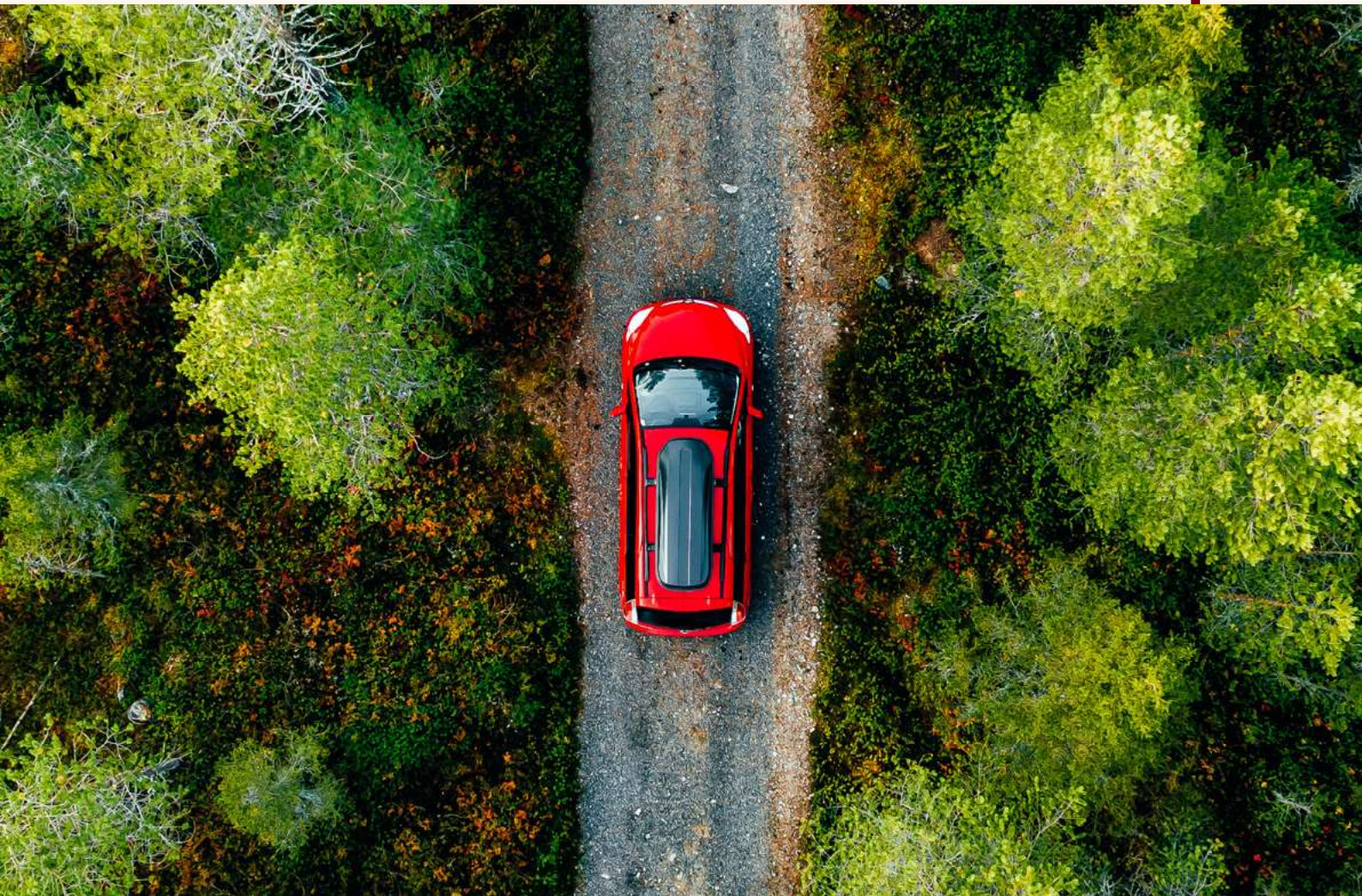


Claims Inflation

A guide to help your
customers understand
insurance premiums.



The specialist motor insurer

ers.com/claims

Overview

If you've noticed that your motor insurance premiums have risen recently, you're not alone. Over the past few years, the motor insurance sector has faced significant challenges that have caused premiums to spike. However, the insurance market saw some good news in 2024 with costs beginning to return to normal for some areas of claims. Premiums for everyday vehicles started to decrease, but improvements are yet to be seen for commercial vehicle insurance, as premiums took longer to rise after COVID-19.

This guide explains why claims inflation impacts insurance premiums and what we think will change in 2025.



Why are insurance premiums so high?

Insurance premiums have been increasing mainly due to claims inflation, which is linked to the rising costs associated with repairing vehicles, covering injuries, and processing other claims. Several factors contribute to this trend:

Expensive repairs

For some time, labour costs and vehicle parts have been rising well above normal levels of inflation partly because of COVID-19, but also because of the war in Ukraine, resulting in delays in getting parts making them more expensive. Additionally, Brexit has led to fewer mechanics in the UK, reducing capacity in the repair market and creating a backlog of repairs. This has affected costs because courtesy cars are needed for longer to cover repair periods. Lastly, the technology used in cars has made them far more expensive to repair – what used to be a simple bumper repair can now cost several thousand instead of a few hundred pounds.

Second-hand car prices

Over the last few years, the shortage of semiconductors which are essential for sensing, display, and safety functions in new cars, has led to fewer new cars available to buy. This led to a rise in demand and prices for used cars. As a result, the cost to replace a vehicle has gone up, leading to increased premiums.

Personal Injury Claims

Compensation for personal injuries has increased due to the adjustment of non-whiplash injury awards in line with inflation.

Motor insurance market

The insurance market is mostly unprofitable. A review of motor insurer's results shows that most have struggled to be profitable and 2023 was no different – for every £1 collected in premiums, insurers paid £1.12 in claims. As a result, some insurers have had to raise insurance premiums impacting their customers.



How is the supply chain coping?

The good news

The supply chain is in much better shape compared to the chaos experienced during and after COVID-19. Parts that were once hard to get are now easier to find, and repairers can handle more work.

The challenges

That doesn't mean everything's plain sailing. Economic issues and global events can still throw a spanner in the works. For example, in early 2024, the **Red Sea Crisis** caused shipping costs to skyrocket, which bumped up car parts prices by **8%** in one quarter.

Summary

The supply chain is looking better, but global events and inflation are still impacting claims spend.



The real costs of fixing and hiring cars

Car repairs and rentals have become much more expensive, and here's why.

Rising repair costs

Labour costs: Wages for repair technicians jumped by **14%** in early 2024. Even though rates have stabilised now, increases in the National Minimum Wage (**7%**) and Employer National Insurance Contributions (**1.5%**) will likely push costs up again.

Electric Vehicles (EVs): EV repairs are significantly more expensive:

- Repairs cost **25% more** than petrol or diesel vehicles.
- They take **14% longer** to fix.
- EVs themselves are around **30% more** expensive than traditional cars.
- With EVs making up **5% of the used car market**, more EVs on the road will lead to higher repair and claims costs.

Second-hand cars: values and claims

Fluctuating prices: Used car prices fell in 2024 but could rise again as manufacturers shift focus to EV production, limiting the supply of petrol and diesel cars.

New rules for claims: If your car is written off, insurers now must pay the **higher** guide value even where there is a range of opinion between motoring guides as to what a vehicle is actually worth. This change could increase the costs for both drivers and insurers.

Parts and credit hire costs

Car parts: Prices for car parts shot up early in 2024 but are now stable. Manufacturers are prioritising essential parts and expanding their sourcing options, which has helped.



Credit hire: Hiring courtesy cars (especially after an accident) is getting more expensive. Rates jumped **7%** in July 2024, and a review found that today's courtesy car hire costs are **five times higher** than in 2014—way more than regular inflation.

Summary

Car repair and hire costs are climbing, thanks to higher wages, pricier EV repairs, and fluctuating second-hand car values. While vehicle part prices have steadied, the cost of hire claims remains high, making accident-related expenses a big deal for insurers. Expect costs to keep rising as EVs become more common and the car hire industry moves towards electric stock.



What started to change in 2024?

Fortunately, market conditions began to improve:

Easier repairs occurred as repairers were able to access parts more quickly as the supply chain improved.

Cheaper used cars as more new cars became available.

Lower wage inflation as wage increases stabilised, helping reduce costs in the repair and care industries.

What remains a problem?

Not everything is improving just yet:

Prices for parts can still increase unexpectedly.

Courtesy cars (used when your car is being repaired) are still costly.

National Insurance changes will impact costs, particularly in the repair and care sectors. While wage inflation has steadied, these additional costs are expected to keep costs higher for all areas of claims including those for serious injuries.

Summary

Insurance costs remain high due to high claims inflation, but the outlook is improving. More affordable repairs, declining used car prices, and more stable supply chains provided some relief for drivers in the second half of 2024.



What does 2025 look like?

Changes ahead for Personal Injury Claims

Here's what's changing and how it might affect you.

Higher payouts across the board

Judicial College Guidelines update: Since May 2024, most personal injury claims have seen a **23% increase** in compensation awards, no matter when the injury happened—except for whiplash claims which will be treated differently.

Whiplash claims: The government is bumping up awards for whiplash injuries by **15%**, but this only applies to new claims made after the new rules go live, likely in early 2025.

Legal costs are also rising

The **Small Claims Court limit** for personal injury cases remains at **£5,000**. Higher injury awards and no corresponding increase in the small claims limit means more cases will fall outside of the small claims process. Cases which do, will become more expensive as they will incur legal costs.



Soaring care costs

Care costs, especially for serious injuries, are climbing faster than inflation:

- Rates rose by **6%** in the year leading up to April 2024, much higher than previous years.
- The government's push for fairer pay for care workers is great for workers but could mean even higher private-sector care costs.

Other factors driving costs up include:

- Increased Employer National Insurance Contributions (ENIC) **1.2%**
- A lower threshold for employer contributions, now set at **£5,000, approximately half the previous level.**
- Minimum wage increases.

A silver lining for large claims

The **personal injury discount rate**—used to calculate future investment returns on big payouts—has gone up to **0.5%** across the UK. This change is expected to reduce costs for large claims and ease reinsurance expenses for insurers.

Summary

The outlook for inflation is more stable but geo-political pressures can cause real instability. Compensation for personal injury claims is going up, and care costs are increasing rapidly, making claims more expensive overall. On the flip side, updates to the discount rate might help lower costs for larger injury cases, which may help reduce insurance premiums.



How you can help

Customers play an important role in improving their claims process and reducing claims costs. Here are some ways to help:

Report claims promptly:

Report claims quickly to improve your experience and help insurers manage costs better which will positively impact premiums.

Choose our repair solutions:

We offer repair options that reduce inconvenience and can also keep the costs of a claim down.

Install a dash cam:

We recommend installing a dash cam in your vehicle to record incidents or accidents. If an accident occurs, take photos of all vehicles involved, and the damage, and note how many people are in each vehicle to speed up the claims process. Providing insurers with evidence also helps identify fraudulent claims, which impact premiums for everyone.

By following these tips, claims experiences can be improved and will create a fairer system for everyone.



Why our Claims Service stands out

We're here to make your claims process as smooth and stress-free as possible. Here's how we do it:

- **Customer feedback:** With a **Trustpilot rating of 4.7**, it's clear we're putting our customers first.
- **Clear communication:** We've simplified how we communicate to make things easy to understand, especially for those who might need extra support.
- **Faster repairs:** By working closely with suppliers, we're cutting down delays and speeding up the repair process.
- **Smart tech solutions:** Using advanced imaging technology, we quickly decide whether a car needs repairs or is a total loss, saving policyholders time.
- **Fighting fraud:** Our validation process catches fraudulent claims to protect honest customers and keep costs down.
- **Fair Third-Party solutions:** For third-party claims, we ensure fair compensation for everyone involved while standing firm against unfair profit-making.

