 2009 and it is currently up for sale

Quinn Direct will write considerably less UK business as a result of being in administration

Markerstudy is looking to shed private motor business from Zenith following its acquisition in late 2009

Market growth will be stunted in 2010 followed by successive increases from 2011 onwards

Rate increases will drive market growth

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Market Context

Introduction

The private motor market shrunk slightly in 2009

The total market declined by 1% to ?9.2 billion GWP

Lloyd's of London insurers have a significant presence in the UK motor market

Datamonitor estimate that Lloyd's of London motor GWP increased to ?967m in 2009

The number of motor insurance policies remained static

There were 24.8 million private motor policies in force during 2009

Over the past decade, the proportion of non-comprehensive policies has fallen

The combined ratio took a turn for the worse in 2009

Private motor insurance losses pushed the 2009 accident year combined operating ratio up to 122.9%

The rate of increase in the COR was 8.2 percentage points in 2009

Reserve releases were considerably lower in 2009

The loss ratio increased in 2009, while the expense ratio fell

Claims costs are continuing to escalate

Claims inflation has been driven by personal injury claims and credit hire costs

More recent statistics show that theft related claims costs have increased significantly since 2005

On average, motor bodily injury claims are the most expensive to settle

Fraudulent claims rose during the recession and are believed to have cost ?1.9 billion in 2009

Continuous enforcement insurance should help lower the levels of uninsured driving
BIBA is calling for brokers to embrace DVLA vehicle registration data to improve data validation

Credit hire organizations have come under greater scrutiny over the past year

Over the past two years bilateral agreements between insurers have become more popular

The new low value personal injury claims process should help lower claims costs

The new process applies to road traffic accident personal injury claims of between ?1,000 and ?10,000

The changing cost structure has affected all those in the personal injury market

There are three stages for a low value personal injury RTA claim

Stage one is focused on providing early notification of claims to defendants and insurers

Stage two permits the use of medical evidence and most cases should be settled within this phase

Stage three proceeds when both parties cannot agree on quantum (settlement)

Electronic motor certificates will also save on postal and administration costs

Claims frequency remained at similar levels to 2008

Claims frequency fell slightly to 16.7% in 2009

A number of insurers have noticed a rise in car part theft related claims

RTA casualties are now thought to number 800,000 per annum

The number of road traffic accidents reported to the police fell by 4.1% in 2009

The number of accidents as a proportion of the total car parc continued to fall in 2009

Similarly, casualty rates are dropping in line with falling road traffic accidents

Premium rates hardened throughout the second half of the year

Insurers are responding to poor profitability by making rate corrections

In a bid to price more accurately, insurers are increasingly using point-of-sale validation

The AA British Insurance Premium Index recorded a large increase in premiums in Q4

2009

Comprehensive average and shoparound prices grew progressively from Q2 2009 onwards

Non-comprehensive prices showed an even larger jump in prices during 2009

Car drivers in the North West of England pay the highest premiums

Rates differ considerably between gender and age

The number of new private car registrations increased during 2009

The scrappage scheme provided a much needed boost for the new car market

However, fewer individuals had access to motor finance to purchase new or used cars

The vast majority of cars on the road are aged between six and 13 years

Growth in the total motorcycle parc was stagnant in 2009

The number of multicar households has been static since 2005

Distribution

Introduction

Private motor insurance is mostly sold direct

The direct channel continues to be the dominant route to market

Brokered private motor insurance accounts for 31% of the market

Corporate partnerships are an important way to distribute private motor products

Banks and building societies have a market share of 6%

RBSI brands have a prominent presence in the private motor market

Direct Line is the number one private motor insurance brand

The top five direct insurers comprise over a quarter of the motor insurance market distribution

The AA was the market leader for broker-distributed private motor insurance

Bancassurers have a relatively small market presence

The top five brandassurers hold a lower market share than in 2008

Aggregator-instigated sales have increased

Half of new motor business sales are initiated through a price comparison site

The OFT is currently investigating aggregators as to whether they are misleading customer

Total advertising expenditure in the motor market fell in 2009

Direct insurers and aggregators have toned down their advertising spend

Brandassurers and bancassurers increased their marketing spends significantly in 2009

Of the top 10 advertisers, GoCompare.com, Aviva and CompareTheMarket.com increased their spending

Most of the top 10 motor advertisers focus their resources on advertising via television

Direct mail advertising was a more popular strategy with the top 11-20 motor insurance advertisers

The top four price comparison sites accounted for almost half of total TV advertising

spend

Price comparison sites invest heavily in TV advertisement

GoCompare.com was the number one motor insurance TV advertiser in 2009

Brokers channel most of their advertising spend through direct mail promotion

Brokers tend to favor direct mail as a means to advertise motor insurance

Customer Focus

Introduction

Private motor penetration rates have increased to 80.1%

Penetration is lowest among people aged between 18 and 34

Penetration rises with income level

Social grade of consumers has less influence on penetration rates

Internet- and telephone-based sales account for most transactions

Private motor insurance is mostly sold via the internet

Elder consumers prefer buying their insurance over the telephone

Low income households tend to buy cover over the phone

Apart from for social grades A and E, the internet is the most used platform for arranging motor insurance

Older customers are less likely to switch car insurance provider

Retention rates are around 55% in the private motor market

Customers aged between 25-34 were most likely to shop around for alternative quotations

Retention rates appear to be highest for the lowest and highest earners

Price has to be the primary focus in marketing campaigns

Price was the most commonly cited reason for selecting a motor insurance provider

In contrast to older customers, those aged between 25-34 years of age are the most price-sensitive

Over 60% of all consumers visit price comparison websites at renewal

Price comparison websites appeal particularly to those aged between 25 and 34 years

Low income households are less likely to use aggregators at renewal

Only 41.8% actually go on to buy policy via a price comparison website

Older customers are less likely to purchase a policy after visiting a price comparison website

It is more difficult to differentiate aggregator purchasing behavior among different household incomes

Competitive Dynamics

Introduction

Most of the top 10 private motor insurers grew their market share slightly

RBS Insurance increased its GWP and market share in 2009

Aviva saw its total GWP contract but remained the second largest private motor

insurance group

RSA achieved a 5% increase in GWP

LV= increased its market share significantly

Lloyds Banking Group is no longer in the market

Fortis insurance is soon to benefit from its new partnership with Tesco Bank

Fortis witnessed its private motor book decrease by 9.7% in GWP in 2009

Fortis' new five-year partnership with Tesco Bank will generate considerable new private motor business

Munich Re will continue to write the largest share of Admiral's book

AXA increased its car insurance proposition to cater for older, more experienced customers

AXA achieved significant GWP growth in its private motor insurance book

The group launched a direct AXA-branded car insurance product in 2010

AXA have partnered with Complectus to launch misfuelling insurance

There were a few exits from the market out of the top 11-20 private motor insurers

GMAC Financial Services is looking to sell Provident

Groupama plans to raise rates by 10% for its private car policies in 2010

Allianz also increased its private motor rates

Binomial, which underwrites via Sabre Insurance, increased its total motor book

Admiral Group had a strong 2009

HSBC has placed its motor insurance business into run-off

QBE has also exited that market

The largest insurers focus mainly on comprehensive car insurance

Comprehensive business accounts for the majority of the top insurers' books

RBS has the most policies in force

RBS, Aviva, RSA and Fortis performed better than the market average COR

The accident year COR of the total motor market deteriorated further in 2009

Fortis' and RSA's CORs were well below the market average in 2009

RBS and Aviva had a more testing year, but both managed to perform better than the market average

Most of the top 10 made a slight reserve release to lower their reported year COR

The lack of reserves left in the market was evident in 2009

The commission ratio increased for most of the top 10 private motor insurance groups

Non-UK domiciled insurers such as Zurich and Acromas are significant players

Zurich has transferred its UK book to Ireland

Zurich is now regulated by the Irish Financial Regulator

Zurich intends to increase rates by 20% in personal motor to improve profitability

The Acromas Group underwrites all of its private motor policies sold via the Saga brand

Quinn Direct will write considerably less UK business as a result of being in

administration

Markerstudy is looking to shed private motor business from Zenith following its acquisition in late 2009

A number of Lloyds of London Syndicates increased their exposure in 2009

Lloyd's market insurers have a significant presence in the UK motor market

Datamonitor calculates that Lloyd's of London motor GWP increased to ?967m in 2009

Equity Red Star is the largest UK motor insurer in the Lloyd's of London market

Chaucer plans to up its motor rates by 14% throughout 2010

Amlin grew its motor fleet business during 2009

KGM Motor had a difficult 2009 and it is currently up for sale

Future Decoded

Introduction

Market growth will be stunted in 2010 followed by successive increases from 2011 onwards

Rate increases will drive market growth

The total UK private motor market will be worth ?10.8 billion in GWP in 2014

The COR will see some improvements as rate corrections feed into results

Premium rate increases will improving underwriting results and help lower the COR

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Further data

Definitions

ABI members

Bancassurers

Brokers

Brandassurers

Combined ratio

Commission expenses

Comprehensive motor insurance

Channel

Direct insurer/writer

Earned premiums

Gross premium

Net premium

Non-comprehensive motor insurance

Platform

Reserve development

Written premiums

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