

THE RISING COST OF MOTOR INSURANCE.

PRESENTATION TO THE JOINT OIREACTHAS COMMITTEE ON FINANCE PUBLIC EXPENDITURE AND REFORM AND TAOISEACH.

ISME, the Irish Small and Medium Enterprises Association.

8th September 2016.

The Motor Insurance Advisory Board (MIAB) reported in 2002 and made 67 recommendations, many but not all were implemented and between then and 2013 the cost of motor insurance reduced by 40% in real terms, according to the CSO index.

ISME is now recommending that the MIAB be reformed with a similar task to the previous. As part of that process a review be carried out on all 67 recommendations and the reasons why they were not all carried out.

Since then those savings have been eroded and there are significant increases projected. In 2015 and into this year, the cost of car insurance has risen dramatically, despite there not being a major spike in accidents. The average cost of insurance has, according to the Society of the Irish Motor Industry (SIMI), risen by a third in a year. In the latest ISME Business Trends Survey to Q2 2016, the increase in 2016 is 27%¹. These figures are backed up by the CSO figures showing an annual increase of 38.3%.

Because insurance is legally required and provided by third-party private companies, the Irish motorist is being placed in an invidious position. In spite of the fact that, historically, Irish roads have never been safer and that there are more people than ever driving, giving a broader base across which to spread the cost of insurance (the whole point of insurance in the first place), motorists are effectively being forced to pay for the mistakes and poor trading standards of the insurance industry.

The industry say that they made a loss of €198m from underwriting insurance in 2014. Separately, the income they earn from investing all the premiums has been badly hit too. Low returns on bonds and cash deposits have meant they actually lost money on their investments in two of the last three years.

The Central Bank is more worried about the prudential aspect of insurers and seems to ignore rising premiums while making sure that no insurer goes bust. So in essence the insurers have the blessing of the Central Bank in increasing premiums.

The insurance industry, through Insurance Ireland, are adept at giving vague reasons for increases, usually backed up by incomplete and obtuse statistics – this is not new. Back in 1998 to 2002 the same group were found to be less than forthright with figures by MIAB.

For example of the 31,576 injury claims registered in 2014, only 9,046 went to court or were finalised by PIAB and therefore captured in the statistics and settled by the insurance companies. However in the other 22,530 cases, or 71% there is no transparency regarding the cost of settling claims or the awards. Yet we are being asked to take the industry's word for it that premiums must go up because of increased awards and costs.

Suffice it to say that in 2002 a similar situation was encountered when a full 90% of 35,000 cases that did not proceed to trial lacked visibility. We were expected to trust the industry's word when it came to cost of premiums. It was only when the MIAB report was acted on that premiums began to reduce.

We, the customer, must also take into account the assertions of the legal profession who are hell bent on protection their 'claims industry' from non-legal processes such as the Personal Injuries Assessment board.

¹ ISME Quarterly Trends Q2 2016.

Questionable claims

There is a continuous line of complaint from ISME members on the handling of what they would regard as 'questionable claims' and the fact that the insurance company settles, without the consent or knowledge on the insured business. In the opinion of many SME owners, this adds to the fraudulent claims culture.

Book of Quantum

The Book of Quantum is designed to be used by bodies assessing awards. Judges are required to take it into account in assessing damages and PIAB makes use of the book.

The Book is intended to reflect prevailing rates of compensation for particular classes of injury rather than set suggested levels of damages. The book was initially compiled by external independent consultants in accordance with the Personal Injuries Assessment Board Act 2003.

A review of the book is nearing completion. Independent consultants are compiling the revised version based on 2013/2014 finalised cases using data from insurers, the State Claims Agency, the Courts, and PIAB.

- The new edition of the Book of Quantum should be reviewed and endorsed by a number of serving members of the Appeal Court prior to publication.
- One-to-one coaching by recently retired District and High Court judges could be of benefit to those judges appointed since 2014.
- A consistent application of the new Book of Quantum will ensure awards are predictable and certain. This is critical in reducing the need to enter a costly litigation system.
- All claims settled should be benchmarked internationally.

It is hoped that reducing uncertainty regarding compensation levels, should impact the ability of insurers to add precision to their pricing.

Regulation

Poor regulation of insurance companies regulated outside of Ireland but operating in this market is also driving up the cost of premiums because, as of now, the legal position is that prudent insurers must reserve against the risk of future market failures in Ireland.

PIAB

PIAB has assessed more than 100,000 cases since it was set up 12 years ago and approximately 60 per cent of these assessments have been accepted.

All cases where another entity or person is considered liable for the injury must claim through the PIAB process, unless they are settled at an early stage between parties (usually claimants and insurers). An indeterminate number of these early settlements take place annually. If an insurer or claimant does not accept the PIAB assessment, the claimant has the right to take their claim to the Court system.

There is no public information available in relation to overall numbers and costs of claims for personal injuries as the only figures which have been made public do not contain any information on the numbers or cost of directly settled cases. Without access to this information a full picture of the impact on personal injury claims on insurance premiums is difficult to establish.

While over 30,000 cases are received by the Board each year it can only assess cases where the insurer consents to it being handled by PIAB. (60% approx are motor claims)

Additionally many cases actually settle during the PIAB process and the Board also releases certain categories of cases not deemed suitable for assessment in the PIAB process e.g. wholly psychological cases. As a result

approximately 12,000 cases require to be assessed by the Board annually with the balance split between cases that are resolved or are not pursued and hence don't go to litigation, and the rest that do go into litigation.

Best estimates (based on Central Bank study, 2010/11) indicated that 70% of cases no longer require litigation. Updated information would be important in confirming the latest experience.

Many claims are settled directly between the Insurers and the claimants and are not seen by the Board. This is a consequence of the model's design – i.e. to keep cases out of the courts system.

PIAB Statistics²

- 100,000 awards since 2005 – currently averaging 12,000 per annum.
- Over €2 billion assessed.
- Hundreds of millions of euro in litigation costs have been avoided during that period.
- Highest award €1.37 million.
- Timeline to assess: average 7 months.
- Lowest ever fees in place.
- Currently approximately 60 per cent of claimants accept PIAB assessments.
- Claims numbers have increased only marginally in the last year, probably as a result of increased economic activity: 6 per cent increase in 2015 on previous year but slowing this year
- Average awards have remained relatively static over 5/6 years as per table below.

<i>Year</i>	<i>Average award</i>
2009	€23,166
2010	€22,271
2011	€21,339
2012	€21,502
2013	€22,847
2014	€22,642
2015	€22,878

Breakdown of PIAB claims volumes by sector (2015):

Total volume	Motor	Employer liability	Public liability
33,561	19,812	4,843	8,906

Conclusion

If the average award of the PIAB has remained fairly static in the period 2009/2015 and the number of claims has not risen dramatically and is mainly in line with the increase in drivers and the numbers taking out car insurance then these facts cannot be major contributory factors in driving up premiums by 30% plus per annum.

² PIAB figures

Once more we come to the conclusion that without adequate and reliable figures from the insurance industry we cannot accept their assertions as to the causes for the increases.

It is therefore essential that total aggregated figures be made available on the number of claims, the value of these claims and the associated legal and professional costs for processing these claims. This information gathering exercise must also include estimates of fraudulent claims, and a continuing review of the Book of Quantum.

This is the type of information which the MIAB required for their investigation and report in 2002 and is essential in order to identify the main contributors to the massive rise in motor premiums and weight them accordingly.

The Central Bank must impose strict reporting obligations on the industry which will provide a complete picture on insurance costs.

It would be preferable that the insurance industry develop a common reporting matrix, which should be aggregated by an external agency to anonymise and pool the information. However in the absence of agreement the Central Bank insist.

[An Independent Committee to monitor Insurance Industry Pricing.](#)

The Insurance Industry has provided reason after reason as to why they have been forced to increase the cost of Insurance, both motor and general insurance. It is essential that accurate information is accessed. A monitoring Committee preferably under an independent chair should be introduced to regularly audit the Insurance Companies to ensure that cost increases are totally justified and savings as a result of reforms and other favourable changes are passed on in full to the benefit of the consumer in the form of premium reductions.

The last investigation by MIAB did lead to dramatic savings for consumers, as well as delivering compensation to injured parties in seven months through PIAB rather than an average of three years through the old court system.

Back in 2002 MIAB discovered, among other things, that the profits relative to premium for Irish insurers were many multiples of their English counterparts. Therefore it would be unwise to rely on data fed to us by insurers. An independent analysis of the facts must be undertaken,

There is a clear lesson to be learned from this.

ISME,

8th September 2016.