PREMIUM DRIVERS

DECEMBER 2020

A quarterly motor insurance
"savings index" by

comparethemarket™

THE SAVINGS VARIABLE

The Premium Drivers index reveals the monthly percentage difference – or the “savings variable”– between the cheapest and average quotes across all age groups.

This is tracked throughout the year and compared quarter on quarter. The “savings variable” tells us about current and historic prices, it also provides insight into the motor insurance sector.

It highlights cyclical trends and allows **compare**the**market**.com to make statistics-driven predictions on the future direction of the motor insurance market.

If the difference between the cheapest and the average price is narrowing, it suggests competition may be improving; if the price disparities are widening, then it suggests competition may be weakening.

THE SAVINGS VARIABLE

Key Statistics

- **Quarterly savings variable falls to 14.73% in Q4 – the lowest point since records began down from 15.49% in Q4 2019 and 15.55% in Q4 2018**
- **Fall implies more competition which may result in a drop in premiums as insurers battle to win customers.**

The latest Premium Drivers report reveals the savings variable in Q4 (September 2020 –November 2020) has fallen to 14.73%. This is the lowest quarterly average for the savings variable since records began eight years ago.

The savings variable has only declined marginally from the previous quarter when it stood at 14.75%. However, this is the first time the savings variable has consistently remained below 15% for a six-month period. The difference between the average and the cheapest premium is now substantially below its quarterly peak of 17.62% seen in the first quarter of 2017.

The consistent lower savings variable compared to previous years suggests there has been a sustained period of increased competition in the car insurance market. As household budgets have been squeezed, more drivers have been looking to save money on their premiums by shopping around for better deals. This has led to more price competition between insurers enabling drivers to benefit from the substantial savings available.

On a monthly basis, the savings variable hit a new record low of 14.4% in November as the second lockdown came into force. This surpassed the previous lowest monthly savings variable of 14.52% set back in July 2013. The higher level of competition could potentially lead to a short-term decline in the cost of premiums, as insurers come under more pressure to compete for new customers through lower prices.

Drivers should look to take advantage of this increased competition in the market following the end of the second lockdown. Many are still paying too much for their car insurance. Those who fail to shop around for a better deal may lose out as renewal prices tend to be significantly more expensive than the offers available to new customers.

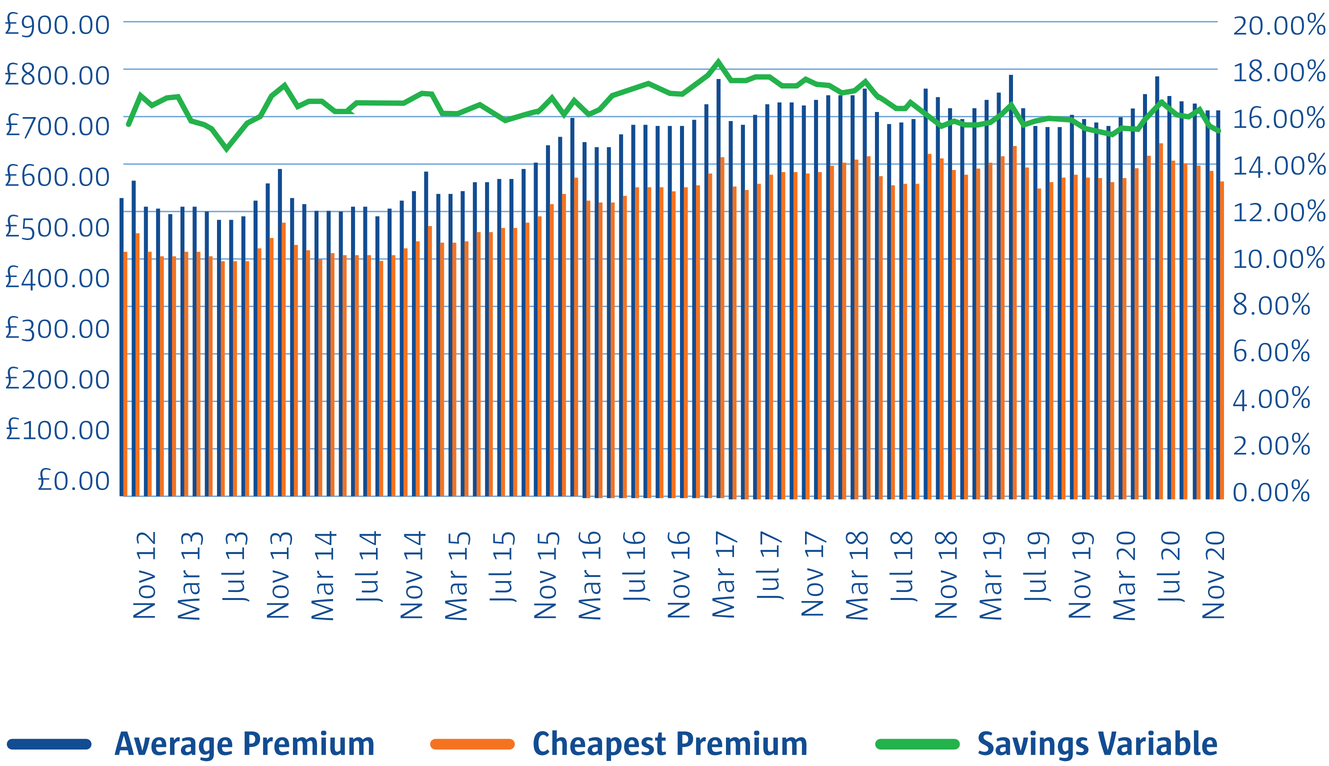
> **“The gap between the cheapest and the average price for car insurance has continued to narrow this year due to the economic effects of the pandemic’s second wave. As a result, the savings variable has sunk to a new low in the most recent quarter, driven down by fiercer competition between insurers, eager to secure new customers. This steadily rising tide of competition means consumers could benefit from better deals in the next few months”**

Dan Hutson, Head of Motor Insurance at **compare**the**market**.com

Savings variable across all age groups year on year November 2019 – November 2020:

Month	Savings variable
November 2019	15.81%
December 2019	16.35%
January 2020	15.84%
February 2020	15.75%
March 2020	15.38%
April 2020	15.16%
May 2020	15.37%
June 2020	14.84%
July 2020	14,56%
August 2020	14.84%
September 2020	14.99%
October 2020	14.81%
November 2020	14.40%

Premium Drivers: The savings variable:



WHAT IS THE COST?

Key Statistics

- **Lowest winter premiums in five years as the average Q4 premium falls to £707 – down £24 year-on-year**
- **Cheapest average premium creeps upward from £598 in Q3 to £603 in Q4, but the typical winter spike in the cost of insurance has failed to materialise**
- **Premiums have fallen by £48 since the start of the pandemic, as the second lockdown causes the average premium in November to drop by £25 from the previous month**

December 2020 – Average car insurance premiums have dropped to the lowest level for winter in five years, according to the latest Premium Drivers report from **compare**the**market**.com.

The average premium in Q4 (September 2020 – November 2020) stood at £707, declining by £24 from the same quarter last year. When compared to the same period in previous years, the average premium in Q4 2020 is the most affordable since 2015. The cheapest premium available in Q4 has also fallen year-on-year. It now stands at £603 compared to £617 in Q4 2019.

Despite being cheaper than in previous years, premiums in Q4 have risen slightly from the preceding three months. Both the overall average premium and the average cheapest premium have risen by £5 since Q3. However, this minor uplift is much lower than the jump in premiums typically seen heading into winter. For instance, premiums rose by £23 between Q3 and Q4 last year.

Premiums have remained low during the Government's social distancing restrictions. The guidance, encouraging people to work from home and to only make essential journeys, has taken many cars off the roads, in turn reducing the number of claims and helping to push premiums down. The latest Department for Transport data shows car traffic has decreased by 21% year-on-year.

In May, the Financial Conduct Authority also encouraged all car insurers to look at the risk profile of customers which may have changed significantly because of the coronavirus. It also asked motor insurers to waive cancellation fees and other charges associated with changing policy details.

As a result, average premiums have dropped by £48 since the start of the pandemic. Following the second lockdown, the average premium in November fell by £25 from the previous month to £691 – the cheapest monthly figure since March. November's average premium is also £63 lower than the same month in 2019. The cheapest premium available has similarly decreased to £591, down from £610 in October.

While premiums may be cheaper than in previous years, the gap of £104 between the lowest and average premiums in Q4 shows that shopping around is the best way to save money on car insurance. For younger drivers, aged under 24 years old, the difference in premiums is nearly double, as a typical young person could save £204 by switching to the cheapest deal.

> **“Cheaper premiums this winter are a silver lining for motorists. Drivers will be pleased that premiums are more affordable than in previous years, as household budgets continue to be strained. The cost of insurance began to rise in the autumn, but after the second lockdown came into force premiums began falling again.**
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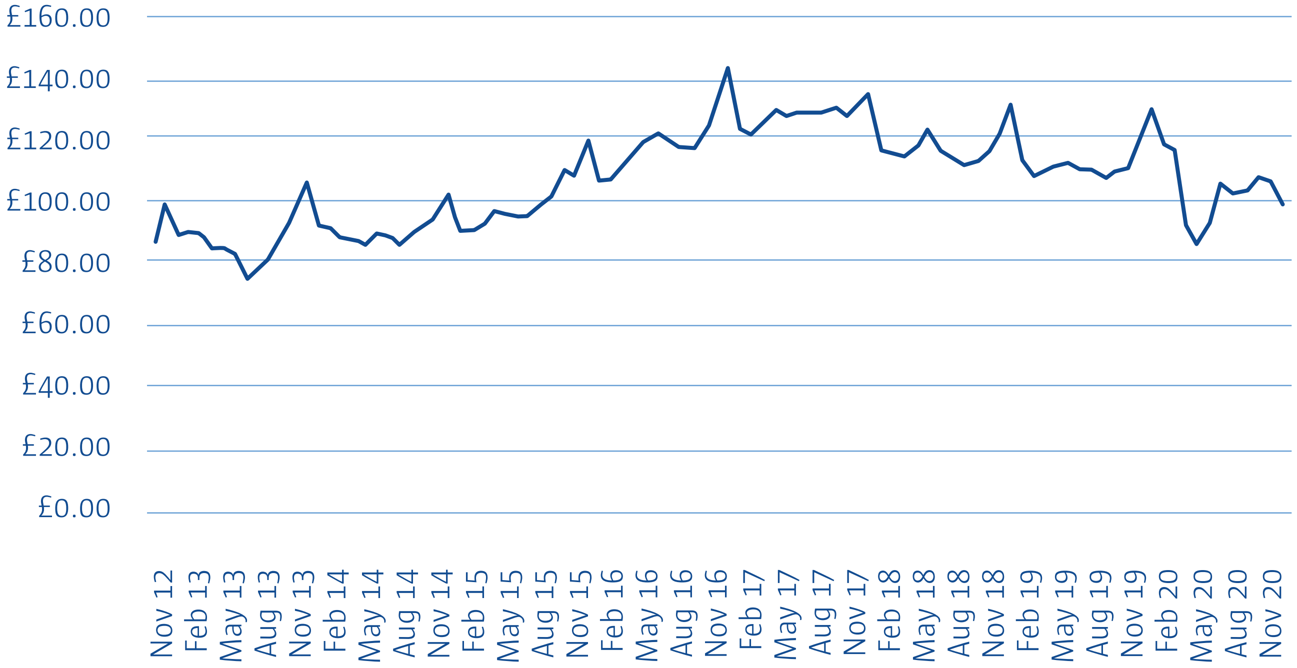
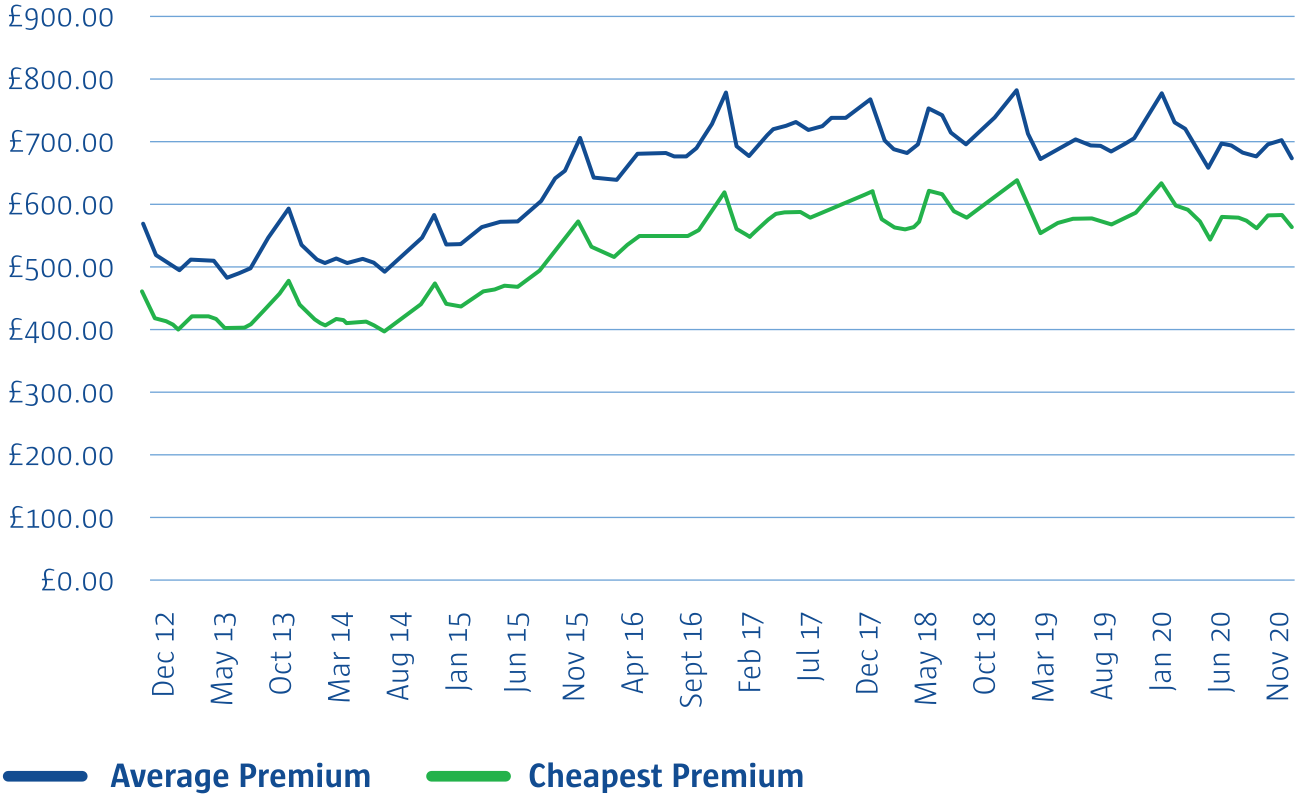
> **“Switching to a cheaper deal continues to be the best way to cut the cost of car insurance with our research showing the difference between the cheapest and average premium is £104. In addition, if you plan to spend less time on the road in the coming months, perhaps because you can work from home, your insurer may consider you a lower risk and cut the cost of your premium. However, as the vaccine roll-out gets underway and the economy starts to recover, premiums may also start to rise as more motorists return to the roads”**

Dan Hutson, Head of Motor Insurance at **compare**the**market**.com

Average price difference



Cost difference between the cheapest and average premiums



Methodology

All data, other than that referenced in the footnotes, is sourced from **compare**the**market**.com.

When the "average price" is referred to, this is the mean average of the top five cheapest prices presented to a customer, where a consumer has clicked through to buy. Buying from the top five cheapest prices presented represents 90% of all car insurance sales. When the "cheapest price" is referred to, this is the average cheapest price presented, where a customer has clicked through to buy.

Premium Drivers calculates the cost of premiums where the customer has clicked through to buy the policy. If the average premium cost was instead calculated on the basis of all prices returned then the average cost would be significantly higher.