

# PREMIUM DRIVERS

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MARCH 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 **comparethemarket.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 moderately increases to 15.98%, up from to 15.49%
- The difference between average and cheapest premiums remains significantly lower than recent years since its peak of 17.62% in Q1 2017

The latest *Premium Drivers* report has found that the savings variable in Q1 (December 2019 – February 2020) has moderately increased over the past three months to 15.98%, up from 15.49% in last quarter. The savings variable has remained significantly lower than its peak of 17.62% in the first quarter of 2017.

The savings variable remaining broadly flat follows recent drops in the difference between the cheapest and average premium. This comes after years of growth up to the start of 2017. The measure stood at its highest level in the last quarter of 2016 at 17.62%, which is the largest savings variable since records began.

The large difference between the average and cheapest premium two years ago suggests that drivers were not shopping around for their motor insurance, resulting in less pricing competition between insurers and people potentially missing out on significant savings.

The latest increase in the savings variable is the second in a row, which could lead to a return of reduced competition amongst providers. The lower level of competition may lead to higher prices in future, as insurers come under less pressure to win customers through offering lower prices.

Despite some downward pressure on prices, the fact remains that drivers are still paying hundreds of pounds more for their car insurance than several years

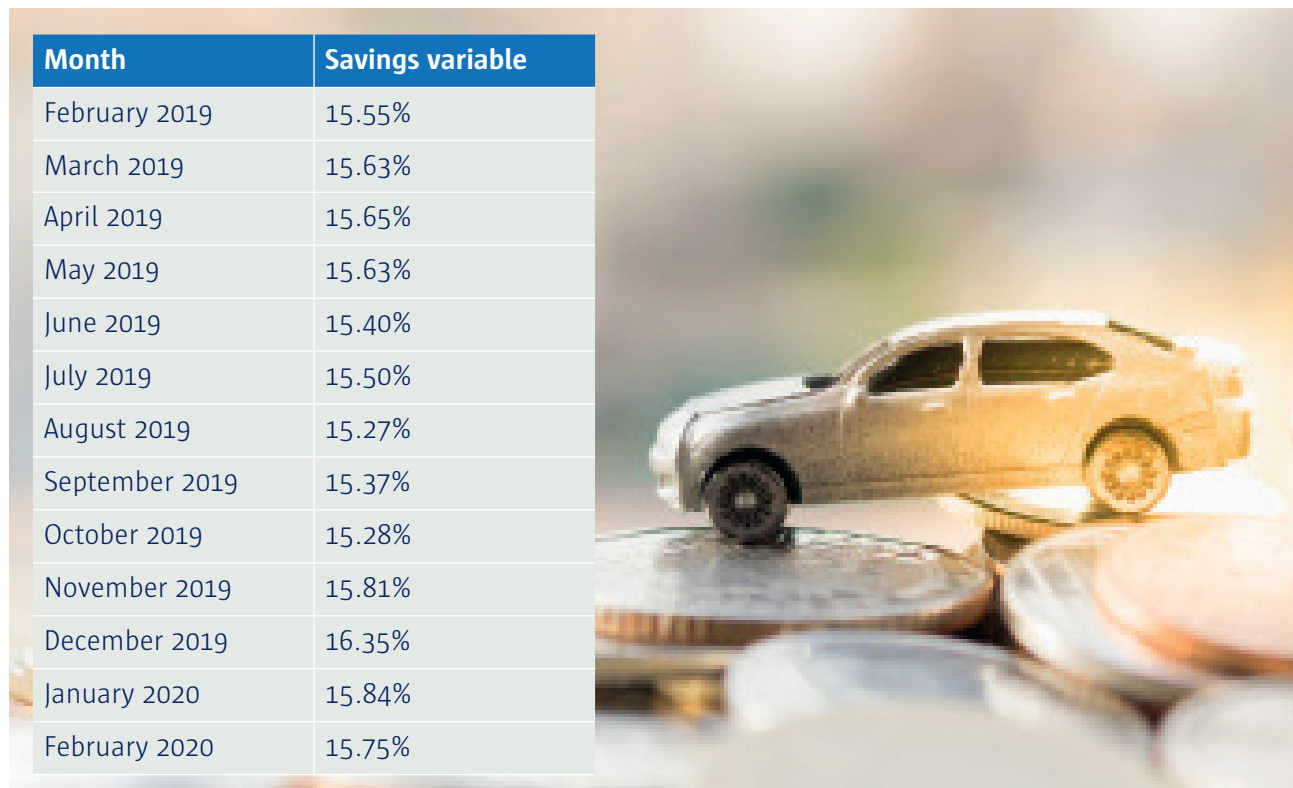
ago. This price difference is exacerbated for drivers who fail to shop around, as renewal prices tend to be significantly more expensive.



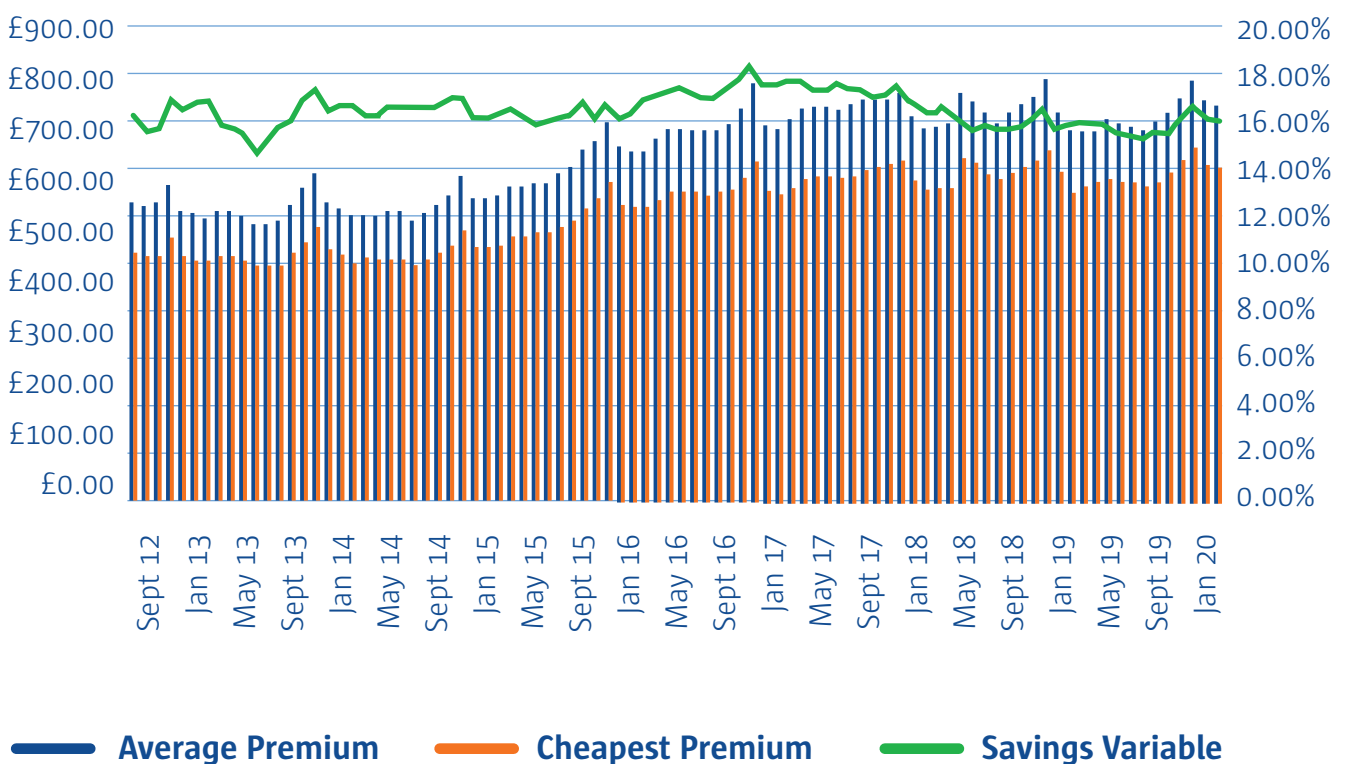
“ In the past quarter, we have seen a small increase in the savings variable, meaning that the difference between the average and cheapest premium available has decreased. The savings variable can be a helpful indicator of the current levels of competition in the marketplace, with a smaller gap between the cheapest and average premiums suggesting that competition levels have decreased. Following this, we could see a corresponding increase in premiums as providers are less motivated to cut prices to attract new customers. ”

Dan Hutson, Head of Motor Insurance at [comparethemarket.com](https://www.comparethemarket.com)

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



## Premium Drivers: The savings variable:



# WHAT IS THE COST?

## Key Statistics

- Quarterly average premium jumps to nearly £755 up from £730 in the previous quarter
- Premiums have increased again after recent reductions, up by £24 from the last quarter
- Cheapest average premium available also increased to £627 from last quarter, up by £10
- Average premiums have been steadily increasing since Q3 2019, when they reached the lowest level seen in three years

The average car insurance premium in Q1 2020 significantly increased over the last quarter and now stands at nearly £755 – an increase of £24 compared to the previous quarter's £730. This increase could signal further hikes to premiums as policy changes continue to impact the cost of cover.

This marks the second successive rise in average premiums, as they have been rising steadily since Q3 2019, when they reached the lowest level seen in three years. The last time average premiums were at that level was Q3 2016, when they sunk to £697.

While premiums have historically fluctuated throughout the year, average premiums are higher than the same time last year. In Q1 2019, average premiums were £736, so premiums have increased by £19 year on year. In addition, the cheapest average premiums available on the market have increased by £10 on the quarter to £627, and have also increased by £8 year on year.

Premiums remain a lot higher than when Premium Drivers records began in September 2012. The average premium stood at £559 in the last quarter of 2012 before rising to a peak of £758 in Q4 2017 – a £200 difference. Increased premiums were predominately driven by a number of Government changes, such as hikes to Insurance Premium Tax (IPT) and changes to the personal injury discount rate.

IPT is calculated as a percentage of the annual cost of insurance which means that those who have higher premiums pay higher tax. This disproportionately penalises young drivers, who usually pay higher premiums, and therefore are charged an average of £134 in IPT every year compared to £77 for the rest of the UK.

This most recent increase in premiums could be driven by similar policy issues such as the delay in the changes to Whiplash claims which would have reduced premiums. In a written statement in parliament on 27th February, the Government postponed the

implementation date to 1st August. While insurers may have begun pricing in those changes, it seems that they have had to re-increase premiums to factor in the delay. In addition, the recent changes to the Ogden rate and broader claims inflation seem to be driving premiums further up.

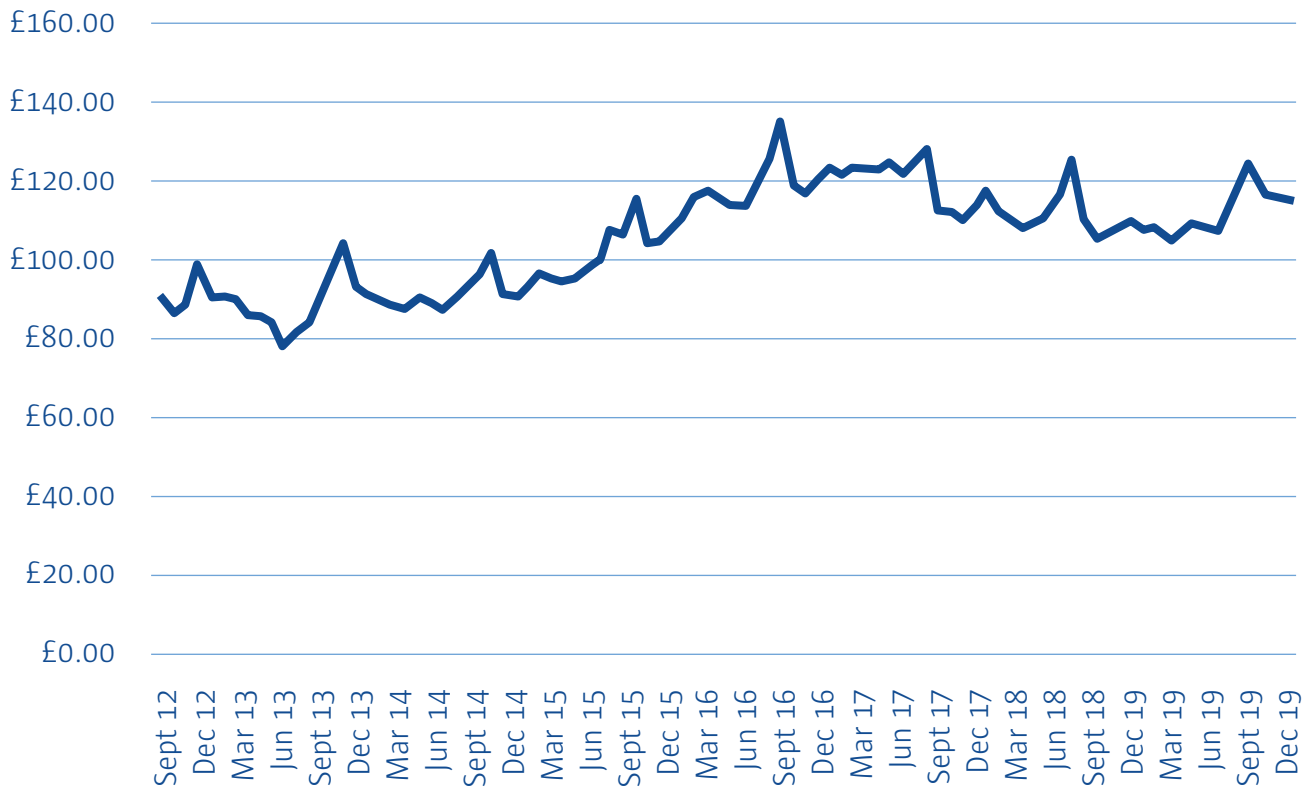
The gap of £121 between the cheapest and average premiums over the last quarter shows that shopping around remains the most effective way to save money on car insurance. For younger motorists between the ages of 17 and 24, the difference is much higher, with the average young person able to save £233 by switching to a better deal.

“ Following a period of reducing premiums, motorists will be disappointed that premiums have continued to rise. This spiraling cost of insurance is thanks, in part, to hikes in Insurance Premium Tax. IPT remains a fundamentally unfair tax, as those that can afford it least pay the most. IPT is calculated as a percentage of the annual cost of insurance which means that those who have higher premiums pay higher tax. This unfairly penalises young drivers, who usually pay higher premiums. The rising cost of running a car, particularly for younger people, is making driving a luxury for many who see it as necessity. ”

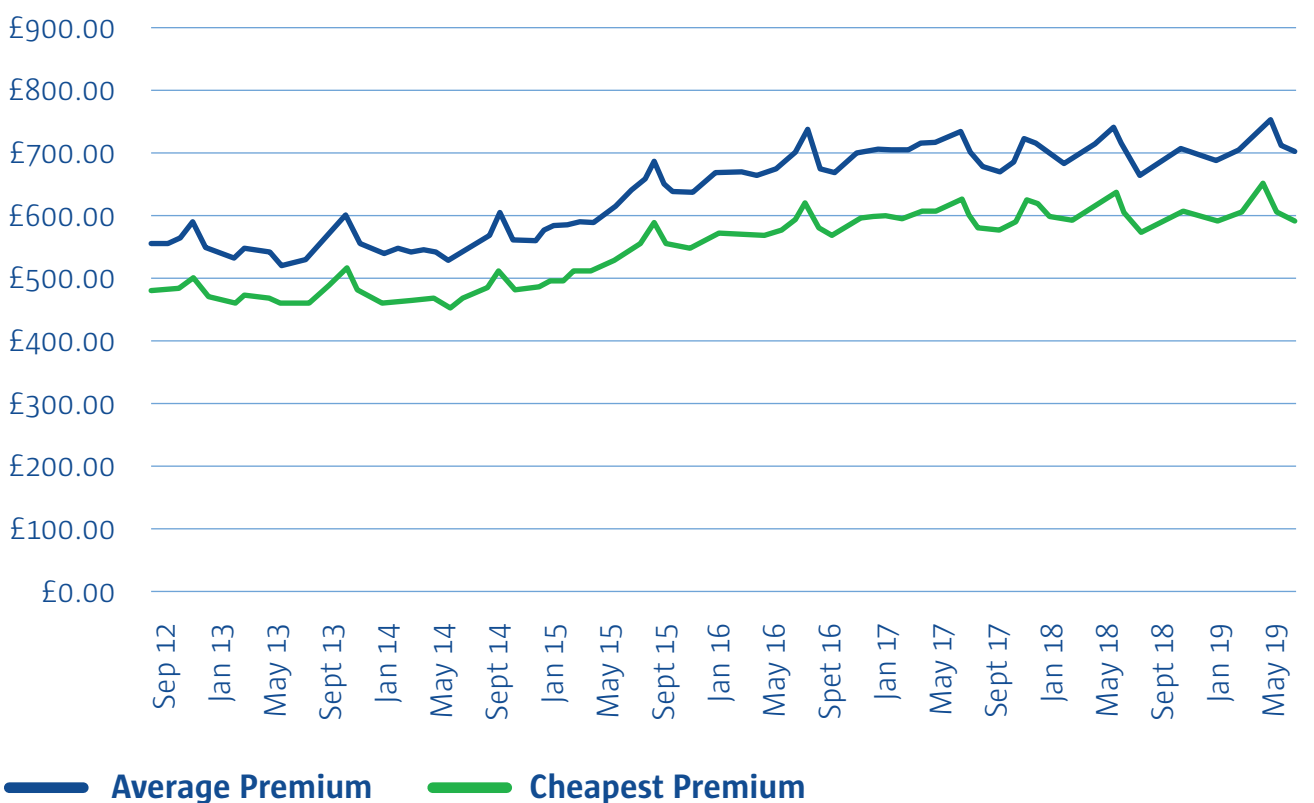
Dan Hutson, Head of Motor Insurance at [comparethemarket.com](https://www.comparethemarket.com)



## Average price difference



## Cost difference between the cheapest and average premiums



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# Methodology

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All data, other than that referenced in the footnotes, is sourced from **comparethemarket.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.