The impacts of claims inflation on motor insurance

The specialist motor insurer

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Overview

It's been a challenging few years for the motor insurance industry, affecting both insurers and brokers. The knock-on impact has affected policyholders through higher premiums.

Years of insufficient funding have resulted in significant rate increases, market exits and shifts in appetites. Industry consultants, EY predict another year of unprofitable underwriting across the industry in 2024.

Whilst economic inflation stands at 3.9% and **increased interest rates of 5.25%**, these figures do not reflect the challenges faced by the motor insurance industry.

Repairs, second hand car values and long-term care costs have all been heavily impacted by a number of external factors including the War in Ukraine, Brexit and the legacy of Covid, leading to further premium increases throughout 2023 and into this year.

These external challenges coincide with the acceleration of the production of electric vehicles globally with motor manufacturers already producing vehicles that meet the requirement of 22% emission-free car sales (10% vans) by 2024.

All these impacts have created a perfect storm leading to claims inflation running far higher than average inflation. We have created this comprehensive motor claims inflation guide to help you explain the ongoing challenges in motor insurance to your customers.

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Supply chain issues

The UK heavily relies on global imports for both new vehicles and parts with the average vehicle composed of around 30,000 parts sourced from approximately 200 different countries.

The past few years have seen parts supply chains significantly impacted by a variety of factors such as the Russia-Ukraine war, Brexit, and the enduring effects of the Covid-19 pandemic.

According to recent data from the **Association of British Insurers (ABI)**, a staggering 40% of vehicle repairs are somehow affected by delays in obtaining necessary parts.

Impacts on motor insurance

Extended repair times are becoming more common due to the delays in obtaining required parts

Policyholders are left without their vehicles for longer periods, creating a shortage of courtesy vehicles

Supply and demand of credit hire vehicles has led to 30% increase in hire cost

Vehicles are being stolen and stripped for parts

The cumulative impacts of the repair delays, increase in demand and costs for courtesy vehicles and the rise of vehicle thefts are driving up the cost of insurance premiums.

Advancing technology

Electric Vehicles are becoming increasingly popular and are more expensive to repair because of their onboard technology and the specialist repair engineers required to work on them.

Even new, non-electric vehicles are now fitted with Advanced Driving Assistance Technology (ADAS) to help with parking, lane departure warnings and pedestrian protection which all help drivers be safer on the road. However, this increased technology is often costly to repair or replace. For instance, a plastic dashboard is far more affordable than a fully integrated large monitor, and bumpers now incorporate advanced technology and cameras that may require replacement after an accident.

Ford will soon introduce BlueCruise, a hands-off assistance system available on the Mustang Mach-E. Discussions with the UK Government are currently underway to achieve a Level 2 plus Driver Assistance System (DCAS) that offers intelligent adaptive cruise control, lane centering, and driver monitoring. This groundbreaking system will be the first of its kind on British roads, providing hands-off, eyes-on assistance to drivers.

The latest vehicles with this new technology rely heavily on the production of semiconductors. During the pandemic, those semiconductors were diverted away from vehicle manufacturers due to the decline in car sales and chips were directed to other industries for items such as computers and mobile phones. Additionally, the manufacturing process heavily depends on neon gas, with 70% of the world's supply coming from Ukraine. However, this supply has been disrupted due to the conflict with Russia.

Impacts on motor insurance

- The increasing complexity of vehicle technology directly impacts the cost of repairs.
- Semiconductor shortages have impacted new vehicle supplies and supply and demand of second-hand vehicles, leading to inflated prices and total loss values.

Labour shortages in the repair sector

The motor repair industry is currently facing a significant skills shortage due to a combination of factors. A decrease in EU immigration post-Brexit, employees leaving the industry during the pandemic, an aging workforce approaching retirement, and the challenge of attracting new workers to the sector have all impacted the number of people in the repair networks.

This labour shortage is further compounded by the rapid advancement of vehicle technology, especially with the ongoing evolution towards electric vehicles, which requires the expertise of specialised labour.

Impacts to the repair journey

Extended repair times

Longer claims settlement lead times

Increase in repair costs

Large claims

The increasing general and wage inflation is having a significant impact on future losses in large claims. This impact is made worse by the extraordinary inflation in the care sector, which is a key influence on the cost of claims involving serious injuries.

The nationwide shortage of care workers, driven by factors such as Covid, Brexit, pay, and conditions, contributes to these challenges. This reduction in the number of workers has created an imbalance between supply and demand resulting in increased costs for providing long-term care.

Several key factors are driving the current inflation in large personal injury claims

- There is a high level of vacancies in the care sector making it difficult to secure care workers to adequately support the needs of claimants.
- Attracting workers into the care sector is proving to be a challenge because of workload, conditions and the emotional strain of working in the sector which results in high turnover.
- The shortage of specialist care workers further compounds the issue as their expertise and support are crucial in handling motor claims effectively.

Impacts on motor insurance

Overall, these factors have caused a significant rise in the cost of care for large claims, which has increased by 25%.

Energy and fuel price rises

The motor sector in the UK has been greatly affected by rising energy prices, leading to increased expenses in manufacturing, repairs, maintenance, and day-to-day operations.

The ongoing Russia-Ukraine war has caused disruptions in gas supply, with the Energy Bills Discount Scheme and a mild winter helping to lessen the impact. However the underlying pressures on energy costs are expected to continue as the effect of the increase in the energy cap takes hold.

Impacts on motor insurance

The increased cost of manufacturing and the distribution of parts, as well as the operation of repair centres, has a direct impact on the overall cost of repairs. As a result, these higher expenses are ultimately passed on to customers through increased repair costs.

Vehicle theft and insurance fraud

According to the Office for National Statistics, car theft rose by 29% between September 2021 and the same month in 2022. Data indicates that during a cost-of-living crisis, people are more likely to turn to crime as pressure to make ends meet grows. Criminals are stealing vehicles to order and capitalising on the rising cost of materials and shortage of parts by stripping and selling them.

- Keyless car theft is on the rise with criminals staying ahead of the curve of security advancements.
- Ferraris and Range Rovers are being increasingly targeted, but the **Fiesta remains the vehicle stolen most frequently**[1] with thefts increasing by 53% in 2022.
- **Catalytic converter thefts**[2] are attractive for their precious metals.
- **Electric vehicle charging cables**[3] are being targeted for their valuable copper content.

In 2022 there was a 17% increase in application fraud, particularly with:

- Misrepresentation to reduce no claims discount.
- "Fronting" where individuals seek a reduced premium by listing someone else as the main driver when they are the one behind the wheel.

Impacts on motor insurance

- Increased insurance premiums for vehicle models targeted for theft
- Fraudulent claims are rejected and policyholders will find it difficult to obtain insurance in the future

Personal Injury Discount Rate (PIDR)

The Personal Injury Discount Rate (Ogden rate) determines compensation for future losses. The rate is set by the Lord Chancellor, currently at -0.25% in England and Wales, -1.50% in Northern Ireland, and -0.75% in Scotland. The next review is scheduled for 2024, causing uncertainty about the potential impact on large personal injury claims.

How does the Personal Injury Discount Rate impact insurance?

The discount is applied to the calculation of compensation payments for personal injury claims to determine length of awards for future losses such as aids and equipment, loss of earnings, and care.

How can your customers help to offset inflationary costs?

Although most of the impacts are beyond the control of the customer, they have a pivotal role to play in helping to mitigate the cost of claims.

- Reporting claims promotly helps us to provide the best customer service and manage claims costs efficiently.
- We can offer customers a convenient repair solution that minimises inconvenience and disruption.
- Our supplier network enables us to provide repair and hire solutions to Third Parties and avoid the unnecessary layering of claims costs often associated with other Claims Management organisations who operate in the market.
- We recommend that customers consider installing a dash cam in their vehicle(s) to record any incidents or accidents. This will not only speed up the claims process but also help identify fraudulent claims, which can contribute to higher insurance premiums.

Looking ahead

- Increasing geo-political issues will continue to disrupt supply chains. Tensions between China and Taiwan could impact the supply of new vehicles due to the significant number of semiconductors produced in Taiwan. A trade war between America and China on microchip exports would also impact the supply chain as both countries seek greater market control.
- This potentially creates an ongoing disconnect between the demand and supply of new vehicles with manufacturers moving production to electric vehicles and customers choosing to stick with internal combustion engines until the range of electric vehicles and the availability of charging points improve.
- The OIC portal for whiplash claims has resolved some teething issues affecting claims processing but there is a marked slowdown in the volume of claims settling. It's unclear whether this disruption is due to process challenges or the tactics employed by some representatives to maximise the damages recovered.
- The Whiplash Tariff and Judicial College Guidelines will be reviewed in 2024, potentially increasing personal injury award costs by 20%.

What are we doing to support our customers?

We understand that the industry and claims inflation are being affected by various factors. These challenges are reflective of the wider economic issues. However, we are committed to supporting our customers during these difficult times.

We are actively collaborating with our suppliers to provide the best possible claim experience in the most challenging market conditions. We are open to discussing alternative options such as smart repairs or green parts if they prove to be a viable solution.

Our claims validation process is designed to identify fraudulent claims and we will continue with our zero-tolerance approach towards these as we look to protect our customer's interests.

We have implemented a claims solution specifically for Third Party Claimants. This allows us to effectively challenge any attempts to profit from a claim at the expense of our customers.

These are challenging times, but we are determined in our ambition to deliver the best standards of service and indemnity controls to our customers in a market experiencing some unprecedented challenges.

If you need further support please contact your Strategic Account Manager, Regional Development Manager or Business Development Support Executive.

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