

PACTS Response to Petitions Committee Consultation on Limiting Insurance Costs for Young Drivers

Petition: Put a max of £1200 on car insurance for 18-25 year olds

Insurance companies are making it harder and harder for people aged 18-25 years of age to start driving. I myself am looking at a £2500 insurance for my first year driving which is completely unaffordable as i am earning minimum wage £5.30 per hour and am also having to pay bill for my property.¹

About PACTS

The Parliamentary Advisory Council for Transport Safety (PACTS) is a registered charity. Its objective is “To protect human life through the promotion of transport safety for the public benefit”. It seeks to advise and inform members of the House of Commons and of the House of Lords on air, rail and road safety issues. It provides the secretariat for the All-Party Parliamentary Group for Transport Safety. Further information about PACTS is available at <http://www.pacts.org.uk/about/>

This submission focuses on the safety aspects of the petition. PACTS has approaching 100 corporate members, including those from the insurance, highways and local government sectors. However, this submission does not necessarily represent the views of these organisations.

Young Road User Risk

Young drivers are more likely to be involved in collisions and killed or injured on the road than their older counterparts, despite continued improvements in their safety and overall road safety. This is true both in the UK and across the developed world.

PACTS has recently produced a report on the safety of young drivers and riders as part of the European Commission funded YEARS project (Young Europeans Acting for Road Safety) which is led by PACTS’ partner organisation the European Transport Safety Council. This report covers many of the issues discussed below.²

The high collision risk of young drivers is due to a range of factors including biological and social changes during adolescence and early adulthood, a lack of on-road experience and impairments and distractions that affect young people in particular.

Young people also tend to drive smaller and older vehicles. These cars often have a lower crashworthiness and lack the safety technologies featured in newer, larger vehicles.³

The UK ranks highly amongst European countries when it comes to overall road safety, with fewer road deaths per head of the population than almost any other country.⁴ For the 15-30 age band the UK has a lower percentage of powered two wheelers (PTW) and car occupant deaths as a proportion of all road deaths, compared with the European average.⁵

¹ <https://petition.parliament.uk/petitions/166847>

² *Reducing casualties involving young driver and riders in Europe*, ETSC 2015

³ Department for Transport, 2010, *The Characteristics of Speed Related Collisions*, Road Safety Research Report 117, p48

⁴ *Understanding the Strengths and Weaknesses of Britain’s Road Safety Performance*, TRL Report PPR796 for PACTS (2016) <http://www.pacts.org.uk/wp-content/uploads/sites/2/PPR796-Understanding-the-Strengths-and-Weaknesses-of-Britains-Road-Safety-Performance-1.pdf>

⁵ *Reducing casualties involving young driver and riders in Europe*, ETSC 2015, p8

Types of collisions

A major 2008 study of young drivers in the UK found that one in five reported having a collision in the first six months after passing their practical test.⁶

Young people tend to be involved in collisions that relate to the associated risk factors outlined above. For example, given their lack of driving experience, they are often involved in loss-of-control and single vehicle collisions.⁷

Speed related collisions are also common, as a result of both exceeding the speed limit and having a poorer understanding of the appropriate speed for certain conditions/road types.⁸

The insurance sector reports that young people have a relatively high incidence of collisions claims, particularly catastrophic claims (over £0.5 million).⁹

Collision risks are even higher for those on PTWs. A Danish study found that the likelihood of being injured in a road traffic collision is 10-20 times higher for moped riders than for car drivers (for all ages). The crash rate of a moped was four times greater than that of a motorcycle.¹⁰

PACTS welcomes the Government's commitment in its 2015 *British Road Safety Statement*¹¹ to carry out further research into young driver safety, notably the large study currently out to tender.

Insurance – costs and IPT

As a result of the factors outlined above, insurance premiums for young drivers are typically much higher than for driver over 25 years. As the Petitioner indicates, this can be a substantial expense for a young driver though it is only one part of the total driving cost which also includes lessons, tests and associated materials and possibly the cost of buying and maintaining a car.

This is compounded by the fact that young people, if they are in work, may earn relatively low wages as they will likely be in a junior position, or working part-time due to other commitments such as school, college and university.

Increases in Insurance Premium Tax (from 6% to 9.5% in 2015 and from 9.5% to 10% in October 2016), have particularly disadvantaged young drivers. The tax is highly regressive for young drivers: as their premiums are the highest, they therefore pay the largest amount of tax.

The development of more technologically advanced vehicles has also increased the costs of repairs and, as a consequence, insurance premiums have risen.¹²

⁶ Wells P, Tong S, Serton B, Grayson G and Jones E, *Cohort II: A Study of Learner and New Drivers*. Volume 1: Main Report, Road Safety Research Report No. 81. DfT (2008)

⁷ Helman, S., Grayson, G. B. and Parkes, A. M., 2010, *How can we produce safer new drivers? A Review of the effects of experience, training and limiting exposure on the collision risk of new drivers*, TRL Insight Report INS005, p3

⁸ ETSC, 2011, *Traffic Law Enforcement across the EU: Tackling the Three Main Killers on Europe's Roads*, p19/ ITF/OECD, 2006, *Young Drivers – The Road to Safety*, p198

⁹ Nick Starling, Director of General Insurance, ABI, Presentation, PACTS Conference, March 2013

¹⁰ Møller, M., Hausteine, S., February 2016, Factors contributing to young moped rider accidents in Denmark, *Accident Analysis & Prevention*, Volume 87, pp.1-7.

¹¹ *British Road Safety Statement 2015*, DfT, p17

¹² Motor insurance premiums hit record high, as cars go hi tech <http://www.bbc.co.uk/news/business-38841837>

Effects of High Insurance Costs

Opting to drive later

Increasingly, young people are delaying learning to drive; this is demonstrated by a falling number of tests being taken, (1,762,148 in 2007/08 compared with 1,537,735 in 2015/2016).¹³

The cost of insurance, combined with driving lessons, tests and associated materials and possibly a car as well can make the cost of driving prohibitive for those under 25. However, PACTS is not aware of any research that clearly shows the impact on driving – the elasticity of demand for driving.

Other factors affecting this decision include attending university and relocating to other areas. Some young people may choose not to learn during this period as there may be limited scope for accompanied driving practice with family and friends.

Some young people defer learning to drive if they expect to have little opportunity to drive while at university etc. Those Even for those who do learn, they may be relocating to areas without space for a car or with good public transport links that negate the need for a car. Consequently, there may be a number of years after licensing during which they gain very little driving experience.

Instead, many now opt to wait until they are older before learning and/or driving regularly, when insurance premiums are likely to be lower and they may also be earning a (higher) wage. Social media, internet usage and online learning may also have reduced the need to drive.

Whatever the reasons (choice or necessity), there is a safety benefit in this tendency towards later licensing, as it leads to a reduction in driving by young people and consequently this has contributed to fewer roads deaths. When young people do learn to drive at a later age, they have a lower initial collision risk, as they are not as heavily influenced by the high risk factors outlined above.

The economic climate can also affect the amount of driving, particularly by young people. Downturns tend to lead to a decrease in both the number of tests being taken and the amount and style of driving. Studies have shown that there is a particular reduction in driving amongst young people and in learning to drive amongst young men.¹⁴

Opting to ride

The costs of learning to drive and running a car *may* lead some young people to opt to ride a PTW instead of a car. The associated costs are much lower and the learning timeframe can be much shorter.

However, the scale of this is transfer unknown. The number of motorcycle tests has fluctuated recently; it is lower when compared to five years ago (59,594 in 2011/12 and 55,770 in 2015/16).¹⁵ Anecdotally, PACTS understands that transfer from driving to PTW riding is low, and changes in driver and rider test figures do not necessarily represent a direct transfer.

It is important that young people who choose to ride receive proper training. PACTS welcomes the DVSA's proposals¹⁶ for improved Compulsory Basic Training (CBT), including having to take a theory test and revocation of CBT certificates if the rider gets six penalty points.

Schemes such as the 'Wheels 2 Work' programmes loan young people a PTW (typically for around £20 per week) while at the same time delivering a high level of training. These schemes are particularly

¹³ DfT Statistics, *Practical driving and riding test pass rates by test class, quarterly: Great Britain*, Dec 2016

<https://www.gov.uk/government/statistical-data-sets/drt01-practical-driving-riding-test-pass-rates>

¹⁴ IRTAD, 2015, Annual Road Safety Report 2015, p4; ITF/OECD, 2015, *Why Does Road Safety Improve When Economic Times Are Hard?*

¹⁵ DfT Statistics, *Practical driving and riding test pass rates by test class, quarterly: Great Britain*, Dec 2016

<https://www.gov.uk/government/statistical-data-sets/drt01-practical-driving-riding-test-pass-rates>

¹⁶ <https://www.gov.uk/government/consultations/improving-moped-and-motorcycle-training/improving-moped-and-motorcycle-training>

useful in areas without regular public transport and are designed to enable young people to access work and education. PACTS understands that these schemes have a good safety record but more systematic evaluation would be helpful.

Driving uninsured

A small minority of young people drive uninsured. The high cost of driving, including insurance, is likely to be one factor in this decision. However, it is not clear by how much premiums would have to reduce (or increase) in order to have a significant effect on the level of uninsured driving. £1,200 pa might still be seen as unaffordable and others may choose to drive uninsured regardless of the premium.

PACTS believes it is more likely that most young people would choose not to drive at all (at least until they reach the age of 25), rather than choosing to drive without insurance.

Overall, the level of collisions involving uninsured drivers (or all ages) has reduced substantially over recent years. This is due to improvements in regulation and management by the Government and insurers, coordinated by the Motor Insurers' Bureau. PACTS does not have data specifically for collisions involving young drivers.

Offsetting High Insurance Costs

Telematics based insurance policies are becoming increasingly common for young drivers in the UK. Telematics based insurance policies can result in savings of more than £1000 for some young drivers, according to the British Insurance Brokers' Association (Biba)¹⁷

Telematics-based policies vary in terms of complexity, the level of intervention and the likely safety benefits. Some are used by insurers simply to screen out high-risk customers; others seek to influence the driving behaviour throughout the life of the policy. The simpler versions may use an app in a driver's phone; others require a device, a 'black box', to be installed in the car to provide more detailed information straight from the vehicle to the insurer.

Some insurers use this data to continually monitor the quality of a person's driving, and will get in touch directly with a driver if they feel that they have been driving in an unsafe way. They can then provide advice and information on how to improve. Better driving can be rewarded with cheaper insurance or other incentives. Policies may be terminated if the driving is deemed excessively dangerous.

Insurance Premium Tax (IPT) is, in effect, a highly regressive tax on young drivers. PACTS recommends a reduced rate of IPT for young people with telematics-based insurance policies as these are likely to encourage safer driving. A trial of reduced or zero IPT, if suitably monitored, could also provide insights into the safety effects of telematics-based insurance policies.

A few schemes offer both telematics-based insurance and new car, which can be paid for on a monthly basis. These schemes are still small scale. While the costs involved are not insignificant, they demonstrate that the combined cost of vehicle purchase and insurance for a modern, safe car may be no more expensive than the combined cost of purchase and insurance of an older, less safe vehicle. They also allow young people to pay for a vehicle gradually rather than in one lump sum.

PACTS would like to see these schemes being encouraged as they help young people with the dual costs of insurance and a car, while also ensuring that the vehicle they are driving is new and safe.

¹⁷ <https://www.biba.org.uk/latest-news/40-increase-in-telematics-motor-policies-in-a-year/>

Conclusion

Some young people no doubt find the cost of driver insurance to be prohibitive. However, in a commercial market and without subsidy from the state, premiums are related to individual risks and the costs of claims must be met by the insurers. If premiums are reduced for one group – young drivers – they will need to be offset somewhere else, resulting in high premiums for other drivers.

In short:

- PACTS supports new research into the safety of young drivers.
- PACTS would like to see the encouragement of more telematics-based insurance policies.
- PACTS would like to see a reduction in Insurance Premium Tax for young drivers, particularly for telematics-based insurance policies.

PACTS thanks the Petitions Committee for the opportunity to respond.