



# What's driving motor claims inflation?



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The insurance industry is experiencing claims inflation across many lines of business. The motor industry is no exception and motor claims are continuing to increase at a substantial rate, with an average claim now costing £5,349.<sup>1</sup> In this guide we examine significant themes and factors influencing motor claims inflation, plus potential impacts for the insurance industry and its customers.

<sup>1</sup>WTW.  
UK motor claims inflation on the rise with added pressure from delayed injury settlements - WTW (wtwco.com)



WHAT'S DRIVING MOTOR CLAIMS INFLATION?



**Supply chains**



**Labour shortages**



**New car registrations**



**Theft and fraud**



**Advancing vehicle technology**



**Our response at Allianz**

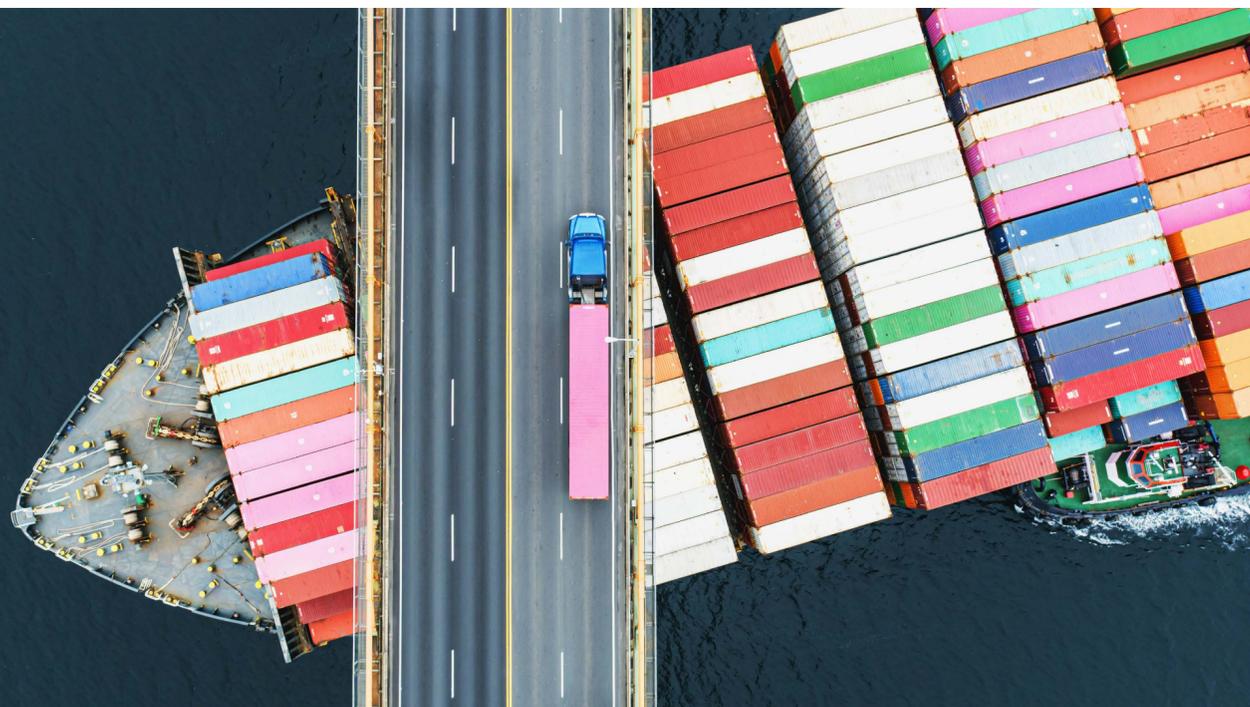


**Energy pressures**



# Supply chains

Global supply chains have been heavily impacted by a number of factors, including the Ukraine war, Brexit and residual repercussions from the Covid-19 pandemic.



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Ukraine is a major producer of vehicle parts across many manufacturers, producing around 50% of the world's neon, needed for the production of semiconductor chips.<sup>2</sup>

The situation in Ukraine is putting pressure on automotive supply chains, particularly around the supply of materials, such as wire harnesses, nickel and palladium which are used in electric batteries and catalytic converters.



The UK imports up to 80% of its automotive components from the European Union<sup>3</sup>, worth about £9.8bn.



A weakening pound will push up the cost of many imported items, reducing the purchasing power for UK importers and manufacturers.



The continued Covid-driven lockdowns in China have led to delays in important manufacturing and logistics centres, impacting global supply chains.

### Insurance impact

The length of time taken to settle a claim is extended due to supply chain disruption for key parts and components, meaning vehicles remain longer at the repairers. Added to this is the rising cost of courtesy vehicles, increasing the cost of the claim and reflecting in customers' premiums.

An interim agreement has been signed between motor insurers and credit hire companies, which will see credit hire companies accepting lower average hire rates in return for faster payment. This interim agreement is in place until June 2023; however Allianz anticipates credit hire General Terms of Agreement (GTA) to increase, putting more pressure on credit hire.

<sup>2</sup> Reuters. [Russia's attack on Ukraine halts half of world's neon output for chips](#). 11 March 2022.

<sup>3</sup> European Automobile Manufacturers Association (ACEA). [EU-UK Automobile Trade : Facts and Figures March 2020](#).

# New car registrations

Since the start of the pandemic, the UK new car market has declined significantly. Approximately two million fewer new UK car registrations have been recorded and this trend has continued into 2022. Only since August has there been some indication of recovery. As a result, the value of second-hand vehicles has increased.



The average price of a used car has increased by £3,300 in two years.

(AutoTrader, August 2022)



In June 2022, UK new car registrations fell by 24.3% - the weakest performance since 1996.<sup>4</sup> However, the market showed signs of stabilisation in August, growing by 1.2% to 68,858 units.<sup>5</sup>



The decline has been largely attributed to supply chain issues arising from the conflict in Ukraine plus the ongoing global shortage of semiconductor chips. This is subsequently leading to delays in returning vehicles to customers and driving up vehicle hire costs.

However, the issue is not exclusively a result of the war. The economic climate along with hybrid working patterns have also impacted demand. In addition, some businesses maybe holding out for EV costs to reduce and the associated infrastructure to improve.



Lookers dealership reported a surge of 27% in used car prices in H1 2022, compared to the same period in 2021<sup>6</sup>, due to increased demand.

## Insurance impact

As waiting times for new vehicles have lengthened, demand for second-hand vehicles has increased and some commercial vehicles are currently being sold for more than their initial purchase price; this in turn increases total settlement costs. The average key to key time has increased from 11 days to 14 days since the start of 2022. Furthermore the average cycle time (from First Notification of Loss (FNOL) to when the customer receives their keys back) increased by 11 days in the first eight months of the year.<sup>7</sup>

<sup>4</sup> SMMT. [Supply shortages shackle new car market performance](#) - SMMT 05 July 2022.

<sup>5</sup> SMMT. [New car market ends five months of decline ahead of plate change](#) - SMMT 05 September 2022.

<sup>6</sup> Yahoo Finance. [Used car prices rise 27% at Lookers and queues for new cars grow](#) 24 August 2022.

<sup>7</sup> Allianz UK data.

# Advancing vehicle technology

An increasing number of UK vehicles are being fitted with some level of advanced driving assistance system (ADAS).



It's predicted that by 2025, 85% of all vehicles globally will be fitted with some type of ADAS. As the technology in vehicles becomes more complex, the cost of repair and replacement similarly increases.

Semiconductor chips are also driving innovation in vehicle advancement, increasingly incorporated in on-board systems from touchscreens and air conditioning systems. The shortage of semiconductor chips has been widely reported and can be attributed to a number of factors.

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The average price of semiconductor chips has increased by 95%.<sup>8</sup>

The start of the Covid-19 pandemic saw many car makers suspend orders for new chips due to an uncertain sales outlook. By the time the automotive industry had begun to recover, supplies of semiconductor chips had been diverted elsewhere and many supplies were limited. Meanwhile, geopolitical tensions and labour challenges have only exacerbated the situation.

<sup>8</sup> SMMT. Long-term solutions needed to tackle surging costs. September 2022.



In September the UK's millionth electric car was recorded - cited as a milestone in the transition to zero emission mobility.<sup>9</sup>



Advancement in vehicle technologies, such as ADAS and hybrid/electric vehicles are pushing up the price of parts and also repairs which have become more complex and require specialist knowledge and training.



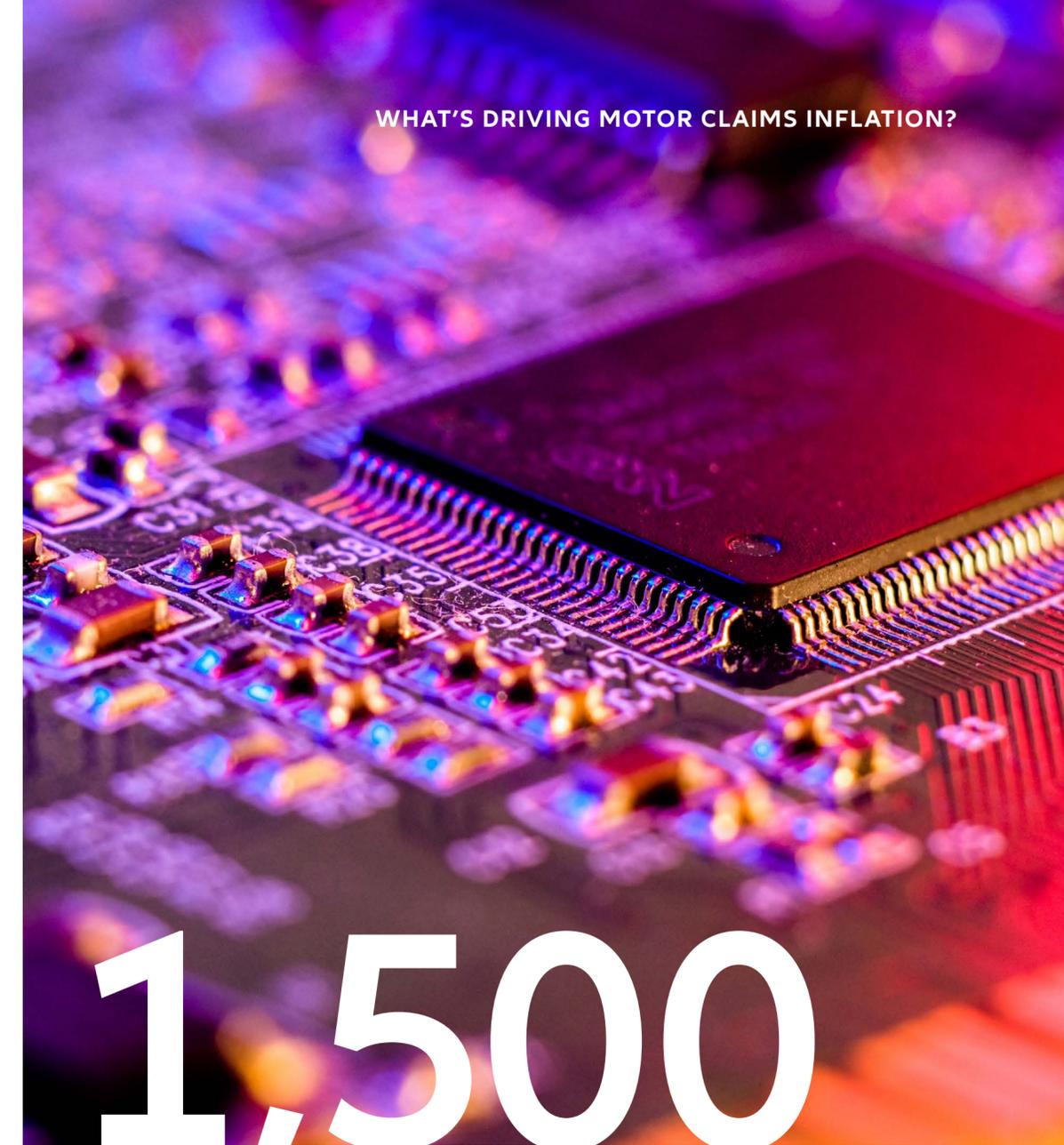
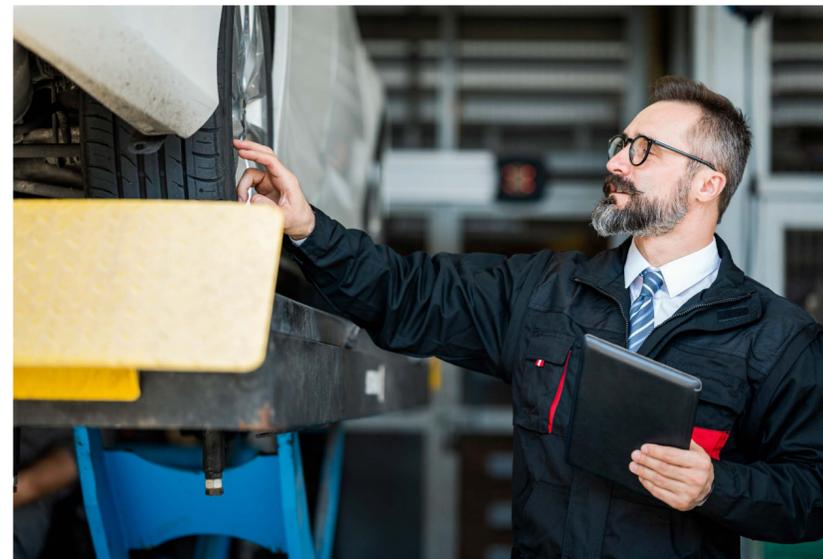
As more cars are fitted with driver assist technology, many require windscreen calibration to ensure that all cameras and sensors behind the rear view mirror are still working as required following a windscreen replacement. This requires specialist skills from a trained professional and comes at an increased cost.

### Insurance impact

With repair costs rising, there's a growing chance that the cost of repair will outstrip the market value of the vehicle, making total loss settlements more likely.

A shortage of replacement parts and reduced workshop capacity due to staff and skills shortages is resulting in longer repair waiting times, which has a knock-on effect on the length of a claim. The average cycle time from First Notification of Loss (FNOL) to returning a customer's vehicle has increased by 11 days.

Longer waiting times and a shortage of courtesy cars are driving up costs for credit hire and credit repair services.



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There can be up to 1,500 semiconductor chips in any car we drive, found in anything from bumpers to wing mirrors. A shortage of these semiconductor chips is contributing to rising costs and delays in the repair process.



<sup>9</sup> SMMT. [New car market up as Britain's millionth electric car hits road](#). October 2022.

# Energy price pressures

Like many industries, the UK automotive sector is being challenged by soaring energy prices. This is impacting every stage of a vehicle's life; manufacturing costs have risen as well as day-to-day running costs, along with the costs associated with maintaining and repairing the vehicle. Inflationary pressures are being felt across the board.



The industry's collective energy bill has risen by more than £100 million over the last 12 months to over £300 million.<sup>10</sup>



The industry is requesting extra support for businesses facing high energy costs whilst making the transition to Net Zero.



The UK automotive manufacturing industry has some of the highest electricity costs in Europe.<sup>11</sup>



As wholesale gas and energy supply is becoming a greater commodity, repair centres and manufacturers are impacted, with nine in ten reporting having to pass costs onto customers, further increasing inflation.

<sup>10</sup> SMMT. *Long-term solutions needed to tackle surging costs*. September 2022.

<sup>11</sup> *ibid.*

# Labour shortages

A combination of decreased EU immigration, the rising cost of living, aging population and long-term effects of the global pandemic has led to a 'skills crisis' in the UK automotive industry.

There is a general shortage of specialist labour for advanced vehicle technology parts and electric vehicles (EVs).



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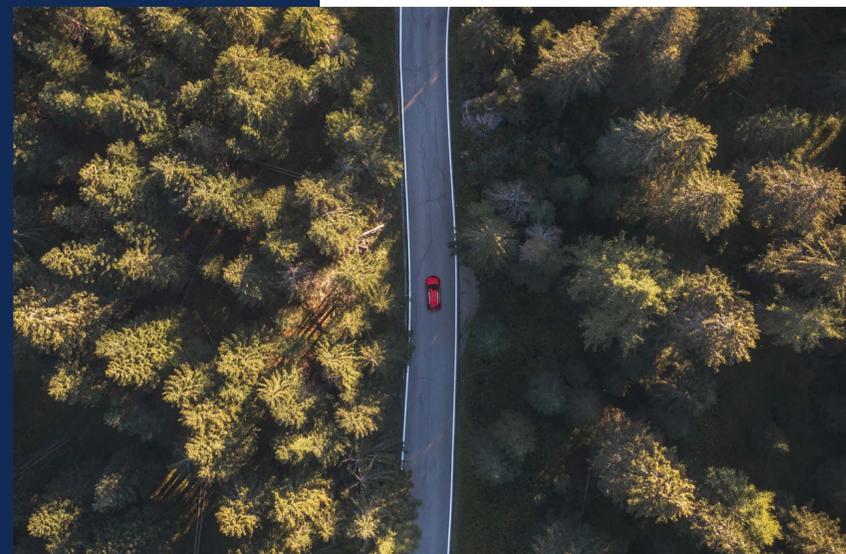
The Institute of the Motor Industry (IMI) is predicting that 160,000 vacancies in the sector will need to be filled by 2031.<sup>12</sup>



The rising cost of living and predicted recessionary period, coupled with the need for more specialist skills, is leading to wage inflation in the industry.



Only 6.5% of the current motor mechanic workforce is qualified to service EVs<sup>13</sup> which may pose an issue as the adoption rate of EVs increases.



### Insurance impact

The above factors are contributing both to claims inflation and longer lead times for repair and ultimately claims settlements.

<sup>12</sup> Institute of the Motor Industry. *Automotive sector employment 2021-2031*

<sup>13</sup> Institute of the Motor Industry. *2026 marks cross-roads for EV skills gap*. 21 January 2022.

# Theft and fraud

Increased incidence of theft is a concern, which is expected to continue during the cost-of-living crisis, with criminals stealing vehicles to order. Additionally, the rising cost of materials and shortage of car parts means that car thieves can profit from stripping vehicles and selling the components.



Catalytic converter theft in England, Northern Ireland and Wales rose 104% on average between 2019 and 2020.<sup>14</sup> Criminals target catalytic converters because they are made from one or more of three precious metals: platinum, palladium and rhodium.



Keyless car theft is at an all-time high. 94% of vehicles recovered by recovery specialist Tracker in H1 2022 were stolen using keyless car theft techniques.<sup>15</sup>



Range Rovers and Ford Fiestas are currently the most frequently stolen cars in the UK, according to Whatcar.<sup>16</sup>



Electric vehicle (EV) and plug-in hybrid charging cables have been cited as a likely area of rising theft as adoption of such vehicles increases. These cables contain copper and not needed can be sold on to scrap metal dealers.



Motor insurance claim fraud remains the most common type of insurance fraud, valued at £577m in 2021.<sup>17</sup>



Manufacturers are aware that certain marque vehicles are being targeted by professional gangs and are now fitting better protection systems to new vehicles. However, there are still a substantial number of theft attractive second hand luxury cars, such as Range Rovers, that are vulnerable to relay attacks as well as hold ups. Customers should be mindful to always lock their doors!

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# 104%

Reported catalytic converter theft rose on average 104% in England, Northern Ireland and Wales between 2019 and 2020.<sup>14</sup>

### Insurance impact

Vehicle theft cost the insurance industry an estimated £1.44bn in 2021.<sup>18</sup> A contributing factor is a higher number of more expensive vehicles being stolen by professional criminals.

<sup>14</sup> Which. [Catalytic converter theft is up by more than 100%](#). June 2021.

<sup>15</sup> Tracker. [Tracker calls time on tech-savvy car thieves](#). July 2022.

<sup>16</sup> Whatcar. [The most stolen cars in the UK](#). July 2022.

<sup>17</sup> ABI. August 2022.

<sup>18</sup> Insurance Times. [Insurers approximately £1.44bn out of pocket due to vehicle thefts – CMA](#). 7 July 2022.

# Our response at Allianz



We recognise there's a wide variety of factors currently impacting motor claims inflation, as detailed in this guide. We can't control all of these macroeconomic factors but we're committed to supporting our customers. The following explains some of the ways we're doing this.



We're asking customers to notify a loss as soon as possible as this **helps to keep claims costs down and manage the claims process more efficiently.**



We're working closely with our Approved Repairer Network to speed up repair work and are booking in damaged vehicles only when the parts are available, to minimise downtime.



Our Live Chat facility, available on the Allianz Claims Hub allows you to have a two-way real-time conversation with one of our expert claims handlers. You can even use it to arrange a motor engineer's inspection.



If delays are expected, we'll explain these to your customers and explore all options to minimise disruption to their business.



Our in-house motor engineers can assess damage remotely, helping to make liability decisions more quickly and speed up the claim.



Our Allianz Claims Hub allows you to digitally notify and track the progress of commercial motor claims online, 24/7, 365 days per year.



In partnership with recycling company SYNETIQ, we've launched a digital platform 'mygreenparts' to help vehicle repairers source green parts. In certain cases, using green parts can speed up the repair process where delays for new parts persist.



Our risk management partners focus on preventative measures; providing driver training, in-vehicle coaching and telematics that can help customers to manage their fleets more safely and efficiently.

**Allianz Insurance plc.**

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