

Road to reform:

Driving a better
deal for motor
insurance customers

Summer 2016



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Introduction

This is the latest edition of Aviva's "Road to Reform" report – and the issues it shines a light on are as pertinent today as they were in the first report, published in 2013.

Back then, we argued that the compensation system did not work in the interests of honest customers and was hindered by costs from middlemen, who did not add value to customers' claims, but only added costs to everyone's premiums.

That is still the case.

In last year's report, we continued to highlight the cost of whiplash and the detrimental effects of the UK's compensation culture. We set out how failing to tackle an escalating claims culture puts customers and businesses at risk and increased the cost of living for us all.

We argued that it was too easy to claim for whiplash, leading to spiralling numbers of spurious injury claims, the rise of organised and professional fraudsters committing crash for cash, and a host of lawyers, [claims management companies \(CMCs\)](#) and other vested third parties looking to make a quick buck – at the expense of honest customers.

Since then, important reports such as the [Insurance Fraud Taskforce](#) and the [Brady Review](#) have further highlighted key issues and working solutions associated with fraud and regulating CMCs.

We must tackle this issue – insurer and customer alike. None of us want to see the courts clogged up with minor injury cases, or incentivise fraudsters to crash into innocent motorists. None of us want to be bombarded with an endless stream of nuisance calls and texts. None of us want to see lawyers rewarded almost as much as the injured party.

We are firm in our belief that by treating minor injuries with care, not cash, the number of spurious and fraudulent claims would fall,

and lawyers and CMCs would no longer aggressively chase every claim where there was a proven blame.

We should focus on helping those with genuine injuries get better by offering the care they need to get back to 'normal' as quickly as possible.

But currently, compensation is seen by many as a means to fund luxury purchases. Research by Aviva has shown that less than half of [claimants](#) spend compensation on getting better. In fact, 40% of successful [claimants](#) used their compensation payment to spend on a holiday or luxury items. Aviva believes that motorists should not have to fund these purchases via inflated premiums.

In addition, by extending the ban on [referral fees](#) to all parts of the motor claims process, we can put a stop to the culture of backhanders and inflated costs, and level the playing field for everyone involved in handling a motor claim.

So we welcomed the Chancellor's Autumn Statement, in which he announced the Government's intention to cut £1bn off the cost of motor insurance and limit lawyers to cases where their expertise is needed.

And we were the first insurer to make a simple, but bold promise:

we will pass on every penny of savings from these reforms to our customers.

Genuinely injured [claimants](#) have one primary aim – getting back to 'normal'. These reforms should mean people will still be able to claim for the care and rehabilitation they need to get better, but will no longer receive cash compensation for their minor injuries.

The proposed reforms will reduce the exploitation of whiplash claims by fraudsters, while still ensuring genuinely

injured people get the support they need, as well as other losses paid such as loss of earnings. Those with more serious injuries will continue to have a right to obtain legal advice and receive appropriate compensation.

However, we are still a long way from making this a reality.

The Challenge Ahead

The Government will consult on the reforms announced in the Autumn Statement before their summer recess. Over the course of the coming months, a plethora of views will be put forward, arguing how and why the law and current system for compensating minor injuries should or should not be changed.

But in the short space of time between May and the end of July, when Parliament rises for the summer, another 200,000 injury claims will be made to insurers¹ – more than the total number of road traffic accidents reported to the Department for Transport in 2014.²

It is clear, then, that the Government's proposals must not be diluted. Millions of pounds of unnecessary costs will continue to be paid for by honest customers until we take decisive action. The Chancellor's announcement goes a long way towards that. However, to bring these proposals to fruition will take primary legislation by the Government, which means we will be well into 2017 until these reforms are in place and motorists begin to feel the benefit.

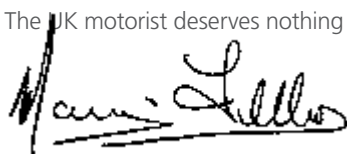
This underlines the urgent need to ensure the road to reform reaches its final destination, and is not side-tracked due to a raft of special interests. We need to see clear and meaningful changes leading to the cost reduction that will benefit all motorists.

In this report, we reveal the root causes of increasing injury claims and the impact upon the average premium, and demonstrate how our proposals will lead to tangible savings for our customers.

Motor insurance customers have paid the price for a dysfunctional and expensive compensation system for too long. It incentivises exaggerated injury claims, fraud and nuisance calls. A number of third parties such as injury lawyers and [claims management companies](#) rely on a culture of pushing people to make claims to line their pockets – all of which has cost the UK motor insurance customer £2.5bn³, adding £93 to motorists' premium.

The Government has taken the first step on the road to reform by deciding to act and launching a consultation on how to implement the changes and reduce the cost of motor insurance. This is a unique opportunity to reduce the cost of living for the UK's 30 million motorists.

The UK motorist deserves nothing less.



Maurice Tulloch

**Chairman Global General Insurance/CEO UK & Ireland
General Insurance**

Aviva



¹<http://www.claimsportal.org.uk/en/about/executive-dashboard/>

²https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/438040/reported-road-casualties-in-great-britain-main-results-2014-release.pdf

³Aviva's 'Road to Reform' report, March 2015: annual cost to the insurance industry of whiplash claims

Whiplash: what's the problem?

We believe that everyone is entitled to fairly priced insurance to protect what is important to them. We are here to help our customers when they need it, and pay genuine claims quickly.

However, the UK motor insurance market is a system of spiralling costs which encourages fraudulent, exaggerated and opportunistic personal injury claims, for minor soft tissue injuries, such as whiplash.

In the era of safer cars and fewer road traffic accidents, nothing illustrates the compensation culture as clearly as the continued rise of injury claims.

Whiplash is costing motorists £2.5bn a year, adding £93 to the average motor insurance premium. In 2015, 80% of the motor injury claims Aviva received included whiplash, a significantly higher figure than many other European countries: in France, for example, just 3% of personal injury claims for minor soft tissue injuries, are for whiplash.

Why is this problem unique to the UK?

The answer lies in the ease of claiming for minor whiplash injuries, and the financial rewards which lure fraudsters, opportunistic claimants and even some injury lawyers and Claims Management Companies (CMCs) to profit at the honest motorist's expense.

Nuisance calls

Some injury lawyers and CMCs are so incentivised by the easy money in low value, high volume injury claims that they aggressively bombard motorists with texts and calls, encouraging them to make an injury claim regardless of their circumstances, abusing the system for their own financial gain.

Consumers are fed up with this harassment: Aviva found that 95% of consumers would like CMCs to face tougher regulation over how they market their services, such as the nuisance texts and calls that so many of us receive on a regular basis.

Fraud

Worse still, fraudsters are treating whiplash compensation like a license to print money, routinely staging, inducing and claiming for bogus accidents on a widespread and increasingly organised basis. In 2015, for example, the number of organised scams that Aviva detected increased by 18%.

Motor fraud remains the largest source of fraud Aviva detects; in 2015, motor fraud accounted for 60% of all claims fraud detected by Aviva, with a value of £58m. Aviva avoids one-in-nine whiplash claims which are either challenged or repudiated and has more than 17,000 suspicious whiplash claims under investigation, with 4,000 motor injury claims linked to known fraud rings.

Fraud is not a victimless crime: crash for cash puts innocent motorists directly in harm's way, putting an extra burden on scarce public resources, while the ABI says we all pay an extra £50 on our premiums to cover the cost of fraud.

Legal costs

Finally, the legal system which allows exaggerated claims to flourish needs to be updated. Although reforms such as the Legal Aid, Sentencing and Punishment of Offenders Act (LASPO) were welcome, reducing the fixed costs for simple motor cases (which insurers passed on with a 14% cut in premiums), lawyers continue to add significant cost to minor injury claims. The level for minor injury claims to be put through the small claims court – which means lawyers' fees are not recoverable – has not been updated since 1991 when 50% of personal injury claims were within the threshold. Today, only 3% of the motor injury claims Aviva

Did you know? 85% of consumers believe the UK has a compensation culture

receives are for less than £1,000; yet 91% are between £1,000 and £5,000 – so there is an opportunity for significant savings by increasing the [Small Claims Track Limit](#) to £5,000.

For every £1 Aviva pays out in personal injury compensation in the UK, another 80p in legal fees goes to lawyers. Many claims are straight-forward cases where liability has already been established. Aviva believes that restricting lawyers to cases where their expertise is needed will offer significant savings for motor insurance customers.

Against this backdrop, the Autumn Statement reforms cannot come soon enough.



Consumers are fed up

What is behind the UK's Compensation Culture?

One out of every three motor claims Aviva receives has at least one injury attached to it. Here is a look at the multiple factors involved in the UK's personal compensation culture, from fraud to nuisance calls, exaggerated injuries to lawyers' costs.

1

Claims are at record levels...

From 2000/2001 to 2015/16 the number of motor claims have grown from 401,740 to 770,791 – an increase of almost 92%, compared with a decrease in RTAs (Stats 19/ DfT) of 39%.

Source: Compensation Recovery Unit motor accident data, 2000/01 - 2015/16

2000-2015

Road traffic accidents
fell by 39%

but claims for personal
injury increased by 90%



2

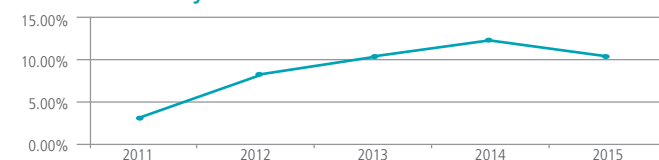
Thanks to lawyers and claims management companies making nuisance calls to bring older, spurious claims.

Against a backdrop of escalating claims and increased compensation payouts, CMCs, accident management companies, marketing companies and so-called data companies mined older claims through an aggressive and sustained campaign of nuisance calls and buying - and stealing - of claims data.

In some cases, Aviva has seen instances where CMCs have submitted claims without the claimant's knowledge. In other cases, CMCs pressure people very hard through constant calls until they feel they have no other choice but to make a claim in order to stop the nuisance calls.

Aviva has seen a steep rise in the number of whiplash claims made more than 300 days after the accident. The current time limit to bring a claim for injury is three years. Aviva believes that this should be reduced.

Percentage of whiplash claims notified more than 300 days after the date of accident



Did you know? 88% of people believe compensation culture encourages exaggerated and fraudulent claims

3

It's no surprise that fraudsters have thrived.

Organised crash for cash scams have grown by 18% from 2011 to 2015

One out of every nine injury claims Aviva receives is tainted with fraud.



4

While lawyers receive almost as much as the injured victim.



£1

For every £1 Aviva paid out in personal injury compensation last year...

...it paid another 80p to lawyers

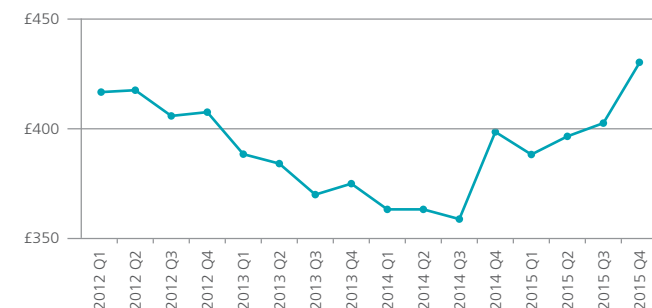


5

Meaning that we all end up paying more for insurance to fund the cash merry-go-round.

It is not surprising, then, that as the number of claims has increased, we are beginning to see an increase in the average premium paid for motor insurance (£427 premium in Q4 2015, ABI.).

Average Motor Premium (incl. IPT) (£)



Source: ABI Average Motor Insurance Premium Tracker

Your Premium Uncovered

What's in a Motor Premium: elements of an average consumer premium

Your premium uncovered

Consumers are sick and tired of paying for a broken and expensive system. Here, we spell out exactly where every penny of their premium goes, from the recently-increased insurance premium tax, to the amount paid in injury claims and, yes, even our profit.

2015 Motor Premium: where it all goes

£377 Average Aviva purchased premium

£6 Operating Profit
(pre-tax)

£48 Marketing and
operational costs

£35 Insurance Premium Tax
(charged at current 9.5% rate)

£287 Claims



Claims costs: where it all goes

£287 Average Claims cost

£1 Fire

£9 Theft

£67 Third Party
Damage

£5 Windscreen

£64 Own damage

£141 Third Party
Personal Injury



Did you know? For every £1 Aviva pays in minor personal injury claims, it pays another 80p to lawyers.

Claims costs: where it all goes

We are here to pay genuine claims quickly and fairly, and motor insurance is no exception. In fact, 76% of the motor premium we collect goes to paying claims. Last year in the UK, for example, Aviva received almost 815,000 insurance claims and paid out more than £2.2 billion for claims across all lines of business. But as the breakdown below shows, a disproportionate amount of premium is spent on minor injury claims. The amount of premium used to compensate minor injuries has doubled since 1999. Back then, personal injury compensation accounted for 25% of Aviva's motor claims spend. Today, personal injury claims account for 49% of Aviva's motor claims spend.

Other areas of motor claims also shoulder the burden of excessive costs. It still remains the case that the insurer of the at-fault party is responsible for paying the bills stemming from a claim, even though they have no control over

how those costs are incurred. This is particularly seen in claims relating to third party damage, such as the repair and arrangement of a temporary replacement vehicle.

There are numerous examples where CMCs, credit hire operators and even insurers will use non-fault claims as an opportunity to inflate the costs of repair, or replacement vehicles, in order to increase their profit. **Aviva does not believe that the cost of a claim should depend upon who's at fault for the accident.**

In addition to inflated costs, [referral fees](#) continue to feed this dysfunctional process, adding significant cost (e.g. a [referral fee](#) for

arranging a replacement car is around £400) but adds no value to the customer at all.

Aviva continues to call for a complete ban on [referral fees](#), which would end the practice of backhanders and reduce the cost of motor premiums by an estimated £200m.

This is wholly at odds with the trend of safer roads and safer vehicles. According to figures from the Department for Transport, since 2000, the number of accidents involving a personal injury have gone down by 39%.

Then and now: how claims spend has changed since 1999

Here, Aviva reveals how motor claims costs are paid out, and how this compares this with 1999.

As the chart below shows, personal injury claims costs have doubled (proportionately) since 1999.



2015		1999
49%	Third party personal injury	25%
23%	Third party damage	32%
22%	Own damage	28%
3%	Theft	9%
2%	Windscreen	4%
1%	Fire	2%



Personal Injury Reform: Getting it right for the consumer

Aviva believes that the Reforms should be introduced as a “package” of measures that will compliment one another and reduce the volume and cost of minor injury claims, which will, in turn, reduce customer premiums, while allowing for necessary treatment of minor, genuine injuries.

Proposed Changes by the Chancellor in the Autumn Statement:

The Chancellor outlined in the Autumn Statement on 25 November 2015, a package of proposals designed to reduce the cost of motor insurance. These measures will directly address problems arising from a compensation culture, such as motor fraud, nuisance calls and legal fees stemming from straight-forward claims, thereby cutting the cost of motor insurance.

The core proposals are:

- End the right to cash compensation for low severity injuries.
- Increase the upper limit for minor injury claims to be heard in the small claims court to £5,000 from £1,000. This will significantly reduce the legal costs associated with these low-value, high-volume claims.

The Government suggested that if implemented, these changes would result in a reduction in annual insurance costs between £40 to £50 a year.

The Ministry of Justice will lead a consultation on these proposals. The Government is expected to publish its findings later in 2016 and then draft legislation. It is expected that these changes will be implemented into law as early as the summer of 2017.

Aviva has two principle aims for the proposed legislative reforms announced in the Autumn Statement:

- 1. To ensure that the consumer is the “winner” - emerging with the significant benefit of a lower motor insurance premium but ensuring that those with genuine injuries will still get the necessary medical treatment they deserve.**
- 2. The Reforms should be introduced as a “package” of measures that will complement one another - reducing the volume and cost of minor injury claims.**

Aviva will continue to call for:

- An end to cash compensation for minor injuries – This will reduce premiums and put an end to fraudulent, exaggerated and fundamentally dishonest claims. (part of the Autumn Statement reforms)
- Injuries - The proposed legislation should encompass all low-severity injuries, not just whiplash.
- A reduced Limitation Period - A reduced time-frame to make an injury claim from the current period of three years.
- A **Threshold** – The proposed legislation should establish a threshold which will identify whether a claim is eligible for compensation. The threshold should ensure the intent of the reforms (to end compensation for minor injuries) is maintained and not easily avoided. For example, a robust threshold will

Did you know? 83% of consumers support the reforms in the Autumn Statement

require the injured party’s symptoms to be more than simple ‘nuisance’ symptoms and allow for a reasonable recovery period.

- Rehabilitation – Insurers should provide care and rehabilitation to ensure the injured party receives the care they need in the same way as today.
- Medical Evidence - An independent medical report must be obtained by the injured party via MedCo, the system for accrediting and sourcing medical reports. MedCo should expand to include physiotherapy and rehabilitation providers to ensure independent, accredited rehab/physio professionals are allocated to injury claims.
- Predictable Damages - Where an injured person is able to demonstrate via independent medical evidence that he/she has injuries beyond the **threshold**, compensation should be awarded against a clear, transparent tariff, such as from a **table of damages**. This would make it clear to a **claimant** what he/she is likely to be awarded and would limit unnecessary legal argument.
- An increase to the **Small Claims Track Limit** - The point at which lawyers get involved in minor injury claims should be increased to at least £5,000 and should cover all types of claim to cut legal costs. (Part of the autumn statement reforms).
- A ban on all referral fees including replacement vehicle hire and vehicle repair.

What impact would the Government's Autumn Statement reforms have on premiums?

If the reforms as envisioned are enacted, customers will benefit from lower insurance premiums. Here, we outline exactly where the premium savings will be achieved, and by how much.

As the table below shows, the reforms will reduce the amount spent compensating minor personal injury claims; we expect the value of these claims to drop by around 30%.

Those with genuine injuries will continue to receive the care and treatment they need, while reducing the costs for all motorists.

Did you know? 90% of claims under £125,000 received by Aviva are less than £5,000

Aviva estimates that the reforms as intended will reduce customer premiums by an average of

£43

How will your premium change?

Aviva estimates that the Autumn Statement will reduce third party personal injury claims costs by an average of £43.

2015	Claims Costs	Post-reforms
£141	Third party personal injury	£98
£67	Third party damage	£67
£64	Own damage	£64
£9	Theft	£9
£5	Windscreen	£5
£1	Fire	£1
£287	Cost of claims drops by an average of £43	£244



The Aviva promise

The reforms are an historic opportunity to reverse more than a decade of growing compensation culture which has increased the cost of insurance for us all. It will reduce fraud, curtail nuisance calls and help people get the care they deserve following an accident.

Aviva has long-championed meaningful reform to reduce the cost of motor insurance for our customers. To demonstrate our commitment to ensuring our customers benefit from the reforms, Aviva has outlined its promise to its customers.

Did you know? In 2015, only 6% of claimants came to Aviva direct to settle their claim. The other 94% went through lawyers and claims management companies

Conclusion

The UK's compensation culture has spiralled out of control. Of that, there can be no doubt: injury claims have grown over the last decade despite a decline in road traffic accidents; motor fraud such as crash for cash has become an industry, attracting professional fraudsters who are lured by the easy access to whiplash compensation; injury lawyers continue to receive almost as much as those who are genuinely injured, on top of which they help themselves to a quarter of compensation awarded; claims management companies use nuisance calls and texts to mine older, dubious claims; and insurers have been forced to increase their premiums as claims and costs rise.

It doesn't have to be this way.

The Chancellor's Autumn Statement brought two of Aviva's proposals for reform to life: an end to cash compensation for minor injuries, which will curb the financial incentive that drives so many exaggerated and spurious claims, and an increase in the financial value of claims that are heard in the small claims court, which will further reduce the costs associated with minor injury claims, helping to bring down motor premiums further.

These proposals are balanced with care for **claimants** who suffer genuine injuries, including any financial loss they suffer as a result. **Claimants** will have access to treatment for their injuries, paid for by the insurer, as well as recovery for any loss of earnings.

Aviva has pledged to pass on 100% of the average savings to our customers. As our calculations show, we expect the savings to be on average around £43 on the 'typical' motor premium – more than £1.3bn in savings for Britain's motorists every year. We expect these savings to be sustainable, as the number and cost of minor injury claims tumble. Fraudsters will have to find somewhere else to play.

The challenge ahead is ensuring that the proposals as outlined by the Chancellor are not watered down by those with vested interests. The reforms represent an historic opportunity to call time on the UK's compensation culture, which has been driven by a small group of lawyers, CMCs and fraudsters, who have profited at the expense of Britain's honest motorists.

The road to reform is nearing its destination. The change that Aviva has long been calling for is in sight, and consumers are clearly supportive. It's time to put an end to this culture of easy whiplash compensation and the fraud, nuisance calls and ambulance chasing lawyers that go with it. It's time to cut the cost of motor insurance and give Britain's motorists a better deal.

"We are determined to crack down on the culture of fraud and exaggerated claims in the motor insurance industry, which means car owners are forced to pay higher premiums to cover the false claims of others. This culture is boosted by an industry that encourages exaggerated claims through cold calling and it is right that we tackle this."

Minister of State for Justice, Lord Faulks QC



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