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Cut-Price Claims, Full-Price Premiums: Civil Liability Act Under Fire

The Treasury recently published a report, based on insurer data provided to the Financial Conduct Authority, outlining the reduction in motor insurance premiums resulting from the Civil Liability Act. In the final reporting year of the data, 2022-2023, it estimated that there was a "counterfactual" 4.18% reduction in premiums of £15 per premium as a direct consequence of the act.

This clearly falls way short of the supposed savings from the reforms of £35 per premium per year, extrapolated from predicted savings to insurers of £1.2bn per year and widely quoted by Ministers during the passage of the Act. Having pledged to reduce premiums, there can be no doubt that instead premiums have increased significantly.

The point though is that the published data is seriously flawed. There is no comparable data from before the Act. At least one and possibly two years' worth of the data is from before payments were made under the Act. The terms of the assessment, as dictated by the Act, may have been poorly conceived, but these figures tell us little. Finally, complex modelling is required to produce a statistical counterfactual scenario, but there is precisely zero explanation about how these notional figures were arrived at.

Despite all this, the Treasury makes the decidedly questionable conclusion that policyholders have benefitted from lower premiums resulting from the reforms. To have the full picture, we need a proper cost benefit analysis, and if the data allows, some proper statistical counterfactual analysis, that takes account of all the factors, including the ongoing IT costs for professional users and the impact upon consumers.

With the Government having now committed to a full post-implementation review of the Act later this year, it will not be long before all of these issues are re-considered in some depth. Hopefully this will be more illuminating about the true costs and benefits of the reforms than some half-baked notional data sets.

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