



# Motor Insurance Premiums for Young Drivers in the UK and Europe

Nick Starling

Motor insurance premiums for young drivers are higher in the UK than in other mainland European countries for the following reasons:

- **Underwriting approaches:** in the UK, the risk is calculated primarily from the age and experience of the driver, then goes on to take into account the type of vehicle and geographical location, as well as other factors such as mileage. In most countries in mainland Europe, the risk is calculated primarily from the vehicle, and then takes into account driver age and location. As a result, although total average premiums are broadly comparable in the countries examined in this study, they are lower for young drivers in other European countries than is the case in the UK, and conversely higher for older drivers.
- In many European markets, **third-party** cover is common, and is generally cheaper, and more likely to be bought by young drivers. In the UK, comprehensive cover dominates, and is counter-intuitively normally less expensive than third-party cover, especially for young drivers, because opting for third-party cover is perceived to demonstrate a greater risk.
- Markets in other European countries are generally more **regulated**, with, for example, limitations on percentage increases or decreases in premiums.
- **Competition:** the UK market is considerably more diverse and competitive than its European counterparts, especially with the growth of comparison websites. This has in turn led to a strongly risk-based approach, as insurers seek to concentrate on specific

sectors of the market. As the risks associated with young drivers are considerably higher than those for the driving population as a whole, the differentials between young and older drivers are greater in the UK.

- The major component of young driver premiums is the **cost of personal injury claims**. Personal injury awards, particularly for catastrophic and severe injuries, are considerably higher in the UK than elsewhere in Europe, and will rise further owing to the recent reduction in the discount rate used to calculate personal injury awards.
- Although the UK has a good road safety record overall, there is a comparatively larger exposure of young drivers in the driving population as a whole in the UK. In addition, the **minimum driving age** is 17, rather than 18 as in most other countries.

The only country with published data for young drivers is the UK, so no comparable information are available for the actual premiums paid.

The following countries have been selected as the basis for this study: France, Germany, Italy, the Netherlands, Sweden, Spain and the UK. France, Germany, Italy, Spain and the UK together constitute 67% of the motor market in Europe. The Netherlands and Sweden are countries with comparable road casualty rates to the UK. Detailed insurance data are available for France, Germany, Sweden and the UK.

This study analysed a broad range of published data from various sources in the UK and the rest of Europe. Good data are available from organisations such as the ABI (Association of British Insurers), the European Transport Safety Council, Insurance Europe, PACTS (the Parliamentary Advisory Council for Transport Safety) TRL (the Transport Research Laboratory), and the UK Office for National Statistics. However, there are limitations as to how the data can be used for comparative analysis. This is because different countries use a variety of criteria in their collection of data and their requirements for it to be reported. The data used in this study therefore gives only a broad indication of such issues as premium prices, costs of claims and road safety outcomes, but these metrics are in most cases not directly comparable.

## Average motor premiums

The first step in the analysis was to establish average motor premiums in each country. This is not straightforward. Whereas in the UK comprehensive cover is common, in many other countries in Europe the cover is split into third party, fire and theft on the one hand, and material damage on the other. A lower premium can be paid if only the former is chosen; counter-intuitively, in the UK third-party cover – especially for young drivers – is often more expensive as it is seen by many insurers as indicative of a higher risk.

It is also difficult to determine the number of licensed drivers and number of vehicles in each country. The data below are derived from the number of vehicles per head of population and the gross written premium for each country, from the Insurance Europe publication, *European Motor Insurance Markets*,<sup>1</sup> using 2013 figures. However, what these data cover varies from country to country, both in terms of motor vehicle and user classification (whether personal or commercial). Some figures include powered two-wheelers, especially in southern European countries, where moped and motorbike usage by young people is higher than in northern Europe. This study is concerned with the costs for young car drivers only.

<sup>1</sup> Insurance Europe (2015). *European Motor Insurance Markets*. Accessed 23 May 2017 from <http://docplayer.net/11142212-European-motor-insurance-markets.html>

*Actual* premiums are often different from **quoted** premiums: the latter are often widely derived via mystery shopping, which rarely takes account of, for example, no-claims discounts. As far as can be ascertained, only the ABI publishes figures for actual average premiums on a regular basis: the 2016 figure is £462 per annum for all drivers, including tax.<sup>2</sup> The French insurance industry has recently published figures showing that the average cost of a third-party insurance policy in 2016 was €445 a year; and the average cost of a comprehensive policy was €850.<sup>3</sup> These figures exclude young drivers with no prior insurance record. Similarly, and also as far as can be ascertained, mystery shopping has been carried out in the UK, but not elsewhere in Europe.

Mystery shopping in the UK is only possible because of the large number of comparison websites and the fact that most products are bought – or at least researched – online. Different sets of data can be inputted to model various scenarios and retrieve quotes from a number of companies. However, this approach has its drawbacks. Anti-fraud measures, including the requirement to input driving licence details, makes analysis by someone other than the person actually seeking insurance difficult (these exercises are normally carried out by the companies themselves). Such exercises invariably produce a highly theoretical price: the first-time, on-the-road price, and taking no account of, for example, no-claims discounts. Thus these mystery shopping exercises have given substantially higher estimates for young driver premiums than analyses using actual data, such as those carried out by the ABI.

Mystery shopping is more of a challenge in other European countries, where there are few if any comparison websites, fewer transactions are online, and many policies are bought direct from insurance companies or via agents or brokers. For these reasons no such research was undertaken for this study.

Using the data published by Insurance Europe, it is possible to derive a figure for average annual premiums for all drivers, using 2013 data. As noted above, these figures are not directly comparable, and cover more than cars. The figures combine third-party and material damage (i.e. comprehensive), and include tax, as follows:

Country	Premium
France	€490
Germany	€520
Italy	€416
Netherlands	€550
Spain	€370
Sweden	€610

N.b. In the UK the ABI average figure for 2013 was £370<sup>4</sup>

The more recently calculated figure for France noted above would appear to indicate that these figures are underestimates, and also that there is a considerable price difference between third-party and comprehensive cover. A direct comparison with the UK is also difficult, due to the changes in the exchange rate over the last few years. It can nevertheless be seen that premiums in the UK are towards the upper end of premiums in the countries studied.

<sup>2</sup> ABI (Association of British Insurers) (2017). *Motor insurance premiums reach highest recorded levels*. Press release, 3 February. Accessed 23 May 2017 from <https://www.abi.org.uk/news/news-articles/2016/12/motor-insurance-premiums-reach-highest-recorded-levels/>

<sup>3</sup> Figures quoted in [https://www.french-property.com/news/money\\_france/cost\\_car\\_insurance/](https://www.french-property.com/news/money_france/cost_car_insurance/)

<sup>4</sup> <https://www.abi.org.uk/news/industry-data-updates/2013/12/abi-average-motor-insurance-premium-tracker-launch-statistics/>

The data do not allow a similar exercise to be carried out for young driver premiums. Only in the UK has work been published specifically on young drivers. The ABI has published an average premium for 18- to 20-year-olds of £972.<sup>5</sup> An updated figure of £993 was given in oral evidence to the House of Commons Petitions Committee and Transport Committee.<sup>6</sup> Recent research by a comparison website put the average (cheapest) first quote for a 17-year-old driver at £2,232.<sup>7</sup> However, as noted above, actual premiums are often different from quoted premiums, and this figure only represents the highest-risk, first-on-the-road price, at an age before which most European countries allow unaccompanied driving. If a young driver has no claims, then premiums can in some cases start to reduce swiftly, particularly with telematics products (i.e. insurance policies which depend on the fitting of telematics technology to the vehicle, or the use of a phone app), where the risk can be accurately measured; premiums can reduce by up to 60% on renewal. Some telematics products can be up to 25% cheaper, provided that the young driver signs up to intensive monitoring, and/or has a parent or guardian as an additional named driver on the policy.<sup>8</sup> Policies can also be cheaper if the driver chooses a higher excess: i.e. the amount the driver pays before the claim covers the rest of the cost.

All countries apply some form of tax to insurance products. In the UK this is Insurance Premium Tax. First introduced at 2.5% in October 1994, it has risen substantially in recent years: to 4% in 1997/8, 5% in July 1999, 6% in 2011, 9.5% in 2015/16 and 10% in 2016/17. It is 12% as of June 2017. Although this is still lower than in some other European countries, it has a bigger impact on young drivers, whose premiums are higher.

Throughout Europe, motor insurance has generally not made a profit in recent years. Combined ratios – the total of losses incurred and expenses as a percentage of the total of premiums received – averaged 98.7% across Europe in 2013; in other words, €98.7 was paid out in claims and expenses for every €100 premium. In Germany that year it was 104%; France and the Netherlands registered 102%. Both Spain and Italy made a small surplus. The UK made a loss of £53 million (with an average combined ratio of 100.3%). In 2015, UK insurers made an underwriting profit of £33 million – the first since 1994.

A more detailed breakdown of insurance premiums is given in Appendix A.

## Underwriting approaches

Motor underwriting uses a number of factors to determine the overall risk, and hence the premium. The price is set according to the potential cost of claims, which may be for replacement or repairing physical damage to the vehicle, and can include associated costs such as replacement hire vehicles; and third-party claims – which can be for either physical damage or personal injury (or both).

Claims costs for loss and physical damage to vehicles, and for replacement hire vehicles, are broadly comparable across Europe: although there is some variation in cost, there are not the large differences seen in personal injury compensation awards. The former claims costs were not therefore analysed in this study.

<sup>5</sup> ABI (2015). *New ABI data shows why age is a factor in the price of car insurance*. Accessed 24 May 2017 from <https://www.abi.org.uk/news/news-articles/2015/07/new-abi-data-shows-why-age-is-a-factor-in-the-price-of-car-insurance/>

<sup>6</sup> *Oral Evidence taken before the Petitions Committee and Transport Committee*, HC 840 Session 2016–17, 28 February 2017. Accessed 24 May 2017 from <http://data.parliament.uk/writtenevidence/committeeevidence.svc/evidencedocument/petitions-committee/the-cost-of-car-insurance-for-young-people/oral/48201.pdf>

<sup>7</sup> Gocompare.com (2015). *£6,768 – the cost of getting young drivers on the road*. Press release, 12 January. Accessed 24 May 2017 from [www.gocompare.com/press-office/2015/01/cost-of-getting-on-the-road](http://www.gocompare.com/press-office/2015/01/cost-of-getting-on-the-road)

<sup>8</sup> *Oral Evidence taken before the Petitions Committee and Transport Committee*

Common underwriting criteria, used in all countries, take into account the make, age and safety of the vehicle, and assess the driver, using:

- group rating schemes and Euro NCAP (European New Car Assessment Programme) star ratings;
- the age and occupation of the driver(s);
- the mileage driven;
- the geographical location of the vehicle owner;
- other factors, such as where the car is kept overnight; and
- the record of claims made.

However, countries have differing approaches to the weighting of these criteria, depending on market conditions, and regulatory and legal systems.

In the UK, the age and experience of the driver is a key loading factor in the premium. It is usual for policies to be for named drivers only. Geographical location is also important, as there is wide variation in claims rates throughout the UK. Other factors are then taken into consideration.

In most other countries in Europe, by way of contrast, the main focus is the vehicle, with variations then being applied according to the age of the driver and other factors. In many cases the policy is not restricted to named drivers. This approach tends to lead to much smaller price variations across the age range, partly for historic reasons, and in some cases owing to regulatory requirements.

Data on the approach to underwriting, and regulatory controls on it, were obtained from France, Germany, Sweden and the UK. Some of it is published through trade associations: the remainder was derived from personal information from contacts familiar with the relevant markets.

## France

Social issues are important in this large, predominantly rural, country. The premium is focused first on the type of vehicle, and then on the age of those driving it. Geographical location may be taken into account, at the discretion of the insurer. Premiums tend to be higher in cities.

Young driver premiums are regulated.<sup>9</sup> There is a formal system of reductions in premium, with a small no-claims bonus system. For a young driver with no accidents, the first year attracts an additional premium of 100%, the second 50%, then 25%, and in the fourth year there is no additional premium. If the driver has no accidents during this time, a 'bonus–malus coefficient' is applied to the whole premium, effectively reducing it by 5% each year. For a reference premium of €500 this gives a sequence of €1,000, €712.50, €562.50 and €425. The year two figure is derived by applying the coefficient of 0.95 to the premium of €750, the year three by applying 0.90 to the premium of €625, and so on. The reduction rate is faster for drivers who have had a driving licence for over three years, but have not been insured during that time.

The coefficient is raised by 25% for an at-fault accident, and there is a limit to the increase even in the event of multiple accidents.

<sup>9</sup> For details see the regulations published at <https://www.service-public.fr/particuliers/vosdroits/N19812>

## Germany

The main underwriting focus in Germany is the type of vehicle, followed by the age and experience of the driver. Companies operate through a relatively formalised system of discounts which depend on age, and the no-claims bonus system is important. When a vehicle is insured, if the youngest insured driver is less than 25 years of age, the premium is based on the youngest driver; if any are 25 or older, it is based on the oldest driver. From the age of 25 a 13% discount starts to apply, and this reaches 15% by 45, demonstrating the relative flatness of the price curve.<sup>10</sup>

## Sweden

In Sweden, different underwriting approaches are taken by the mutual insurers and the publicly owned companies. Companies have extensive data, but the main factor in price variation is the vehicle. The mutual companies operate an almost entirely flat pricing structure – i.e. an equal price for all ages. In the rest of the market there is a small amount of variation: a theoretical figure given to the writer was a €500 premium for an experienced driver would be €650 for a young one. There is no system of no-claims discount: rather there is a small increase in premium in the event of a claim.

## UK

The UK has developed a strongly risk-based approach to underwriting in all areas of general insurance. In the case of motor insurance, the main focus is on the driver (who usually has to be named on the policy), following which the type of vehicle, defined by a group rating system, is taken into account, and after this the physical location of the driver, his or her occupation, and the annual mileage driven. A system of no-claims discounts applies, which can rapidly reduce premiums. There are no regulatory limitations on the cost of insurance, or how it can change from year to year – the high risk associated with young drivers, and the higher cost of claims in some geographical locations, means that the differentials in pricing both between ages and in across different locations can be large.

Telematics products have enabled a much more accurate real-time calculation of the risk: this can lead to rewards for safe driving behaviour in terms of premium reductions – and, conversely, premium increases, or possibly cancellation of cover, for unsafe driving, even when there has been no accident. The price of all products can also vary depending on how much risk the driver carries: a large excess, will reduce a premium.

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## Competition

### France

The market in France is dominated by a relatively small number of large companies (three companies have captured 48.7% of the market, and the top ten companies 88%), and nearly half the market is held by mutual insurers. Around one half of policies are sold through brokers, and much of the remainder direct through agents of the insurance companies.<sup>11</sup> There are virtually no comparison websites, or telematics products. There is a tendency for customers to remain with their insurer for several years, and contracts must be held for one year.

<sup>10</sup> Information provided by the German Insurance Association, [www.gdv.de](http://www.gdv.de)

<sup>11</sup> Le marché de l'assurance automobile en 2015, La Fédération Française de l'Assurance (2015)



## Germany

Germany has a competitive insurance market. The ten largest companies account for 69% of the market, and the top five comprise 47%. Distribution is as follows:

Distribution channel	Share
Direct from insurers	46.5%
Brokers	27.1%
Comparison websites	13.5%
Banks	5.6%
Other companies (e.g. supermarkets)	2.6%
Other channels	4.7%

There is a small telematics market.

## Sweden

There are four main companies in the Swedish insurance market, of which two are mutuals. Most insurance is bought direct from the companies themselves. There are no comparison websites. The market is characterised by a high degree of loyalty, with some 99% of policies held for at least three years. There is a very small telematics sector.

## UK

The UK has a highly competitive motor insurance market. Ten companies account for 70% of the market, and the top five account for some 50%.<sup>12</sup> It is estimated that some 70% of new policies are bought online, usually through comparison websites. Brokers are active in the market, and frequently the quotes on comparison websites are from brokers, not insurers (a fact that is not always apparent to the customer). Many products are sold under the name of eg supermarket chains. The market is also characterised by new entrants, who have often rapidly gained market share. There is active encouragement by the regulator (the Financial Conduct Authority), and consumer commentators, for customers to shop around on renewal, to take advantage of introductory offers: around 75% of customers do so before either switching or remaining with their provider.

The competitive nature of the UK market has led to a wide variety of practices and approaches among insurers. As UK motor insurers have made underwriting losses in almost all of the last 20 years – i.e. total claims paid plus total expenses have exceeded total premium income – companies frequently include add-on products to help make a profit. These might include legal expenses insurance, roadside assistance, and replacement vehicle cover. Insurers also seek to focus on areas where they understand risk or can manage it more effectively; conversely, they may seek to avoid some areas altogether. They may do this by either not quoting in some areas, or for particular groups of drivers, or by putting out high quotes to squeeze out high-risk customers.

The telematics market for young drivers is rapidly expanding, with almost 750,000 policies in operation.<sup>13</sup> It is the largest telematics market for young drivers in Europe (Italy also has a large telematics market, but this is predominantly to enable the settling of liability claims and is not aimed at the young driver market).

<sup>12</sup> Competition and Markets Authority Report (2014). *Private Motor Insurance Market Investigation: Final report*. Accessed 24 May 2017 from [https://assets.publishing.service.gov.uk/media/5421c2ade5274a1314000001/Final\\_report.pdf](https://assets.publishing.service.gov.uk/media/5421c2ade5274a1314000001/Final_report.pdf); figures also derived from Insurance Europe (2015). *European Motor Insurance Markets*.

<sup>13</sup> Information provided by the British Insurance Brokers' Association, [www.biba.org.uk](http://www.biba.org.uk)

There are a number of different types of telematics products on the market. The majority depend on the physical fitting, in the vehicle, of a black box. Others operate via apps on mobile phones. They typically measure speed, location, and events such as swift deceleration and harsh braking. This enables a highly accurate analysis of driver behaviour on a per-journey basis, and hence accurate risk pricing.

Some products operate on the basis of a low initial premium, with additional costs charged if there is evidence of poor driving behaviour: a given number of journeys with speeding, or frequent harsh braking, for example. Other products offer a relatively high initial premium, with discounts or features such as additional miles allowed for good driving behaviour. A few use a differential charging model, with higher costs for driving at riskier times, such as during the night. Most users of telematics products can access a dashboard on their computer or phone which shows how they have been driving. Some products are highly interventionist, with close monitoring of journeys and active engagement with customers. Some require a responsible adult to be named on the policy. Because of the nature of telematics products, the extent to which they are self-selecting – i.e. chosen by more cautious drivers, and/or their parents or guardians – and how much they actually lead to safer driving behaviour are matters of current discussion and research.

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## Uninsured driving

The costs of claims from accidents caused by uninsured drivers are borne across the insured driving population. The amount of uninsured driving varies widely across different countries. The highest proportions are found in Italy (8%) and Spain (7%). In France, where it has only recently been calculated, it is up to 2%, and in Germany less than 1%. The UK figure of 4% represents an average cost to paying motorists of £30, and comparatively more for younger drivers.

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## Personal injury claims

The cost of personal injury claims varies widely between countries. The largest determinant of variation is how much of the cost of medical and long-term care for large claims is borne by the state: this proportion is high in the Nordic countries, for example. It also depends on whether it is a court-based, mediated or tariff-based system, and the proportion of any award taken up by nursing care, foregone income, pain and suffering, and the like.

Compensation awards for major injuries – i.e. those which are life-changing and/or require lifetime care, and which may involve substantial loss of earnings – are made either on the basis of a lump sum award, or an annual amount payable until death, or a combination of both. Countries have differing approaches to how these are calculated, but what they have in common are processes by which there is an attempt to determine what lifetime needs are, and the financial arrangements needed to meet those needs, with the intended result being neither over or under compensation.

Common to the lump sum approach is the use of a discount rate to calculate the appropriate figure. The discount rate (known as the Ogden discount rate in the UK) is used to calculate the lump sum required to deliver the annual compensation to be paid to the claimant. Once a settlement has been reached determining that award, the lump sum is then calculated. The lower the discount rate, the higher the lump sum has to be. In the UK, the discount rate has recently changed from 2.5% to –0.75%, making it the



only major country with a negative discount rate. The decision is based on the yields from index-linked government stock. The UK Government has set out the reasons as follows:<sup>14</sup>

“The effect of a change in the discount rate is so pronounced because of the working of the principles of compound interest on payments to be made over potentially very long periods. For example, if £100k is invested in a portfolio with an average annual real return of 2.5%, the portfolio will have a real value of £128k after ten years and £269k after 40 years. Invested in a portfolio with an average annual real return of minus 0.75%, the real value of the £100k will be £93k in ten years and £74k in 40 years. That is, a negative return (with respect to inflation) erodes the real value of the portfolio and the effect is greater the longer the term of the investment. This means that, if the investor needs £100k in 10 years, in real terms, he or she should invest £108k if (expecting) to invest in a portfolio with a minus 0.75% real return. If the investor needs £100k in 40 years, in real terms, he or she should invest £135k at the same real return. The difference in capital requirement is particularly pronounced in times of low interest rates.”

The change in the discount rate has a major impact on the size of awards. The UK Government's own calculations for a young quadriplegic requiring £100,000 a year in care costs is that the lump sum award will increase from £5–6 million to £9 million – up to 60%. The UK Prudential Regulation Authority has estimated that overall claims costs could rise by £2 billion, i.e. an increase of around 20% on the 2015 motor claims figure of £10.4 billion. PricewaterhouseCoopers has estimated that average premiums will rise by £50–£75, with potential rises for young drivers of up to £1,000.<sup>15</sup>

The actual impact of the change is difficult to estimate at this stage, because of the effect on reinsurance rates. Reinsurance – where insurance companies themselves insure either against a book of policies or individual policies – is particularly sensitive to changes in personal injury awards. For example, if an insurance company reinsures all claims over £5 million, in the event of a £6 million claim the reinsurance company will pay £1 million; if there is a 10% increase in the cost of claims, that payment will increase to £1.6 million – a jump in costs to the reinsurance company of 60%, which it would have to recoup via higher reinsurance premiums on renewal or by increasing the £5 million ceiling. Large increases in lump sum awards as a result of the discount rate reduction will make this gearing effect more pronounced.

If an insurance company has to pay an annual sum for life, then it will have to make adequate provision in its reserves to do so. In the UK these are known as ‘periodic payment orders’. Because of the uncertainty over the longevity of very seriously injured young people, and tight prudential rules, insurers have to reserve conservatively. This can lead to a much higher nominal claim cost than a lump sum, even though the money had not actually been paid. The increased cost of a periodic payment order will vary according to circumstance, and can depend on how much initial lump sum is needed for items requiring capital outlay, but it can increase a lump sum award by almost threefold. Courts tend to award periodic payment orders more frequently for younger people, and always do so for minors. The great majority of periodic payment orders in the UK have been paid by the Motor Insurers’ Bureau, and for NHS claims; neither organisation needs to reserve for such claims, as they are funded on an ongoing basis by motor insurers and the taxpayer respectively.

<sup>14</sup> MOJ (Ministry of Justice) (2017). *The Personal Injury Discount Rate: How it should be set in future*. Accessed 24 May 2017 from [https://consult.justice.gov.uk/digital-communications/personal-injury-discount-rate/supporting\\_documents/discount-rate-consultation-paper.pdf](https://consult.justice.gov.uk/digital-communications/personal-injury-discount-rate/supporting_documents/discount-rate-consultation-paper.pdf)

<sup>15</sup> PricewaterhouseCoopers (2017). *Ogden rate change: PwC comments on impacts for motor insurance pricing*. Press release, 27 February. Accessed 24 May 2017 from [http://pwc.blogs.com/press\\_room/2017/02/ogden-rate-change-pwc-comments-on-impacts-for-motor-insurance-pricing.html](http://pwc.blogs.com/press_room/2017/02/ogden-rate-change-pwc-comments-on-impacts-for-motor-insurance-pricing.html)

The different approaches to the calculation of personal injury awards are listed in Appendix B.

Two reinsurance companies, Swiss Re and Gen Re, have carried out detailed modelling to determine compensation awards for accident scenarios in different European countries.

Swiss Re modelled catastrophic (quadriplegic) injuries to a 30-year-old male married, with two dependent children and a non-working partner. The awards were calculated as follows:<sup>16</sup>

Country	Award (€m)
France	8.0
Germany	8.75
Italy	3.0
Netherlands	1.6
Spain	1.75
Sweden	0.8
UK	14.5

Gen Re modelled catastrophic (quadriplegic) injuries to a 41-year-old male, married, with two dependent children and a non-working partner. The claims were calculated as follows:<sup>17</sup>

Country	Award (€m)
France	6,114,590
Germany	4,777,000
Italy	3,059,160
Spain	1,278,910
UK	8,293,100

Gen Re did not carry out calculations for the Netherlands and Sweden.

The size of an award depends on a number of individual factors, but generally younger claimants will receive higher awards, because of the potentially longer term care costs.

As with the cost of premiums, the comparison of UK costs with other countries is dependent on the pound/euro exchange rate at the time the studies were carried out. However, even allowing for the currently weaker position of sterling, it can be seen that the UK awards are considerably higher than other countries.

### Minor claims (whiplash)

Whiplash claims add costs to the UK system throughout the age range, of the order of 7–8%. In France, whiplash is minimal, standing at around 3%, with claims below a certain level not permitted. In Sweden, “it was a problem 12–14 years ago, but it went out of fashion”.<sup>18</sup> Germany has a system which categorises whiplash as first, second or third degree, each requiring objective criteria and proof. The UK is characterised by large numbers of claims management companies which actively encourage claims after even minor crashes.

<sup>16</sup> A series of factsheets entitled “Bodily injury landscape Europe” on the Swiss Re website, [www.swissre.com](http://www.swissre.com)

<sup>17</sup> General Reinsurance AG (2014). *A Comparison of Compensation for Personal Injury Claims in Europe*. Accessed 24 May 2017 from <http://media.genre.com/documents/cfpc1401-en.pdf>

<sup>18</sup> Personal communication to author

The UK Government has announced measures designed to reduce the number and cost of road traffic accident (RTA)-related whiplash claims. These include introducing a fixed tariff approach for all claims with an injury duration of between 0 and 24 months; raising the small claims track limit (the limit below which legal costs are not recoverable by the claimant) for RTA injury claims to £5,000; and prohibiting the settling of whiplash claims without medical evidence. Once implemented in 2018, these reforms could potentially lower claims costs substantially: to take an example, the current average claim of £1,750 for a zero- to three-month injury will reduce to £225, and £3,100 for a ten- to twelve-month injury to £1,190, with a corresponding reduction in legal costs because of the raising of the small claims track limit.<sup>19</sup> The ABI has estimated a £40 average reduction in premiums, correspondingly greater for young drivers.

In conclusion, personal injury compensation costs are higher in the UK than all other mainland European countries, and in catastrophic injury cases can be markedly so.

## Road accident rates

Although the main costs for young driver claims are serious injuries (these account for 80% of young driver claims costs, according to ABI figures),<sup>20</sup> comparative data on injuries are not generally available, and there are currently no agreed definitions for different classes of injury.<sup>21</sup> Therefore, fatalities have to be used; it should be noted that these do not distinguish between young people fatalities caused by young drivers themselves, or other young RTA deaths. Nevertheless, they provide a broad indication of the exposure of 18- to 24-year-olds, even though the main costs of these claims for insurers derive from catastrophic injuries, not deaths.

In all European countries, young drivers are less safe than all other age groups. Across the EU, 15% of road deaths are 18- to 24-year-olds, although 18- to 24-year-olds represent only 8% of the general population.<sup>22</sup> The percentage figures for 18- to 24-year-old fatalities by individual countries are as follows:

Country	Share of deaths
France	19%
Germany	15%
Italy	12%
Netherlands	17%
Spain	9%
Sweden	15%
UK	20%

19 MOJ (2017). *Part 1 of the Government Response to: Reforming the Soft Tissue Injury ('Whiplash') Claims Process: A consultation on arrangements concerning personal injury claims in England and Wales*. Accessed 24 May 2017 from [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/593431/part-1-response-to-reforming-soft-tissue-injury-claims.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/593431/part-1-response-to-reforming-soft-tissue-injury-claims.pdf)

20 ABI (2012). *Improving the Safety of Young Drivers*. Accessed 24 May 2017 from [https://www.abi.org.uk/~/\\_media/Files/Documents/Publications/Public/Migrated/Motor/ABI%20guide%20to%20improving%20the%20safety%20of%20young%20drivers.pdf](https://www.abi.org.uk/~/_media/Files/Documents/Publications/Public/Migrated/Motor/ABI%20guide%20to%20improving%20the%20safety%20of%20young%20drivers.pdf)

21 ETSC (European Transport Safety Council) (2016). *Reducing Casualties Involving Young Drivers and Riders in Europe*. Accessed 24 May 2017 from [http://etsc.eu/wp-content/uploads/2017\\_01\\_26\\_young\\_drivers\\_report.pdf](http://etsc.eu/wp-content/uploads/2017_01_26_young_drivers_report.pdf)

22 European Commission (2015). *Traffic Safety Basic Facts 2015: Main figures*. Accessed 24 May 2017 from [https://ec.europa.eu/transport/road\\_safety/sites/roadsafety/files/pdf/statistics/dacota/bfs2015\\_main\\_figures.pdf](https://ec.europa.eu/transport/road_safety/sites/roadsafety/files/pdf/statistics/dacota/bfs2015_main_figures.pdf)

If only the fatalities involving cars/taxis are used (i.e. excluding lorries, two-wheelers and pedestrians), the figures are as follows:

Country	Share of deaths
France	11.7%
Germany	10.2%
Italy	6.8%
Netherlands	10.3%
Spain	5.6%
Sweden	10.0%
UK	11.2%

Since the UK is the only one of these countries with a 17-year driving age, the percentage figure of young driver deaths is probably higher. The ABI notes that drivers aged 17–19 make up 1.5% of licence holders but are involved in 9% of serious and fatal crashes.<sup>23</sup> Many of these involve several passengers in one vehicle. The lower figures for Spain and Italy may be accounted for by the higher number of powered two-wheelers driven by younger people.

Recent (2016) work by the Transport Research Laboratory, *Understanding the Strengths and Weaknesses of Britain's Road Safety Performance*<sup>24</sup> also addresses the difficulty of the data. It concludes that:

“18- to 24-year-olds are at more risk of being killed on the road in most countries than the average person. However, this difference in risk per head is proportionally larger on British roads than on the roads of most other EU countries, including those in the Netherlands, Sweden and Denmark.”

The report goes on to say:

“Although countries within the EU use a common definition for road deaths, there are many differences in the way in which other measures related to road safety are measured. These differences include not only the classifications of non-fatal road injuries, but also the ways in which exposure data are collected and classified...”

Subsequently, it is very challenging to compare the road safety records of different countries meaningfully and to understand the reasons for differences and similarities reliably. For example, the number of road casualties is sensitive to the distances travelled by pedestrians and pedal cyclists yet the standard way in which these distances are measured appears to vary by country; this means that apparent differences in vulnerable road user casualty rates may not reflect genuine differences in safety.”

It can be concluded, therefore, that as a group, young drivers in the UK represent a greater risk, as a proportion of the entire driving population, than is the case in many other European countries, even though UK road accident rates are among the lowest in Europe.

<sup>23</sup> ABI (2016). *Lifting the Bonnet on Car Insurance: What your premium pays for – the cost of motor insurance explained*. Accessed 25 May 2017 from [https://www.abi.org.uk/~/\\_media/Files/Documents/Publications/Public/2016/Motor/Lifting%20the%20bonnet%20on%20car%20insurance.pdf](https://www.abi.org.uk/~/_media/Files/Documents/Publications/Public/2016/Motor/Lifting%20the%20bonnet%20on%20car%20insurance.pdf)

<sup>24</sup> Lawton, B. & Fordham, C. (2016). *Understanding the Strengths and Weaknesses of Britain's Road Safety Performance*. PPR796. Transport Research Laboratory. Accessed 25 May 2017 from [www.pacts.org.uk/wp-content/uploads/sites/2/PPR796-Understanding-the-Strengths-and-Weaknesses-of-Britains-Road-Safety-Performance.pdf](http://www.pacts.org.uk/wp-content/uploads/sites/2/PPR796-Understanding-the-Strengths-and-Weaknesses-of-Britains-Road-Safety-Performance.pdf)

# Appendix A

## Average Car Insurance Premiums

2013 figures: euros

Data derived from Insurance Europe and European Commission publications already cited, and the Swedish Transport Agency.

<b>France</b>	
Gross written premium	19,820 million
of which third party	37%
Population/vehicles per 1,000	65,579 million/722
Licensed vehicles	47.34 million
Tax	17%
<b>Average premium</b>	<b>490 (net of tax: 419)</b>

<b>Germany</b>	
Gross written premium	23,260 million
of which third party	60%
Population/vehicles per 1,000	82,021 million/649
Licensed vehicles	53.23 million
Tax	19%
<b>Average premium</b>	<b>520 (net of tax: 437)</b>

<b>Italy</b>	
Gross written premium	18,644 million
of which third party	87%
Population/vehicles per 1,000	59,685 million/856
Licensed vehicles	51.0 million
Tax	13.5%
<b>Average premium</b>	<b>416 (net of tax: 366)</b>

<b>Netherlands</b>	
Gross written premium	4,375 million
of which third party	52%
Population/vehicles per 1,000	16,780 million/573
Licensed vehicles	9.62 million
Tax	21%
<b>Average premium</b>	<b>550 (net of tax: 455)</b>

<b>Spain</b>	
Gross written premium	9,833 million
of which third party	53%
Population/vehicles per 1,000	46,728 million/615
Licensed vehicles	28.73 million
Tax	8%
<b>Average premium</b>	<b>370 (net of tax: 342)</b>

<b>Sweden</b>	
Gross written premium	2,634 million
of which third party	no data, although drivers tend to switch to third party as their cars get older
Population/vehicles per 1,000	9,556 million/597
Licensed vehicles	5.7 million
Tax	32%
<b>Average premium</b>	<b>610 (net of tax: 462)</b>

## Appendix B

### Personal Injury Compensation Systems (Large Claims)

#### France

Compensation is determined by the use of tables, prepared by individual courts or groups of courts. Although not based in law, this system, the *Rapport Dintilhac* (2005) – also called the Dintilhac Nomenclature – describes claims in a consistent manner, adopted by French courts and claims handling practice.<sup>25</sup> Settlements may be lump sum or annuity based. Care costs constitute 54.27% of the claim.

#### Germany

Damages are decided by the courts, with precedents and guidelines. Care costs constitute 45.38% of the claim.

#### Italy

Tables are published by the Milan Regional Court, and include guidelines for compensation. They are periodically revised to take account of case law, although there is judicial discretion to vary from the table's figures by up to 25%. Care costs constitute 18% of the claim.

#### Netherlands

Most cases in the Netherlands are settled out of court. Medical expenses are set out, but to a certain extent are provided by the local authorities and the state (the same is true of loss of earnings calculations), which is why awards are relatively low compared with other countries. Nevertheless, care costs are over 50% of awards.

<sup>25</sup> pages 40–42 of <http://www.ladocumentationfrancaise.fr/var/storage/rapports-publics/174000190.pdf>



## Spain

The *Baremo* system uses a table-based compensation approach, which is legally binding. An extensive and far-reaching reform of the system, which was established in 1995, was carried out in 2016. The new system is much more comprehensive and complex than its predecessor<sup>26</sup>. The exact assessment of the claim is carried out by medical experts. The care cost component is 29%.

## Sweden

Compensation in Sweden is determined by the Traffic Board and is paid on an annuity basis. The social security system pays for medical expenses, rehabilitation, and loss of income. Over 50% of claims go towards care costs, but for the above reasons, these are low. Thus payments are standardised.

## UK

The UK system is tort-based, although not all claims are settled in court. Damages awarded are decided by precedent, although they are guided by the Ogden tables, which are actuarial comparisons of injury and death.<sup>27</sup> A large proportion (72.69%) of the claim costs are care costs.

One factor in the UK is whether the claim is settled on a lump sum basis, or via a periodic payment order. The size of a lump sum is based on an annual award, using a discount rate to calculate the appropriate size of the sum to generate the return. The current rate is -0.75%, having reduced from 2.5% on 20 March 2017 – a change which had an immediate effect on all claims, not just claims incurred after that date. This will increase the size of the lump sum awards substantially, and this in turn is likely to lead to an increase in premiums for all drivers, but particularly impacting young drivers. A periodic payment order is where a lifetime sum, which can be reviewed, is paid to the claimant. In the case of minors, periodic payment orders are invariably made. Where they are awarded for minors and young people, the uncertainty about longevity means that insurers reserve cautiously, which can sharply increase the capital cost of the claim.

<sup>26</sup> <http://www.genre.com/knowledge/publications/cmint16-2-en.html>

<sup>27</sup> Government Actuary's Department (2011). *Actuarial Tables with Explanatory Notes for Use in Personal Injury and Fatal Accident Cases: Seventh edition*. The Stationery Office. Accessed 25 May 2017 from [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/245859/ogden\\_tables\\_7th\\_edition.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/245859/ogden_tables_7th_edition.pdf)



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RAC Foundation  
89–91 Pall Mall  
London  
SW1Y 5HS

Tel no: 020 7747 3445  
www.racfoundation.org

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## About the Author

Nick Starling is an independent consultant. He is also a Director of the Parliamentary Advisory Council for Transport Safety. He was Director of General Insurance at the Association of British Insurers from 2005 until 2013, dealing with issues around motor, property, health, travel, protection and business insurance, and insurance fraud. Previously he held senior roles at the Health and Safety Executive and the Department for Transport.

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