



Profiting from pandemic premiums

Estimating the excess profits accrued by motor insurers' during the covid lockdowns

October 2021





Profiting from pandemic premiums

A report for Association of Consumer Support Organisations

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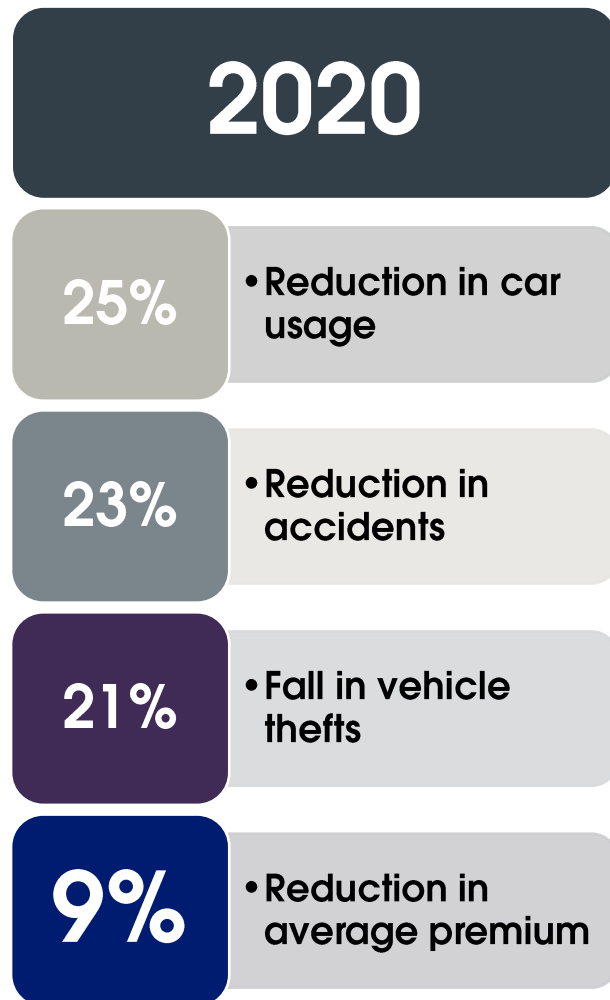
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Executive summary

Motor insurers receive £3.3 billion covid-windfall



Restrictions and stay at home orders necessitated by the covid-pandemic saw car usage plummet, the number of accidents decrease and vehicle thefts fall over the last eighteen months. These factors contributed to an unprecedented year-on-year fall in motor insurance claims.

Average premiums have fallen during the pandemic (although they are rising again now) but these declines in price fail to match what would be expected given the reduction in accidents and thefts.

Calculations suggest the excess profits accrued by insurers purely from the impact of covid likely total £3.3 billion – which is equivalent to £118 per policy. Even taking account of the reduction in the average premium of £25 over the past eighteen months (calculated using official statistics), insurers have benefitted from an average £93 unexpected windfall from every motor policy since March of last year.

Looking at their published financial results, 2020 stands out as a year where the big insurers have a big and unprecedented jump in profits from their core underwriting business. In recent years, insurers have seen premium income only just cover the pay out of claims and operating costs, with profits instead coming from investment income.

The report

Pragmatix Advisory has been commissioned by ACSO to assess the impact of the covid lockdowns on the profits accrued by motor insurers.

The analysis has been carried out using data and material freely available in the public domain, including the published financial accounts of major insurers.

Stay at home rules saw vehicle usage plummet

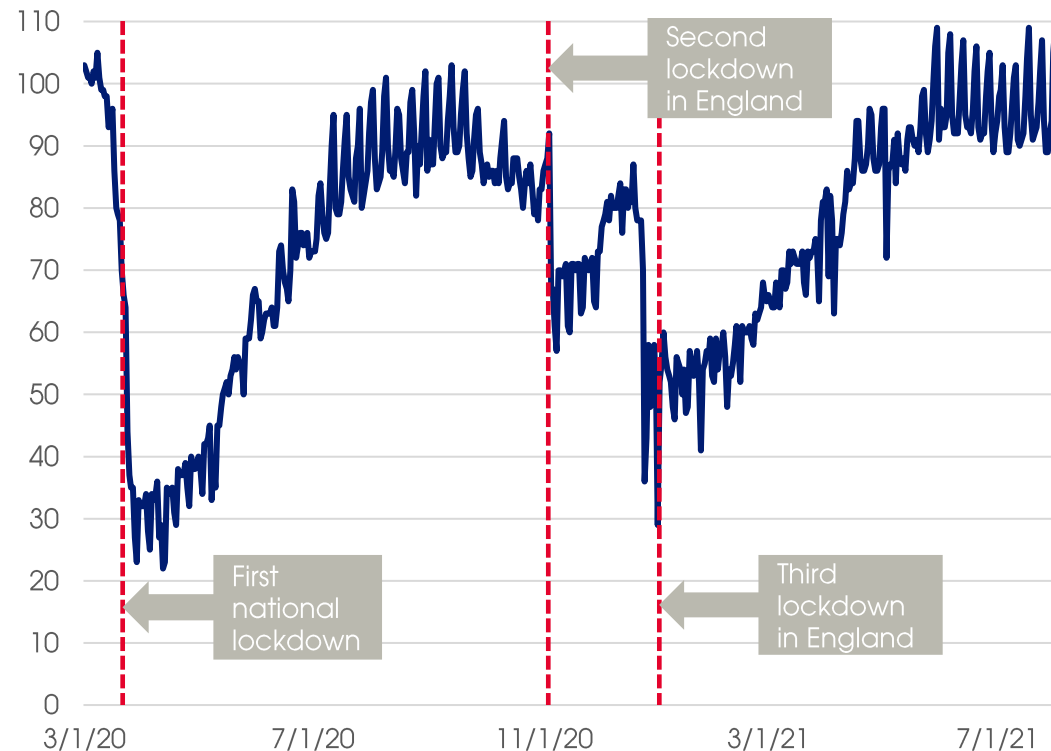
Multiple lockdowns, home working and travel restrictions have meant significantly less car usage over the past eighteen months.

Car usage has remained well below normal levels since March last year. There was some uptick during summer 2020, but it only returned to something akin to normal at the end of June this year.

Although weekends are seeing additional journeys, weekdays remain around ten per cent less than would be expected.

Vehicle theft has also reduced during the pandemic, down 21 per cent in the year to March 2021. Crime statistics show almost 190,000 fewer incidents of vehicle theft than the previous year

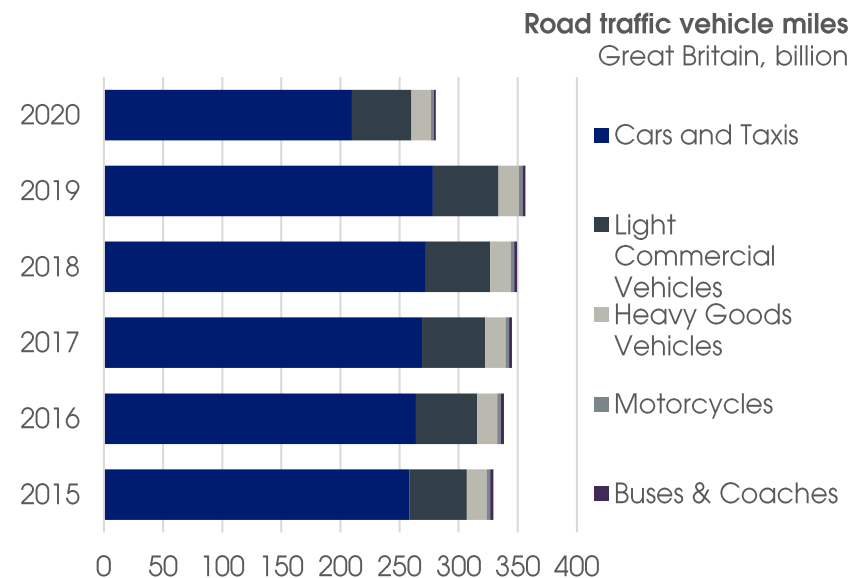
Car usage during the pandemic
Great Britain, 1 March 2020 to 2 August 2021, percentage of equivalent week



Car mileage fell by 25 per cent last year

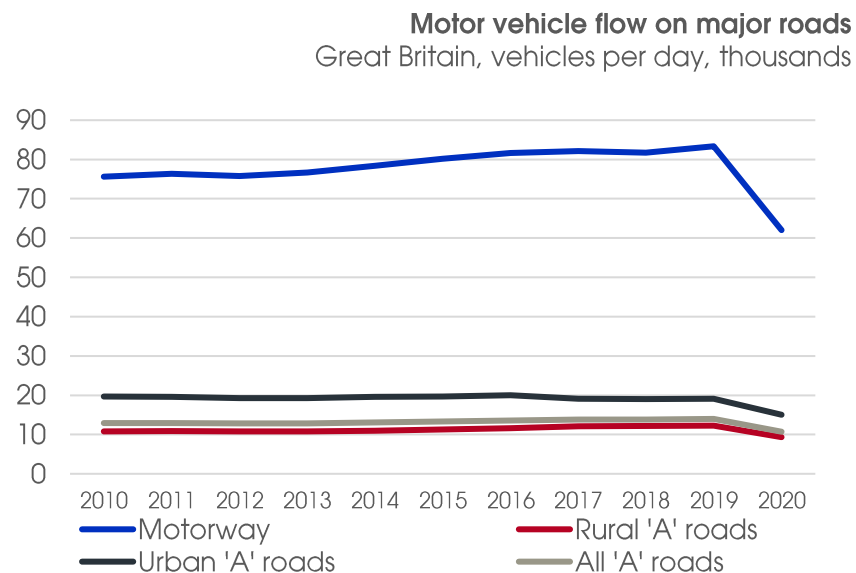
In addition, buses and coaches travelled a third less miles than in 2019, and motorcycle usage was down by seventeen per cent. Light commercial and heavy goods vehicle use remained more in line with pre-pandemic years, with falls of just nine and six per cent respectively.

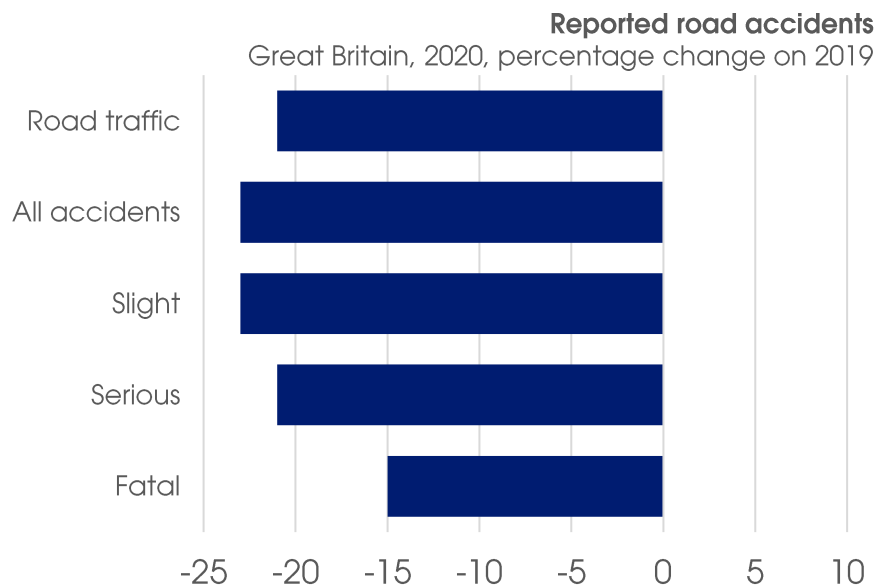
Larger roads including motorways saw the biggest reduction in use, with minor roads seeing slightly less of a drop in traffic.



Road type	2019 to 2020 change
Motorway	-26%
Rural 'A' roads	-24%
Urban 'A' roads	-21%
All 'A' roads	-24%
All major roads	-24%
Minor rural roads	-18%
Minor urban roads	-15%
All minor roads	-18%

Motor vehicle flow
Great Britain, 2019 and 2020, percentage change

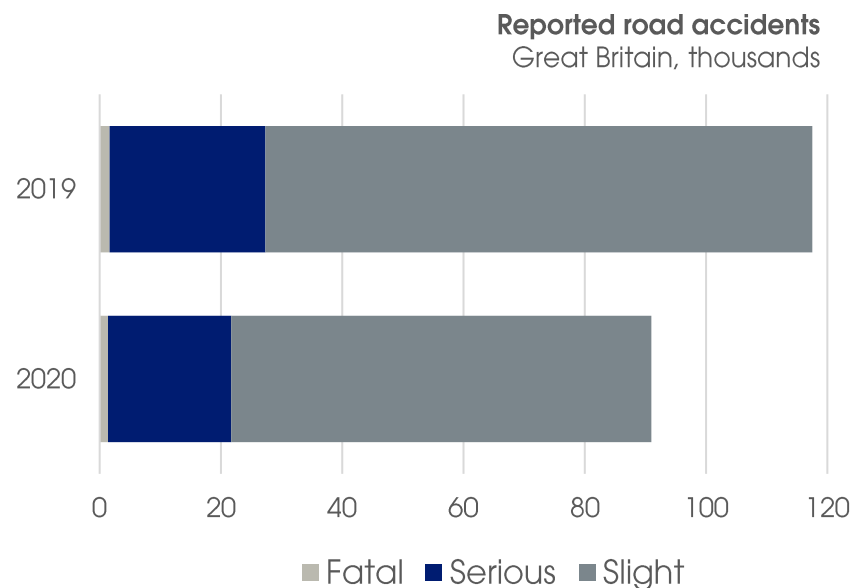
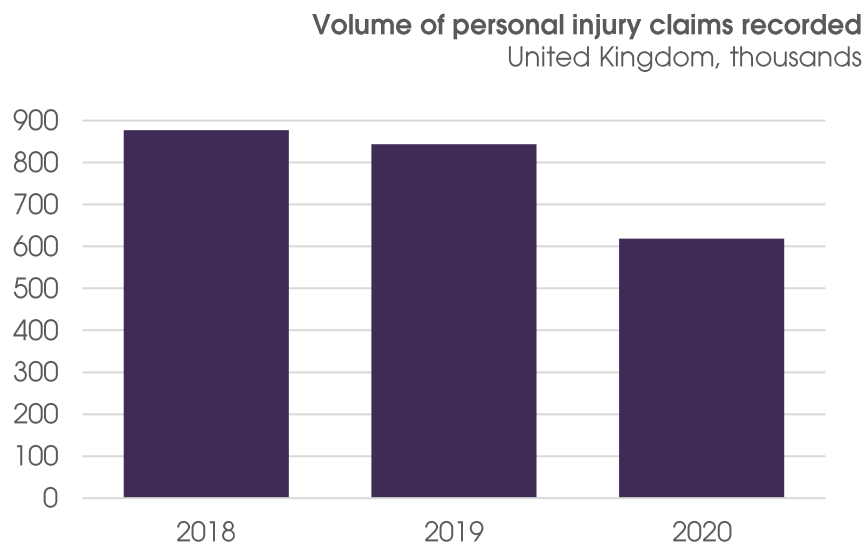




Reported road accidents fell by almost a quarter

The number of fatal accidents was down fifteen per cent on 2019, with 21 per cent fewer serious and 23 per cent less slight accidents.

Overall, there were 53,000 fewer reported road accidents last year. This of course doesn't account for unreported accidents.



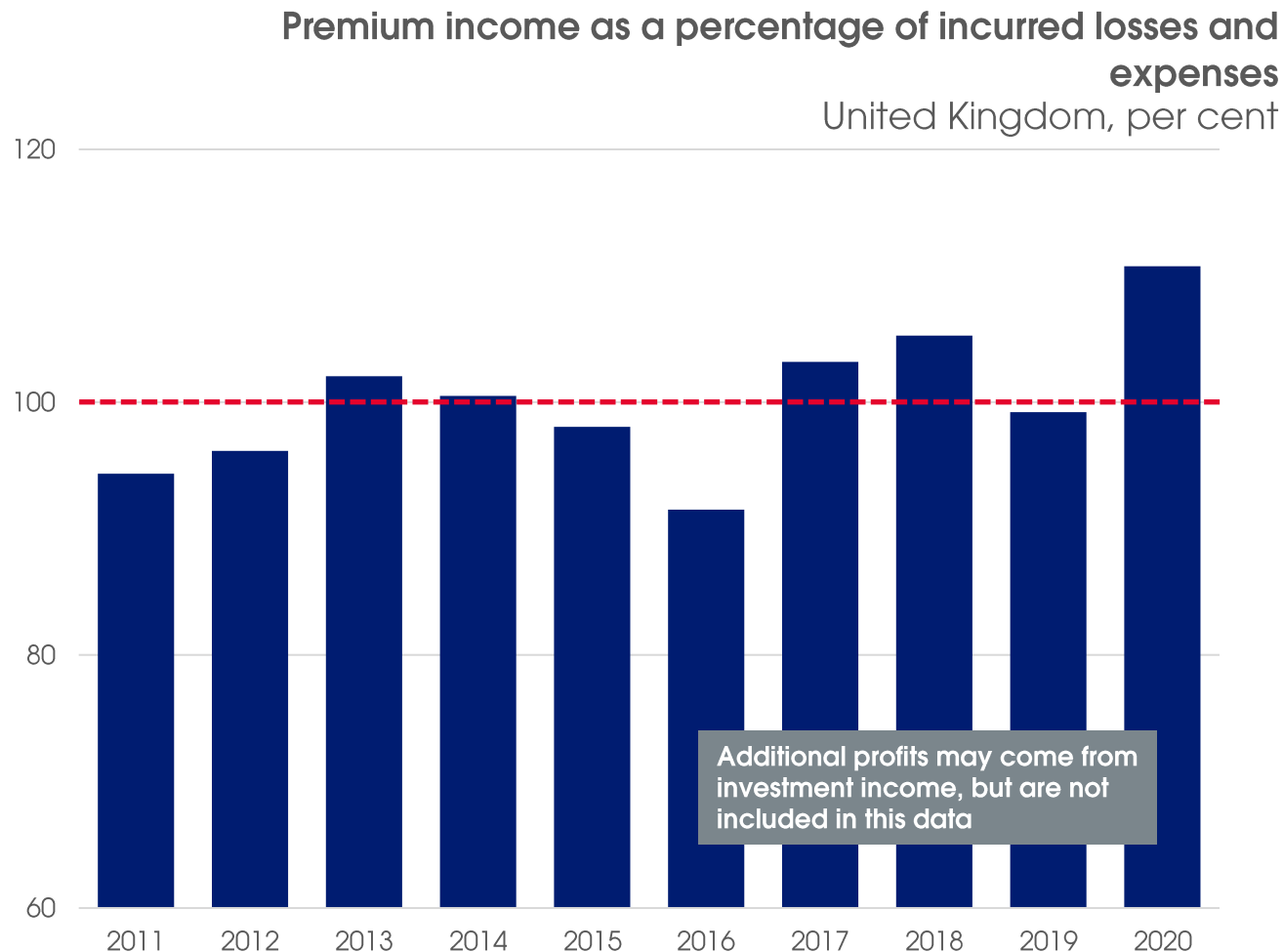
A good year for motor insurers profitability

For the past several years, insurers have seen premium income only just cover the cost of claims and operating costs.

Profits have instead come from investment income.

Despite the pandemic, 2020 stands out as a year where motor insurers have seen a large jump in profits from their core underwriting business.

The increase in underwriting profits between 2019 and 2020 indicated here is equivalent to £44 for every motor insurance policy,



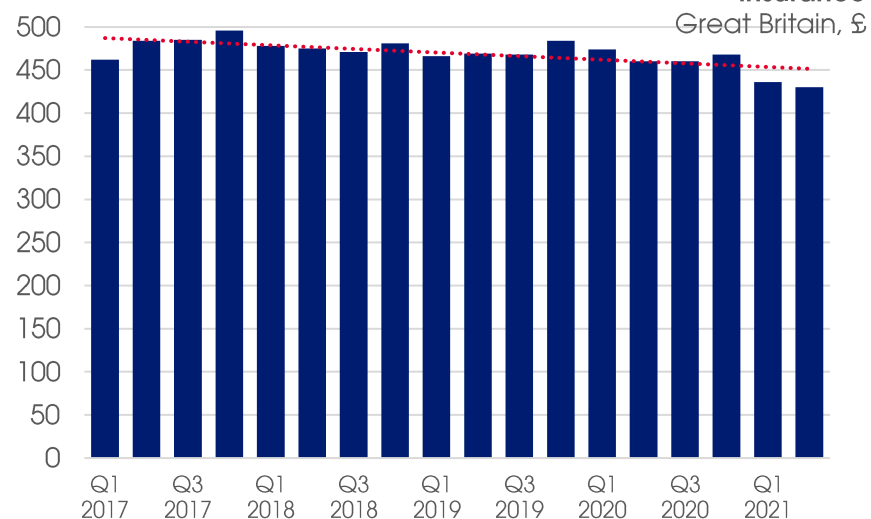
Premiums down slightly – but not far enough

Official statistics show the price of an average motor insurance premium fell by just under £25 between March 2020 and August 2021. But they are back on the rise again now.

The reduction in premiums doesn't go far enough though, as accidents, vehicle use and vehicle theft saw a much larger fall.

The cost of average premiums reported last year differ across insurance comparison websites, with many significantly higher than Association of British Insurers' estimate of £465. Nonetheless, in this report, we have used the trade body's statistic.

Average price paid for fully comprehensive motor insurance



Average premiums in 2020:

£465

• ABI

£490

• Money Supermarket

£526

• Go Compare

£707

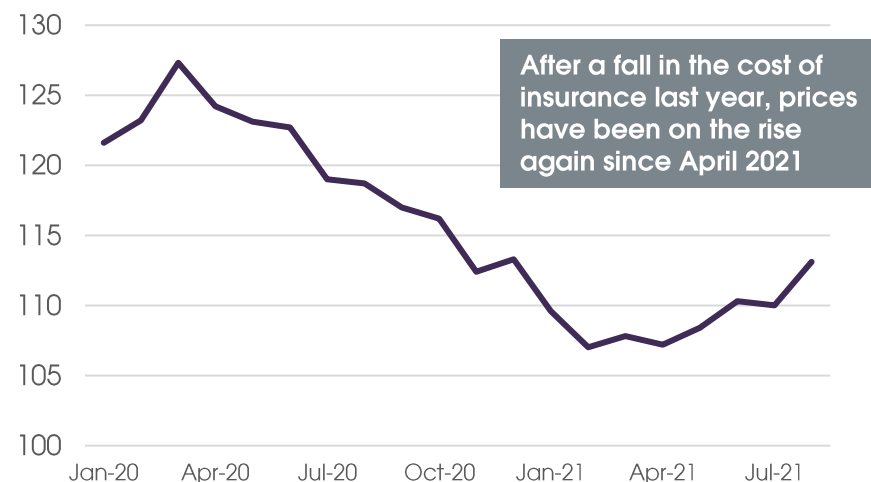
• Compare the Market

£763

• Confused.com

Consumer Price Index: Motor vehicle insurance

United Kingdom, 2015=100



Premiums of top ten insurers totalled £11.7bn

In 2020, gross motor insurance premiums written totalled around £14 billion.

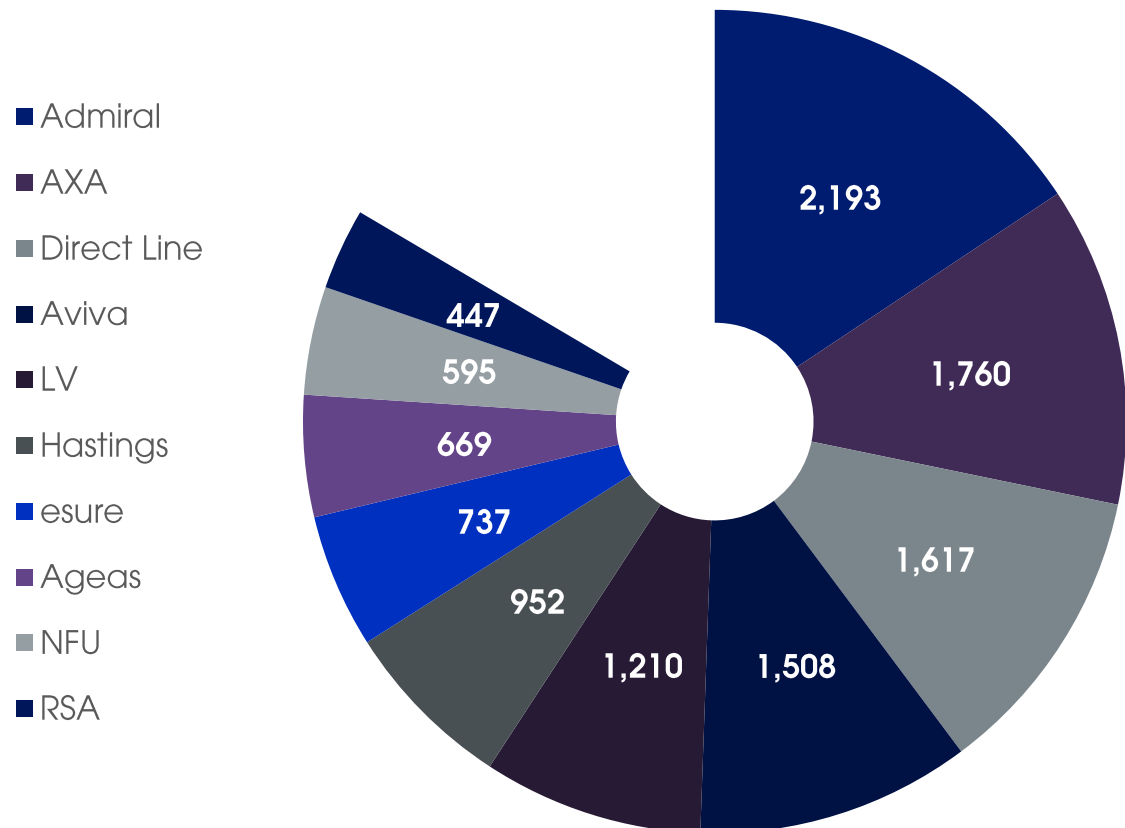
The top ten motor insurance groups accounted for £11.7 billion of those premiums.

Much of the detailed data relating to the motor insurance industry as a whole is not in the public domain, making it more complicated to track changes.

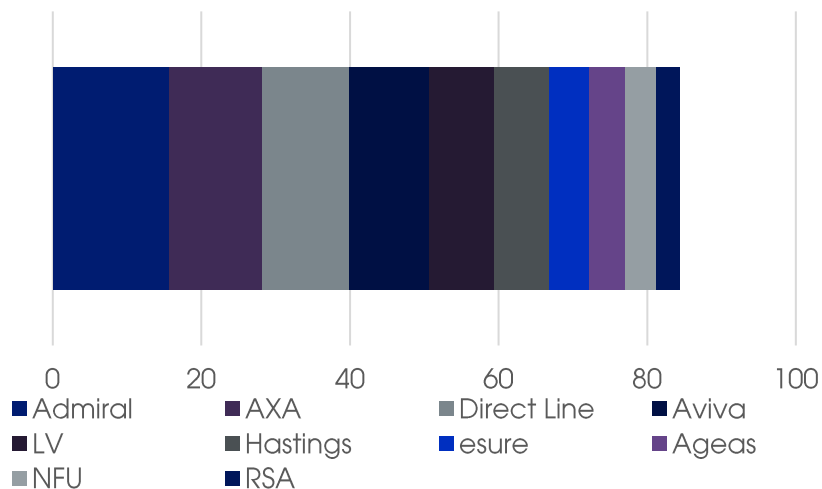
It is possible estimate sector wide data, however, using information available from the published results of the largest individual insurers.

According to data released by the Association of British Insurers in March, the number of claims settled by insurers fell by nineteen per cent in 2020

Gross premiums written by the top ten motor insurance providers
United Kingdom, 2020, £ million



Market share of top ten motor insurance providers
United Kingdom, 2020, per cent



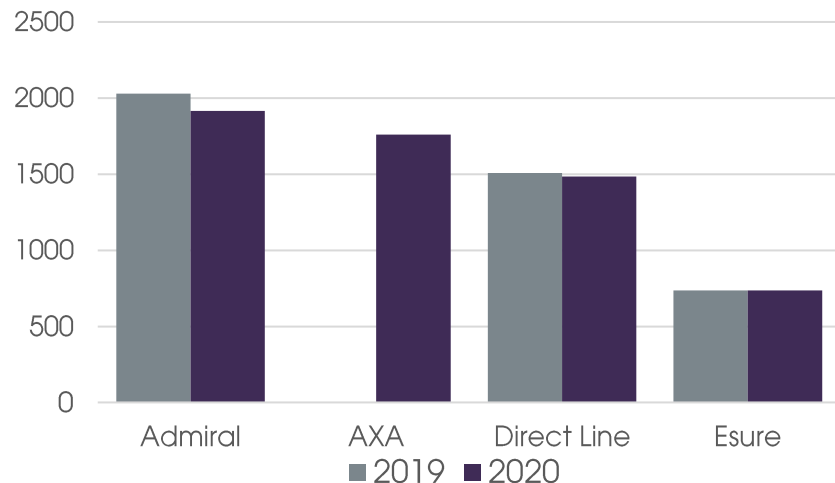
The top ten motor insurance groups accounted for 84 per cent of gross premiums written in the United Kingdom last year.

Our calculations used 2020 results published by Admiral, AXA, Direct Line and esure. These four insurers represented 45 per cent of the motor insurance market in 2020.

	Admiral		AXA		Direct Line		esure	
	2019	2020	2019	2020	2019	2020	2019	2020
Combined ratio	93	92	-	-	107	95	106	104
Loss ratio	68	63	75	66	81	67	80	73
Expense ratio	18	19	-	-	23	25	26	32

Combined, loss and expense ratio of selected motor insurers
United Kingdom, 2020, per cent

Earned premiums of selected motor insurers
United Kingdom, 2019 and 2020, £ million



Value of earned premiums fell slightly in 2020

Admiral saw the value of its earned premiums reduced by around £144 million, the equivalent of six per cent. Direct Line's premiums held up better, with a fall of just two per cent.

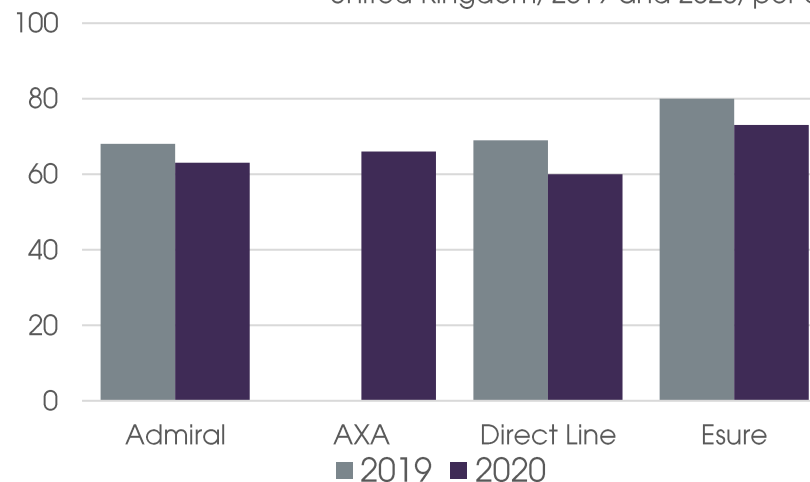
But this was made up for by the fall in claims

For those insurers of which we were able to source the relevant data, all saw a reduction in the share of premiums being used to pay for claims.

Direct Line appears to have seen the biggest drop, with the proportion falling by nine percentage points to 60 per cent.

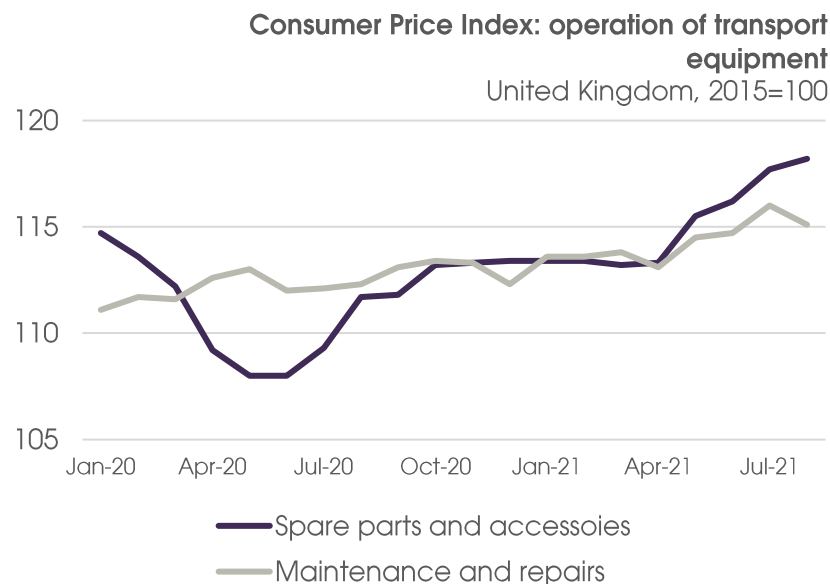
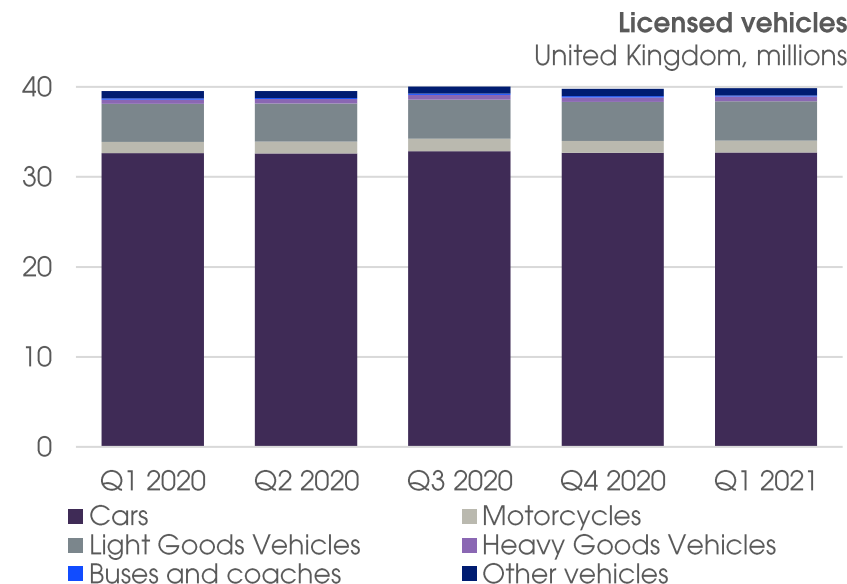
Proportion of motor insurance premiums used to pay claims

United Kingdom, 2019 and 2020, per cent



SORN declarations rose initially but number of licensed vehicles increased over the pandemic

Early concerns of insurers that lockdown would see their market contract as home-bound drivers deregistered their vehicles proved inaccurate. The first national lockdown saw a minor increase in vehicles being registered as SORN, but in the year to Q1 2021, the number of registered vehicles on United Kingdom roads increased by 0.9 per cent.



Limited pressure on insurers' costs

There is little evidence that the pandemic placed additional cost burdens on motor insurers. Although take up was lower than in many other sectors, the industry made use of the government's furlough scheme – reducing their salary bills. Meanwhile, according to the government's statisticians, the costs of spare parts and repairs were stable or even fell during the pandemic through to April this year.

The Association of British Insurers report that the average personal injury pay out rose by thirteen per cent between 2019 and 2020 to £12,100. This may, in part, reflect an increase in the average severity of accidents during lockdown – but this should not be over-stated. The government's data suggest that both severe and less-severe accidents fell by similar percentages through the pandemic, with only the number of fatalities falling less.

Insurers receive cash windfall of £118 per policy

23%

- Reduction in accidents

Using official statistics and publicly available data from insurers' annual results, we estimate the likely reduction in claims means insurers have received an unexpected cash-boost of around £118 per policy because of the pandemic.

This estimate is based on the likely impact on claims pay outs of the reduction in accidents and road usage compared to 2019 figures. (It doesn't account for an expected rise in road use in 2020/21 if the pandemic had not occurred.)

£118

- Insurers' average windfall per policy

Even taking account of the reduction in the average premium of £25 over the past eighteen months, each policy holder has handed over an extra £93 to their insurer. This has been an unexpected windfall for providers for which they have had to do nothing.

Some costs for insurers have risen – but few, if any, of them have been the result of the pandemic, and they should have been factored into insurers' calculations regardless.

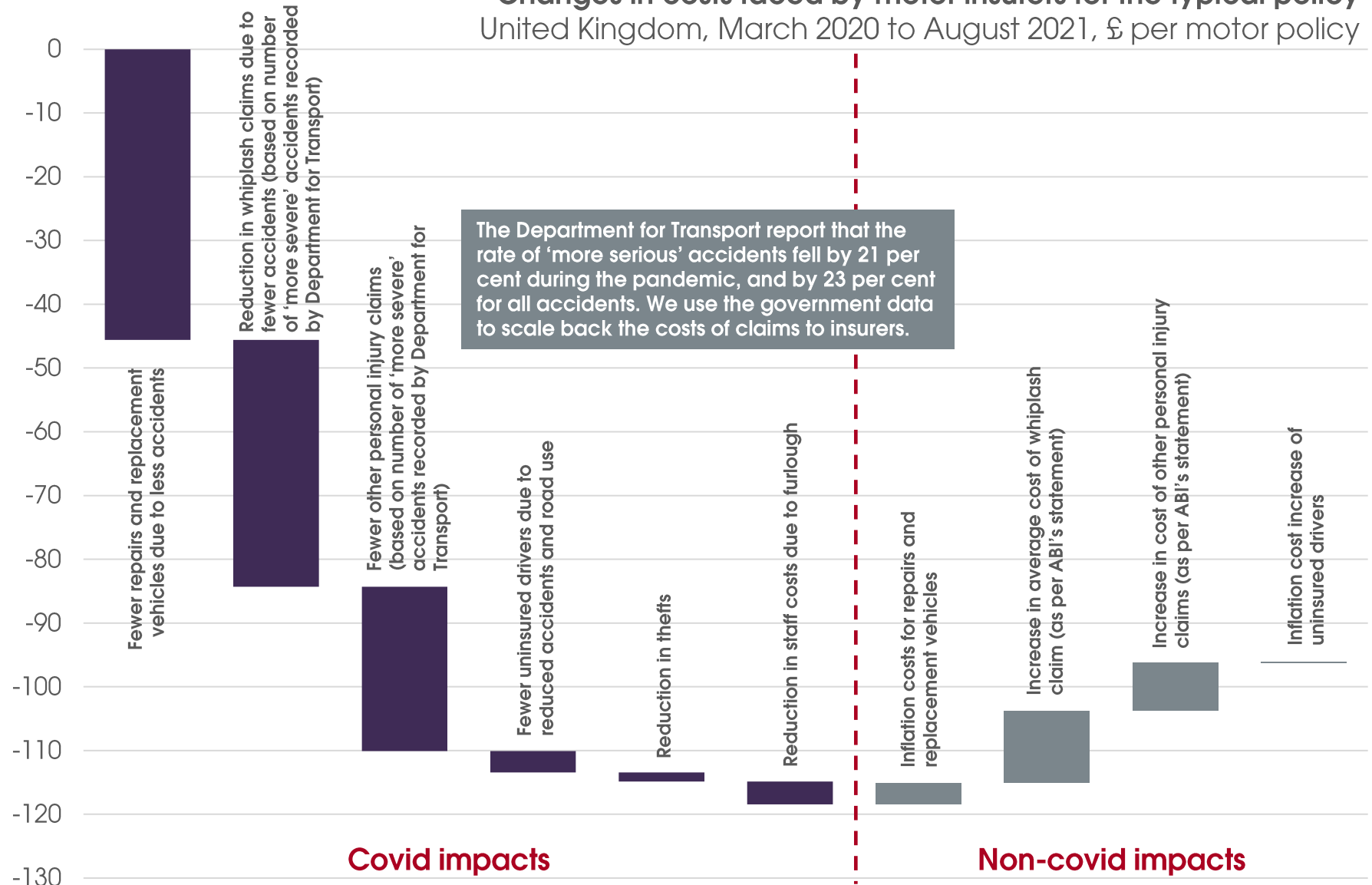
£3.3bn

- Motor insurance industry's covid-windfall

Although Admiral should be praised for returning to policy holders £25 for each vehicle insured with them last year, our analysis suggests this 'Stay at Home Refund' repays only a fraction of their pandemic windfall to the customers who have paid for it.

The question for the industry more broadly remains: how much of £3.3 billion pandemic windfall will be refunded to drivers, and when?

Changes in costs faced by motor insurers for the typical policy United Kingdom, March 2020 to August 2021, £ per motor policy



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Admiral mid-year results

Can we use anything in this for our argument?

Higher releases & profit commission and lower current loss ratio drive higher UK profit (1)

UK Motor	H1 2021 (£m)	H1 2020 (£m)	Change (£m)
Net premium revenue	242.4	208.5	+33.9
Investment return	20.7	30.6	-9.9
Current year claims	(182.8)	(173.1)	-9.7
Releases – original net share	81.1	64.2	+16.9
Releases – on commuted RI share	118.3	60.0	+58.3
Insurance expenses	(39.9)	(38.6)	-1.3
Underwriting result	239.8	151.6	+88.2
Profit commission	177.7	41.1	+136.6
Other revenue	112.9	117.9	-5.0
UK Motor profit	530.4	310.6	+219.8
Current year loss ratio	73%	80%	-7%
Expense ratio	19%	21%	-2%
Current year combined ratio	92%	101%	-9%

Drivers of profit change

- 1 Higher premium:
+ non repeat of H1 20 rebate
+ growth
– lower average premium
- 2 Higher reserve releases, notably on commuted share of business
- 3 Materially higher profit commission
- 4 Notably lower current period loss ratio