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THE UNITED KINGDOM AUTOMOBILE INSURANCE MARKET

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FINAL REPORT

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16. Abstract

This report represents a limited study of the United Kingdom Automobile Insurance Industry. The study discusses six major areas of the British industry: (1) the structure, size, and relationships within the industry; (2) the basis of premium calculation, rate structure, types of policies, and payment of compensation; (3) marketing of insurance; (4) the role of the two main motorist organizations; (5) individual differences between individual and fleet insurances; and (6) the profitability of the British system.

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PREFACE

This report prepared by the Economist Intelligence Unit Limited (EIU) for the United States Department of Transportation is based on the EIU's proposal (TR 5072) dated 24th October, 1977.

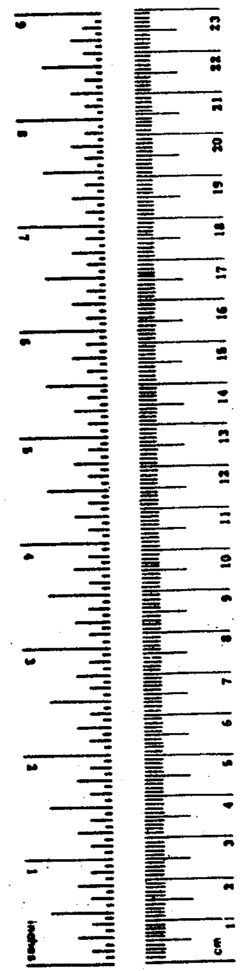
The objective of this assignment was to conduct a limited study of the automobile insurance market in the United Kingdom. This study addresses such areas as the structure, premium calculation, marketing, profitability, role of motorists' organizations, and individual and fleet insurance.

Values presented in this report are expressed in U.S.$ which have been converted from £ sterling at the exchange rate of: £ 1 = = $1.84.

METRIC CONVERSION FACTORS

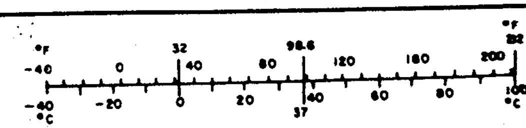
Approximate Conversions to Metric Measures

Symbol	When You Know	Multiply by	To Find	Symbol
		LENGTH		
in	inches	2.5	centimeters	cm
ft	feet	30	centimeters	cm
yd	yards	0.9	meters	m
mi	miles	1.6	kilometers	km
		AREA		
in^2	square inches	6.5	square centimeters	cm^2
ft^2	square feet	0.09	square meters	m^2
yd^2	square yards	0.8	square meters	m^2
mi^2	square miles	2.6	square kilometers	km^2
	acres	0.4	hectares	ha
		MASS (weight)		
oz	ounces	28	grams	g
lb	pounds	0.45	kilograms	kg
	short tons (2000 lb)	0.9	tonnes	t
		VOLUME		
tsp	teaspoons	5	milliliters	ml
Tbsp	tablespoons	15	milliliters	ml
fl oz	fluid ounces	30	milliliters	ml
c	cups	0.24	liters	l
pt	pints	0.47	liters	l
qt	quarts	0.95	liters	l
gal	gallons	3.8	liters	l
ft^3	cubic feet	0.03	cubic meters	m^3
yd^3	cubic yards	0.76	cubic meters	m^3
		TEMPERATURE (exact)		
°F	Fahrenheit temperature	5/9 (after subtracting 32)	Celsius temperature	°C



Approximate Conversions from Metric Measures

Symbol	When You Know	Multiply by	To Find	Symbol
		LENGTH		
mm	millimeters	0.04	inches	in
cm	centimeters	0.4	inches	in
m	meters	3.3	feet	ft
m	meters	1.1	yards	yd
km	kilometers	0.6	miles	mi
		AREA		
cm^2	square centimeters	0.16	square inches	in^2
m^2	square meters	1.2	square yards	yd^2
km^2	square kilometers	0.4	square miles	mi^2
ha	hectares (10,000 m^2)	2.5	acres	
		MASS (weight)		
g	grams	0.035	ounces	oz
kg	kilograms	2.2	pounds	lb
t	tonnes (1000 kg)	1.1	short tons	
		VOLUME		
ml	milliliters	0.03	fluid ounces	fl oz
l	liters	2.1	pints	pt
l	liters	1.06	quarts	qt
l	liters	0.26	gallons	gal
m^3	cubic meters	35	cubic feet	ft^3
m^3	cubic meters	1.3	cubic yards	yd^3
		TEMPERATURE (exact)		
°C	Celsius temperature	9/5 (then add 32)	Fahrenheit temperature	°F



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1.1 THE STRUCTURE OF THE UNITED KINGDOM INSURANCE BUSINESS

The bulk of insurance services in Britain is provided by proprietary or mutual companies or by Lloyds. On January 1, 1977, there were 793 companies authorized to undertake insurance business in the United Kingdom, of which 625 were incorporated in Britain and the remainder overseas. Of the total, 59 insurance companies write motor insurance among their other business. As far as the EIU is aware, there are no companies which specialize in motor insurance alone. These 59 companies are listed in Appendix A.

1.1.1 Proprietary Companies

These are companies organized in the same manner as an ordinary limited company, that is, their capital comes from shareholders, although these companies may give a share of their profits, by way of a bonus, for example, to some or all of their policyholders.

1.1.2 Mutual Insurance Companies

Mutual insurance companies, which are usually limited by guarantee, are of two kinds. The first, comprises those which are not themselves insurers, but whose members are liable to contribute proportionately, according to the amount of their own insurance, to the loss of the other members. They often insure special risks arising out of their own trade or occupation and are known as protection or indemnity associations. The second kind of mutual company is one which is, itself, the insurer, where the profits belong entirely to the policyholders. They conduct all types of insurance business and, at present, there are six large associations in the United Kingdom engaged in general insurance business (including motor) and 27 others conducting life assurance.

1.1.3 Lloyds Underwriters

Individuals may underwrite insurance risks provided they are members of the Corporation of Lloyds, the only approved association of underwriters in Britain. At Lloyds, each individual underwriter conducts his insurance business with unlimited liability, solely for his own account and risk. Underwriters usually operate in syndicates, with each member taking his prearranged share of every risk which is accepted. Should the financial resources of the syndicate be insufficient to cover liabilities, the entire Lloyds organization, which has ample guarantee funds for such emergencies, will meet the liabilities of the syndicate. The constitution of Lloyds is governed by Lloyds Acts 1871÷1951, and a Lloyds underwriter has to comply with a number of financial requirements.

At the present time there are understood to be 36 Lloyds underwriters handling motor insurance business.

1.2 THE SIZE OF THE UNITED KINGDOM MOTOR INSURANCE MARKET

The British Insurance Association (BIA) claims that its membership includes all significant insurance companies in the United Kingdom, and that these collectively account for some 95 percent of business transacted by British insurance companies world wide.

According to statistics produced by the BIA, the value of net premium income of insurance companies (excluding Lloyds) for United Kingdom business amounted to $10,296 million in 1976, the latest year for which data are available. Of this total, motor insurance amounted to $1,354 million (13.2 percent). Growth in premium income generated in the United Kingdom by British insurance companies over the past five years is shown by type of insurance in Table 1.

It can be seen from Table 1, that net premium income has grown since 1972 at an average rate of 12.5 percent per annum. In the same period, motor insurance has grown faster, at an average of 18.1 percent per annum, and, so, has increased its share of total premium income from 11.3 percent in 1972 to 13.2 percent in 1976.

TABLE 1. BRITISH INSURANCE COMPANIES - NET PREMIUM INCOME - UNITED KINGDOM ($ MILLION)

	1972	1973	1974	1975	1976	Average Annual Growth 1972-1976 (%)
Fire and Accident (Non-Motor)	1032	1230	1436	1765	2195	20.7
Motor	699	839	923	1134	1354	18.1
Ordinary Long-Term	3595	4024	4435	4330	5387	10.7
Industrial Long-Term	602	648	695	761	841	8.8
Marine, Aviation, Transport	266	273	322	402	519	18.2
Total	6194	7014	7811	8392	10296	13.5

In 1974, the value of premium income from motor insurance written by Lloyds syndicates amounted to $164 million. Although no more up-to-date data are available*, according to estimates of the BIA and BIBA (British Insurance Brokers Association), Lloyds currently accounts for about 15 percent of total motor insurance in the United Kingdom. On this basis, the total value of premium income would be as follows:

	$ million 1974	1976
Insurance companies	923	1354
Lloyds syndicates	164	239
	1087	1593

*Lloyds publishes its accounts three years in arrears.

This estimate for Lloyds motor insurance for 1976 reflects a comparable level of growth to that of the insurance companies since 1974.

2. THE PERFORMANCE OF INSURANCE COMPANIES

1976 saw a partial recovery in the worldwide underwriting results of British insurance companies, an improvement that had been foreshadowed in the previous year. An overall loss of $269 million was reported in 1976 compared with a record loss of $322 million in 1975 on all business excluding marine, aviation, and transport. If, however, the loss is measured in terms of a percentage of premium income, which rose by 20 per cent in 1976, the improvement shows more markedly as a shift from a loss of 4.2 per cent of premiums in 1975 to one of 2.7 per cent in 1976.

The recovery was held back, because the UK underwriting results on fire and accident, normally a profitable account, sharply reverse as a result of two events of nature, namely, servere storms early in the year, causing extensive damage totalling $74 million. This was later dwarfed by the after effects of the second natural event, the long, hot, dry summer of 1976 which resulted in huge claims for fire and damage to property through subsidence.

The 1976 recovery came solely from a strong improvement in the motor underwriting results which, in recent years, has been a problem account. Insurance companies do not, as a matter of policy, set out to subsidize losses by one sector with the profits from other types of insurance. Indeed, the companies tend to be divisionalised according to the various types of business (e.g. motor, fire and accident, marine, aviation, and transport, etc.), each operating under separate management which has individual profit responsibility. Although, ultimately, underwriting losses of some sectors are counterbalanced by profits from others in companies' consolidated accounts, subsidization does, in effect, take place. The companies claim, however, that this is attributable to unforeseen variations in market conditions and is not a result of deliberate marketing strategy.

While companies in all territories showed a marked improvement, the improvement in the United States and the rest of the World was the most marked. Underwriting losses in the United States were reduced by nearly two thirds, from $136 million in 1975 to $50 million in 1976. The major companies operating in the United States, Commercial Union, Royal, and General Accident, have all embarked on a policy of pruning out unprofitable accounts and agencies and have accrued substantial rate increases.

Motor business in the rest of the World showed an even greater turn round, reducing underwriting losses from $128 million to $33 million. Business in Canada and Australia more or less broke even, again as a result of corrective action by the companies. The losses occurred mainly in Western Europe where they still face difficulties in securing the necessary premium rate increases to allow viability.

The UK motor account ended the year with a small profit of $0.7 million following a loss in 1975 of $8 million. Claim cost continued to rise during the year, resulting in sizeable increases in costs of spare parts, labor and the prices of new cars. However, British insurers were able to secure the required rate increases. From the end of 1976 and during 1977, British motor insurance premiums have risen by some 15 per cent. Even so, it appears that the insurance companies underestimated the cost of underwriting. The BIA has recently announced that results on the motor account have shown a loss of $37 million in 1978, and further significant increases in premium rates may be expected.

One of the main problems facing United Kingdom insurance companies is the competitive nature of the motor market. Even in better years, profits on motor business are slim, as 1976 shows, but this compares very favorably with a loss of $57 million in 1970. Many blame poor results of the early 1970's on Vehicle and General which, holding some 8 per cent of the market, artificially held rates down, and others had to follow. After the collapse of Vehicle and General, the other companies immediately introduced sizeable rate increases which turned motor insurance into a profit in 1973 although this was followed by a dramatic decline in 1974, and a loss in 1975 (see Table 2).

TABLE 2. PERFORMANCE OF INSURANCE COMPANIES- MOTOR UNDERWRITING ($ MILLIONS)

	1972	1973	1974	1975	1976
United Kingdom					
Premium Income	699	839	923	1134	1354
Profit/Loss	-5.5	23.1	3.3	-8.4	0.7
Per cent of Premium	-0.8	2.8	0.4	-0.7	0.1
United States					
Premium Income	457	468	477	582	810
Profit/Loss	17.3	-3.6	-20.6	-136.0	-50.2
Per cent of Premium	3.8	-0.8	-4.3	-23.3	-6.2
Other Overseas					
Premium Income	644	784	879	1072	1503
Profit/Loss	-33.5	-54.2	-75.7	-128.3	-32.6
Per cent of Premium	-5.2	-6.9	-8.6	-12.0	-2.2
Total					
Premium Income	1800	2086	2279	2790	3667
Profit/Loss	-21.7	-34.8	-93.0	-272.6	-82.3
Per cent of Premium	-1.2	-1.7	-4.1	-9.8	-2.2

Continuing competition in the market, aided by the media and consumerist organizations which bring motor insurance rates under public scrutiny, is still accompanied by increasing costs of repairs, inspection, administration, and, not least, car values. Motor insurance represents a very significant running cost factor, and motorists tend to seek lower premiums.

The insurance companies would like to make a pure underwriting profit. However, in assessing the profitability of insurance, very considerable investment income cannot be ignored. This is not taken into account in the profit/loss figures produced by the BIA. The world wide underwriting loss of $269 million in 1976 does not take account of income of $1161 million resulting from the investment of premium income. The inclusion of this income produces a net surplus of $892 million for that year.

The 39 syndicates at Lloyds include investment income within its published figures. In 1974, income of $164 million on Lloyds motor account showed a profit of $26.5 million, a return of 16 per cent. This figure was boosted by investment income of $5.5 million.

Investment income is not the only answer to the difference in performance between the insurance companies and Lloyds. Lloyds results are also boosted by its selective attitude. Traditionally, the syndicates have stayed clear of the more risky motor business, although they have taken on a lot more private motor business following the Vehicle and General crash in 1971.

However, like the companies, Lloyds also is facing financial pressures, and the Chairman of the Lloyds Motor Underwriters Association reportedly predicted further premium rate increase in 1978, a view which was endorsed by General Accident Insurance Company, the largest single operator in the United Kingdom market.

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3. TYPES OF MOTOR INSURANCE POLICY

Compulsory insurance for motor vehicles was first introduced in Britain under the Road Traffic Act of 1930. Since then, there have been a number of amendments and alterations which were subsequently incorporated in the Road Traffic Act, 1960.

Today, there are four basic types of motor insurance policy in operation in Britain. These are:

a) Road Traffic Act,

b) Third Party,

c) Third Party, Fire and Theft, and

d) Fully Comprehensive.

3.1 ROAD TRAFFIC ACT POLICY

The law requires that before a vehicle is used on a public road, it should be covered against claims of liability for death or injury sustained by any third party and for emergency medical treatment to anyone involved. From the end of 1972, under the provisions of the Motor Vehicles (passenger insurance) Act, coverage was extended to passengers (who were not covered by the 1960 Act). Now, all passengers must be covered.

All motorists are required to have at least the level of insurance cover known as a Road Traffic Act policy. Equally, all insurers are required to supply it to any applicant, even drivers who, for commercial reasons, might otherwise have been refused cover, for example, particularly bad risks or drivers with bad records. Furthermore, the law also requires that insurers are themselves protected by re-insurance measures.

Road Traffic Act cover provides only a very minimum level of insurance. It does not give cover for causing:

a) damage to other people's cars, property or other belongings;

b) damage to the insured's car and other belongings; or

c) death or injury from accidents which happen on a private road or on private property. (e.g. on a driveway, on a camping site).

Because of the limited nature of this cover, most drivers obtain additional insurance, as described in following paragraphs.

3.2 THIRD PARTY POLICY

A Third Party policy provides Road Traffic Act cover plus cover for causing damage to other people's cars, property and other belongings. It also provides cover for accidents on private property as well as on public roads. The policy also covers passengers for any damage or injury they might cause (by opening their door in the path of a cyclist, for example).

The first party is the insured driver, the second party is the insurance company, and the third party is any person(s) making a claim.

3.3 THIRD PARTY, FIRE AND THEFT POLICY

This policy gives the same cover as a Third Party Policy plus cover for the policyholder's own car being stolen or damaged by fire, explosion, theft or attempted theft.

3.4 COMPREHENSIVE POLICY

The most extensive cover available is offered by the Comprehensive Policy. This gives the same cover as the Third Party, Fire and Theft Policy, plus cover for:

a) damage to the policyholder's car;

b) damage to rugs, clothing and other belongings in the car (up to a certain limit, commonly Ŀ 50);

c) the policyholder's own medical expenses if injured while driving the car (up to a certain limit, again commonly Ŀ 50); and

d) a limited amount of compensation if the policyholder or spouse are disabled or killed in an accident. (e.g. commonly Ł 500 for losing a limb or use of an eye, Ł 1000 if killed).

The values of these amounts of compensation do vary from policy to policy, and under some policies, the benefits for personal injury or death are doubled if the persons concerned were wearing an approved seat belt at the time of the accident.

The most important advantage of comprehensive cover is that the insurers will pay for repair to the policyholder's car if it is damaged in an accident, even if the accident was entirely the policyholder's own fault. With Third Party policies, the policyholder pays for repairs to his/her own vehicle, unless it can be proved that such damage was caused by a third party, in which case he/she would be liable.

4. THE CALCULATION OF PREMIUMS

Motor insurance, like most other forms of insurance, follows the basic principle that all policyholders contribute to a pool of premiums out of which the claims of the minority are paid.

Rating assessemnts are based, as far as possible, on past experience. This, in the form of statistical information, shows that there is a substantial variation in the claims costs of certain main groups of risk. The various classifications used relate to four broad categories:

a) the type of car,

b) the driver,

c) the use to which the car will be put, and

d) the district in which it is kept.

In order to obtain the fairest contribution to the motor insurance pool from each policyholder, the insurer makes an assessment of the individual risk involved and relates it to the appropriate groups. Appreciable differences in the experience are reflected in the scales of premium.

4.1 TYPE OF CAR

Cars are divided into groups for rating purposes. The number of groups varies between insurers, but most companies adopt a system of seven gradings for cars, (group 1 includes small family saloons, and group 7 includes sports cars). Various factors determine group ratings, namely, the cost of selected body parts, the measure of repairability (i.e. the ease with which the model can be repaired) the value of the model when new, the cost and availability of body shells, acceleration and maximum speed.

Sports and other high performance cars are expensive to insure because statistics show that vehicles of this type are involved in relatively more accidents and that, on the average, these accidents are more costly. Additional premiums may also be charged if cars are modified in any way to improve their performance.

4.2 THE DISTRICT

The traffic density of the district in which the car is kept has a direct bearing on the risk. Individual insurers employ between 3 and 7 districts (commonly 7) for the United Kingdom, and these vary from remote islands and rural counties (group 1) to the central areas of larger cities (group 7, Central London).

Where a policyholder does not have a garage, and the vehicle is left standing in the open overnight, insurers usually apply special terms to take account of the increased risk of theft of the vehicle itself or its parts or contents. Cover for these risks may, in some policies, be excluded altogether during hours of darkness.

4.3 CLASS OF USE

Because the risk of an accident occurring to a vehicle varies according to the extent and nature of the use to which it is put, this becomes a further underwriting factor. Although there is no uniformity among insurers, three common classes in use are:

Class A: for social, domestic and pleasure purposes and use by the policy holder in person in connection with his business or that of his employer.

Class B: for social domestic and pleasure purposes and for the business of the policyholder and of his employer.

Class C: for social, domestic and pleasure purposes and for the business of the policyholder and his employer including commercial travelling.

Commercial travelling is excluded from Classes A and B. All three clases exclude racing competitions, rallies, trials, etc. The use of vehicles for these purposes would be subject to special agreement with insurers which frequently would provide restricted cover anyway.

4.4 THE DRIVER

The personal qualities of the driver are normally taken into account in assessing premiums on all types of car. Age and driving experience are major considerations, and drivers under 25 or over 70 years of age are subject to special consideration as are drivers with physical disabilities. Other important factors are accident record and history of convictions for motoring offences, if any.

Young or inexperienced or bad drivers are normally required to pay a higher premium and to bear some limitation on cover or a compulsory excess (that is, the policyholder pays part of any claim made on the policy).

4.5 DISCOUNTS

From the basic premiums calculated in the manner described above, motorists may obtain discounts under a number of conditions. The most significant condition is the no-claim discount.

4.5.1 No Claim Discount

To reward motorists who have a long-term claim-free record, insurers operate a system of no-claim discounts which increase with the number of claim free years.

There is no fixed scale of discounts, and practice varies between insurers. Most insurers offer at least 25 per cent discount after one year of claim-free insurance, rising over a period of at least four years to 60 per cent or 65 per cent. Some insurers' schemes may have more than four steps so that it takes longer to reach the maximum. The discount is normally reduced by two or three steps after a claim. The impact of a claim on the most common form of no claim discount structure is illustrated in Table 3.

These discounts clearly have a major effect on the cost of insurance to the motorist, and the impact of losing all or part of a no claim discount influences their decision whether or not to make a claim at all, especially for a relatively small amount.

TABLE 3. IMPACT OF CLAIM ON DISCOUNT STRUCTURE

	per cent	per cent	per cent	per cent	per cent
Discount at the moment (Year 1)	60	60	40	30	0
Discount next year (Year 2) if you don't claim now	60	60	50	40	30
Discount in Year 2 if you do claim now	40	30	0	0	0
So, discount lost in Year 2	20	30	50	40	30
Discount in Year 3 if you don't claim now	60	60	60	50	40
Discount in Year 3 if you do claim now	50	40	30	30	30
So, discount lost in Year 3	10	20	30	20	10
Discount in Year 4 if you don't claim now	60	60	60	60	50
Discount in Year 4 if you do claim now	60	50	40	40	40
So, discount lost in Year 4	0	10	20	20	10
Discount in Year 5 if you don't claim now	60	60	60	60	60
Discount in Year 5 if you do claim now	60	60	50	50	50
So, discount lost in Year 5	0	0	10	10	10
So, total discount lost	30	60	110	90	60

Some insurers offer policies which are not subject to a no-claim discount, but the premium charged takes into consideration the amount of discount that would have applied under the traditional form of policy. To be eligible for such policies, the motorist must usually be able to meet certain stipulations such as an age qualification, driving and claims experience, and, sometimes, the type of vehicle to be insured.

4.5.2 Other Discounts

In addition to the no claim discount, most insurers will offer discounts to policyholders who accept certain restrictions on their policies. These include:

5.5.2.1 Voluntary Excess - If the policyholder agrees to pay part of any claim, commonly £ 25 ($46), he may be given a discount of 10 per cent. If he pay's the first £ 50 ($92), the discount may be increased to between 15 and 20 per cent.

4.5.2.2 Drivers' Age - In the same way that young drivers may be penalised with additional premiums, so 'senior citizens' (typically between the age of 60 to 70) may be given a discount, frequently 10 per cent.

4.5.2.3 Numbers of Drivers - Insurers also give a discount to policyholders who limit cover to themselves only or to themselves and their spouses. These discounts can vary considerably between insurers from some 7½ per cent to 25 per cent.

4.5.2.4 Other Incentives - Insurers may also give a discount to policyholders who insure more than one car with them. Introductory discounts are also given by some insurers to new or first time policyholders.

4.6 KNOCK FOR KNOCK AGREEMENTS

To avoid arguments between insurance companies concerning their respective liabilities when two, or more, motorists are involved in an accident, causing damage to each vehicle, the insurers conclude what has become known as a 'knock for knock' agreement. The aim of such an agreement is to avoid the time and cost of insurers trying to determine whether liability should be apportioned on a 50:50 basis, 60:40 basis or at whatever proportion they may ultimately agree upon.

The basic principle of the knock for knock agreement is that each of the insurance companies concerned shall accept the liability for repair to the vehicle of his own policyholder, provided he has a comprehensive policy. A policyholder with only third party cover would not be entitled to compensation from his own insurer, and would have to claim from the other motorist's insurer if it can be shown that he was responsible for the accident.

A fear exists among many motorist that under knock for knock agreements they will automatically lose their no claim bonuses. In practice, however, the motorist's no claim bonus will be affected only if he is wholly or partly responsible for causing the accident, as, indeed, it would be even without a knock for knock agreement. However, if a motorist can show that the accident was caused entirely by the other party, then his no claim bonus will remain intact even though the insurance companies, for their own convenience, may agree on a knock for knock arrangement.

5. THE INSURANCE OF VEHICLE FLEETS

The underwriting principles for insuring fleets of vehicles for commercial and industrial organizations are essentially the same as for the private motorist. For fleet insurance, past experience in the form of statistical records is used to assess the degree of risk attached to each policyholder in the same way as has been described for private motorists. The degree of risk is determined by the size and nature of the motoring fleet, and the characteristics of the drivers.

In assessing fleet risks, however, some of these characteristics range widely, and risk determination is made more difficult. Firstly, fleet vehicles will inevitably cover a much higher annual mileage than the average family motorist, frequently in high traffic density areas and at high speeds between towns and cities. The probability of such vehicles being involved in an accident is, therefore, necessarily much greater. Secondly, it is very difficult for the underwriter to evaluate the personal records of fleet vehicles. For car rental companies, for example, the background of drivers and, indeed, even their identify is unknown. For other types of fleet operator, the personal records of individual drivers can be highly variable, and the assessment of an overall premium is complicated.

The servicing of fleet insurance is very expensive, largely because of the changing nature of the policyholders' circumstances. The numbers of employees, such as salesmen, service engineers, and delivery drivers, will be increased or decreased, and these employees will also change jobs. Thus, the profile of the fleet's drivers will change. Vehicles are also changed, and fleet sizes may be increased or decreased. Furthermore, the numbers of claims may be expected to increase at least in proportion to the number of vehicles concerned. Thus, insurers will quote a national premium for fleet operation, and this may be adjusted at the end of the year on the basis of information the fleet operator provides the insurer in terms of vehicle changes (bought and sold), driver changes, etc., which have occurred during the year.

Fleet insurance tends to be a specialized sector of the motor account of insurance companies, although there are no companies which specialize in fleet business. Fleet insurance is usually handled by a broker who often takes care of the fleet operator's other insurance needs.

For these reasons, basic premiums tend to be high, although these can be reduced by demonstratably good fleet management. For example, some companies may encourage or insist that their drivers take the Ministry of Transport's Advanced Driving Tests. Others may give prizes or awards for good driving records by their employees. Some larger companies operate their own workshops not only for the maintenance of their vehicles, but also for carrying out any necessary accident repairs. Such companies may then affect a reduction of insurance cost by having only Third Party, Fire and Theft cover.

6. THE MARKETING OF MOTOR INSURANCE IN THE UNITED KINGDOM

Motor insurance supplied by the insurance companies can be bought or sold through insurance agents, insurance brokers, or directly from the companies. Insurance underwritten by Lloyds must, however, be sold through a broker.

6.1 INSURANCE AGENTS

Insurance agents, employed by the insurance companies, may either be full time employees of the companies or self-employed, but work full time for only one company. Such agents are, in effect, door-to-door salesmen who call on private households, commercial and industrial organizations. They sell the full range of insurance their company has to offer.

Other agents work on a part-time basis and take the opportunity to sell insurance by virtue of their profession or trade. These include bank managers, solicitors or accountants. For motor insurance, operators of garages and filling stations, new and used car dealers, motor accessory retailers, etc., frequently act as part-time agents.

6.2 DIRECT SELLING

Most larger insurance companies operate branch offices in provincial towns throughout the country from which the public can buy motor insurance.

6.3 INSURANCE BROKERS

The role of the broker is essentially to help his clients to assess the risks to which they are exposed, offer access to the fullest possible cover at the most economical cost, and, in the case of an accident, collect his client's claims.

It is estimated that there are over 9,000 firms of insurance brokers and other intermediaries operating in Britain. Of these, 3,800 organizations belong to the British Insurance Brokers

Association (BIBA), including 27 syndicates of Lloyds brokers. According to a representative of BIBA, this association estimates that as much as four fifths of insurance handled by brokers is undertaken by its members.

The insurance broker may be an individual operating from a small office specializing in private motor or life insurance, or he may work for a large City of London firm employing many hundreds of staff who specialize in the complicated insurance interests, including motor coverage, of major industrial and commercial companies.

In 1969, a study undertaken by the Consumers' Council showed that about 26 per cent of all motorists purchased their insurance through a broker. This is a very high percentage compared with house structure insurance and home contents insurance of which some 5 percent and 4 percent respectively were, at that time, bought through brokers. Currently, according to representatives of BIBA, about 50 per cent of household and motor insurance is bought through brokers. As little change is thought to have occurred in consumers' purchasing habits for household insurance, a large proportion of this growth may be attributed to the wider usage of brokers for buying motor insurance.

This is borne out by a recent survey undertaken on behalf of an insurance company, which examined the motorists' use of, and attitudes towards, motor insurance. The results of this survey indicate that some 47 per cent of all motorists in Britain buy their insurance through a broker. While no marked differences occurred in the use of brokers throughout the country, the survey did indicate a slightly wider use of brokers among the lower socio/economic grades and in the Midlands and North of England.

Growth in the use of brokers for motor insurance would be compatible with the increase in public awareness of the competitive nature of motor insurance and the wider publicity given to the variations which occur in both ranges of cover and premium rates offered. Media and consumerist organizations advised motorists to shop around. The majority of motorists are unlikely to have either the time or understanding of policy structure to make sound value judgements on the differences between different companies' proposals. The broker, therefore, represents a valuable solution to this problem.

The role of the broker has been questioned, and, conversely, the brokers have not been entirely happly with their own role. The brokers fulfil, essentially, two quite different functions; they advise the clients on the best purchase to undertake, but they also act, on a commission basis, for the companies with which they deal.

The cost of servicing an insurance policy is high: motorists change cars frequently; need green cards for overseas travel; wish to extend the insurance to other parties; are entitled to no claims bonuses in some cases, and, in other cases, wish to sue another driver with the broker's help. At the same time, insurance is required, by many motorists, as a necessary evil, and many brokers are directed by their clients to purchase the cheapest insurance on the market.

The commission paid to brokers varies between companies. Brokers, not unreasonably, may be expected to opt for the company offering the highest commisison. Experience has shown that companies with least attractive policies, in order to attract the attention of the broker or agent, tend to offer above average rates of commission. As a result, the broker has to examine carefully the offers of the insurance companies to ensure that the best interests of his clients are fulfilled. Not many brokers, especially the smaller ones, are in a position to do this.

Until recently, anyone could describe himself as an Insurance Broker, whether or not he really had the qualifications and experience - and the independence - which that title implies in the public mind.

True Insurance Broking implies freedom of choice between competitive offers of insurance coverage, weighing each against the other in the light of the client's needs. But, there was nothing to prevent anyone who chose to do so, whether he was a clerk, a garage owner or an agent tied to a particular insurance company, from describing himself as an Insurance Broker and suggesting to potential clients that he possessed an expertise which did not always exist.

The British Insurance Brokers' Association, with the support of the Government and all political parties, proposed that in the future before anyone has the right to call himself an Insurance Broker, certain qualifications should be required, by law. The British Insurance Brokers' Association, which represents several different types of Insurance Brokers, and the Government felt that the best way to preserve high standards was by professional self-regulation, rather than by control imposed from outside.

The BIBA was formed so that Insurance Brokers could speak with a single voice while legislation was being prepared. The four founding bodies - the Association of Insurance Brokers (AIB), the Corporation of Insurance Brokers (CIB), the Federation of Insurance Brokers (FIB) and Lloyd's Insurance Brokers' Association (LIBA) - had, for many years, represented different sections of the industry.

With the approval of the Secretary of State for Trade, the BIBA prepared proposals for the identification, registration, and subsequent regulation of Insurance Brokers. These included the formation of a Registration Council, which would need to be satisfied that an applicant had the necessary experience and technical qualifications, that his business was financially sound, and that he was able and willing to observe the Code of Conduct laid down by the Council.

A Bill with Government backing, after passing through Parliament, was given the Royal Assent of 29th July, 1977, as The Insurance Brokers (Registration) Act.

The Insurance Brokers Registration Council was created on December 1, 1977. The council has seventeen members, twelve of whom are representatives of the Insurance Broking profession. The

Council's first task is to submit detailed regulations to the Secretary of State. These will set out the educational qualifications required by an individual who wishes to become registered, the Code of Conduct, the financial requirements for carrying on business and the requirements for Professional Indemnity Insurance and a Compensation Fund.

7. THE ROLE OF MOTORISTS' ORGANIZATIONS IN THE PROVISION OF MOTOR INSURANCE

There are two main motorists' organizations in the United Kingdom, the Automobile Association and the Royal Automobile Club. Both of these bodies are involved in the provision of motor insurance, although their roles differ. The extent and nature of their involvement is described separately below.

7.1 THE AUTOMOBILE ASSOCIATION

An agreement in 1906 between the Automobile Association (AA) and Motor Union led to a division of two major services to motorists between these organizations, so that Motor Union provided insurance, and the AA provided breakdown services.

It was not until 1967 that the AA, which had already expanded its range of services to motorists, started to make insurance arrangements available. The failure of a number of insurance companies in the late sixties led AA members to seek help from their Association in finding alternative insurance cover. It was reported in Parilament in 1967 that some seven major insurance companies had collapsed in the preceding 10 years leaving some 565,000 policyholders without cover. The largest collapse was not to come, however, until 1971 when Vehicle and General was declared insolvent adversely affecting 800,000 policyholders.

From the commencement of its involvement in motor insurance in 1967, the AA has fulfilled the role of broker. This activity has grown to produce, currently, a premium income in excess of $36 million which, the AA claims, makes it the largest broker in the United Kingdom motor insurance market. This income is generated from 300,000 policyholders which is a penetration of some 6 per cent of the AA's five million members. Because of the size of its operation and the volume of business it handles, the AA is in a position to negotiate special terms for its policy holders from the insurance companies and from Lloyds underwriters with which it deals. Again, because of the size of the organization (employing some 500 headquarters staff), the AA is able to take over from the insurers a number of administrative tasks (e.g. issuing renewal notices, processing claims, processing changes in policyholders' requirements or circumstances, etc.). For performaing these tasks, the AA receives a small additional commission from the insurers. As the AA is a non-profit making organization, these benefits are passed back to members mainly in the form of improved cost/ effectiveness of the services provided.

The AA does a considerable amount of direct research into the underwriting risks associated with motor insurance, and uses its statistical findings as a basis for negotiating better terms for its policy holders who exhibit characteristics which are shown to represent a lower risk.

The AA believes that its success stems from the range of policies it offers which are designed to appeal to particular market segments. For example, a policy may feature advantageous terms which can be obtained by drivers who have a low annual mileage, or by drivers in upper age groups. Supplementary discounts based on the age of the policyholder's car are also featured in some plans. These discounts increase as the car becomes older, and its value declines.

At the present time, the AA offers eight separate policy schemes arranged with both insurance companies and Lloyds. The AA's insurers include:

Guardian Royal Exchange Assurance Ltd.
Cornhill Insurance Co. Ltd.
Eagle Star Insurance Co. Ltd.
Provincial Insurance Co. Ltd.
Municipal General Insurance Co. Ltd.
Bishopsgate Insurance Co. Ltd.
Milestone Motor Policies (Lloyds)

For new applicants, the AA will obtain 3 quotations from those of its insurers which its computer selects as being the most appropriate from information suppled by applicants. It will then select the best of these three quotations. The AA claims to retain a high proportion of its policyholders. According to the organization's records, some 85 per cent of policyholders renew their policies, and the average duration of a policy is six years.

The AA markets its motor insurance widely to the general public and not just to members, although the majority of policyholders are members. The AA advertises its motor insurance policies in the national press and on local commercial radio. The Association does not undertake direct mail to either members or non-members specifically in connection with insurance. However, communications with members do provide a natural vehicle for 'free ride' promotion. For example, the AA's Handbook for members, now issued every two years, contains advertising inserts and reply paid response cards promoting motor insurance as well as other of the Associations services. Annual subscription renewal notifications, sent to all members, presents another opportunity for advertising motor insurance schemes. The AA makes a point of including selected promotional material with all communications to members. The AA also uses its retail/service outlets (largely kiosks located at roadsides or at motorway service areas), regional offices and petrolmen to promote the sale of motor insurance to both members and non-members.

7.2 ROYAL AUTOMOBILE CLUB

The Royal Automobile Club (RAC), a comparable and competing organization to the AA, has been concerned with motor insurance since the early 1930's. The RAC, a smaller organization than the AA (approximately 1.5 million subscribing members), supplies insurance services only to its members. Renewal of RAC insurance is conditional upon continuing membership in the Club. The RAC is proud of its club image and sees this as a significant difference between itself and the AA.

Unlike the AA, the RAC does not involve itself directly in the provision of motor insurance, but performs purely a marketing role. Although the policies are marketed as an RAC service, the brokerage function is undertaken exclusively by a firm of Lloyds underwriters, Beddall, Bradford and Co., which, in turn, handles only RAC business. The majority of RAC business is placed at Lloyds, but alternative insurance companies are used, especially Eagle Star, National Employers Mutual, and Sun Alliance. Generally, Lloyds are found to offer slightly lower rates for mainstream motor insurance. For certain special cases, these insurance companies may offer better terms. For example, a young driver insuring a high powered sports car would tend to be heavily penalized with very high premiums by most insurers, particularly Lloyds.

Unlike the AA, the RAC does not promote custom built insurance schemes designed for specific sectors of the market. It's policies, like those offered by the market generally, are based on individual quotations according to a prescribed formula which takes into account the nature of each motorist's circumstances.

According to the RAC, the current value of the premium income on its policies placed with Lloyds is in the order of $18 million (£ 10 million). The RAC's representative would not reveal the value of its premium income placed with other insurers, but it is certainly considerably less, and it is unlikely that the value of the RAC's motor insurance business exceeds $25 millions in total.

Although the RAC itself has no direct dealings with the insurers, all communications and negotiations being handled by its brokers, Beddall Bradford, the RAC, like the AA, uses the size of its membership, albelt judiciously, as a lever on insurers to negotiate preferential terms for its members. Clearly, Beddall Bradford is acting as an intermediary between the RAC and the insurers, handling all enquiries, claims, issuing of policies, etc., and generally managing the insurance service. However, the EIU gained the impression that decisions of policy in respect of motor insurance are made by the RAC.

Apart from the Commercial Director who is responsible for motor insurance, the RAC has no head office staff which are concerned with this service. Other than on questions of policy, the RAC is concerned, for motor insurance, with sales of policies to its members. It has been the Club's policy to offer its services, including motor insurance, only to members, and no relaxation of this policy is envisioned presently. The RAC feels that this exclusiveness enhances the 'club image' it wishes to retain. Members frequently seek advice on insurance from the RAC, particularly in respect to claims from the Club's legal advisors, and the provision of motor insurance arrangements is seen as a natural extension of the services and facilities provided by the Club. Although its insurance business is handled and managed entirely by Beddall Bradford, all correspondence clearly shows that the brokers are acting on behalf of the RAC, and this is felt to inspire confidence that they are working in the members' best interests.

As in the case of the AA, the RAC promotes motor insurance by means of leaflets and inquiry cards sent to members with subscription renewal notices. Motor insurance is also promoted through the RAC's road patrol force and at its 25 main offices and some 120 satelite offices. Patrolmen receive commission on each converted insurance inquiry they initiate. Thus, they tend to draw members' attention to the RAC's insurance schemes each time they attend a breakdown or distress call.

APPENDIX A

MEMBERS OF BRITISH INSURANCE ASSOCIATION

Agricultural and General Insurance Society Ltd.
Ansvar Insurance Co. Ltd.
Bishopsgate Insurance Co. Ltd.
Black Sea and Baltic General Insurance Co. Ltd.
B.N. Insurance Co. Ltd.
Britannic Assurance Co. Ltd.
Cloverleaf Insurance Co. Ltd.
Commercial Union Assurance Co. Ltd.
Co-operative Insurance Society Ltd.
Cornhill Insurance Co. Ltd.
Crusader Insurance Co. Ltd.
Dominion Insurance Co. Ltd.
Drake Insurance Co. Ltd.
Eagle Star Insurance Co. Ltd.
Ecclesiastical Insurance Office Ltd.
Economic Insurance Co. Ltd.
Elizabethan Marine and General Insurance Co. Ltd.
Excess General Insurance Co. Ltd.
Federated Insurance Co. Ltd.
Federation Mutual Insurance Ltd.
Folgate Insurance Co. Ltd.
General Accident Fire and Life Assurance Corporation Ltd.
Guardian Royal Exchange Assurance Ltd.
Halifax Insurance Co. Ltd.
Home Insurance Co. Ltd.
Imperial Chemicals Insurance Ltd.
Insurance Corporation of Ireland Ltd.
Irish National Insurance Co. Ltd.
Iron Trades Mutual Insurance Co. Ltd.
Legal and General Assurance Society Ltd.
Minister Insurance Co. Ltd.
Municipal Mutual Insurance Ltd.

National Employers' Mutual General Insurance Association Ltd.
National Farmers Union Mutual Insurance Society Ltd.
National Insurance Co. of New Zealand Ltd.
National Insurance and Guarantee Corporation Ltd.
New Zealand Insurance Co. Ltd.
Norman Insurance Co. Ltd.
Northern Star Insurance Co. Ltd.
Norwish Union Fire Insurance Society Ltd.
Orion Insurance Co. Ltd.
Paramount Insurance Co. Ltd.
Pearl Assurance Co. Ltd.
Phoenix Assurance Co. Ltd.
Provincial Insurance Co. Ltd.
Prudential Assurance Co. Ltd.
Q.B.E. Insurance Ltd.
Refuge Assurance Co. Ltd.
Royal Insurance Co. Ltd.
Sentry (UK) Insurance Co. Ltd.
S.M.T. Insurance Co. Ltd.
South British Insurance Co. Ltd.
Sphere Insurance Co. Ltd.
Sun Alliance and London Insurance Ltd.
United Standard Insurance Co. Ltd.
Warwick Insurance Co. Ltd.
Wesleyan and General Assurance Society
Western Australian Insurance Co. Ltd.
Zurich Insurance Company

APPENDIX B

MEMBERS OF LLOYDS MOTOR UNDERWRITERS ASSOCIATION

A.L.S. Motor Policies
Anchor Underwriters
B.J.S. Motor Syndicate
Barbican Motor Policies
British Standard Assurance Association
Charlesworth and others - Syndicate 678
Corinthian Motor Policies
Eclipse Motor Policies
Ensign Motor Policies
Equity/Lion/Charter Motor Policies
Hermes Motor Policies
Highway Motor Policies
Holdsure Motor Policies
H.P. Motor Policies
Ibex/Acme Motor Policies
J.B.S. Motor Policies
K.G.M. Motor Policies
Kinloch Motor Policies
Leadenhall Motor Policies
Link Motor Policies
Milestone Motor Policies
Mitre Motor Policies
M.T. Motor Policies
Paladin Motor Policies
Pegasus Motor Policies
R.B. Motor Policies
Red Star Motor Policies
Renown Motor Policies
Safeguard Motor Policies
Secretan Motor Policies
Service Motor Policies
Shead Motor Policies
Summit Motor Policies

Swan Motor Policies
Torch Motor Policies
Zenith Assurance Association