Guide to Motor claims inflation

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Executive Summary

The current and predicted ongoing trend of significant motor claims inflation is caused by global supply chain delays, a decline in experienced employees and improvements in technology.

To help you and your clients understand these issues and their implications, we've put together this practical guide which discusses:

- How the pandemic and war in Ukraine has caused a shortage of components
- Why the number of employees in the motor industry has been declining
- Why improvements in motor technology have resulted in a large increase in car part theft

Additionally, we consider the legal reforms to injury claims and how changes to road use could affect the type of claims made.

We're working hard to mitigate the impact of market challenges to support customers and control claims costs where we can. Our practical solutions to mitigate delays and costs include:

- Prioritising vehicle need
- Using live data sources for vehicle replacement valuations
- Using an Opponent Based Strategy for Injury claims
- Arranging Fixed Fees for rehabilitation providers

Whilst we can't control everything, we're constantly reviewing, changing and controlling the areas that are within our power to ensure the smoothest experience for our customers.

We also ask our broker partners to:

- Give advice and explain the market context to the customer
- Consider risk management options to prevent and mitigate accidents
- Engage with insurers and work with us on the quick resolution of the claim and open communication with the customer

We trust that you and your clients will find the guide useful.

Pandemic impact

The pandemic has brought with it global supply chain delays.

One of the issues in the automotive industry is the shortage of semiconductors.

These chips are used in various technological products. In fuel cars alone there can be upwards of 40. The cost of this technology represents about 35% of the vehicle cost.

The semiconductor shortage has caused such delays that some car manufacturing plants have had to temporarily close.

The lack of commercial vehicles is even more acute. Buyers face delays in orders placed in 2021 and either face vehicle arrivals in 2023 or have no expected delivery date at this moment in time.

This shortage and backlog of new vehicles is driving up the market value of second-hand vehicles.

Brexit

The scarcity doesn't only apply to vehicles and vehicle parts.

UK Government vehicle licensing statistics show that there were over 39m vehicles registered in the UK by the end of September 2021.

According to the HSE there are 200,000 employees in the entire motor industry. This number has been in decline for the last few years.

This has been contributed to by Brexit and the lack of investment in succession planning.

The cost of transport has also increased, which has a knock-on impact on inflation.

War in Ukraine

With Ukraine enduring ongoing devastating attacks, there's a consequential impact on the availability and delivery times of certain components needed in the manufacturing of vehicles.

BMW, Audi and VW have manufacturing resource in Ukraine for harnesses that hold all the vehicle cabling together. These are inexpensive components, but are completely bespoke to each vehicle model to allow the circa 3 miles of cabling to circulate around the inside of the vehicle.

Car plants have shut all over Europe – as production can't even begin without these harnesses. The manufacturers want to try and establish Ukrainian workers in Poland; however, manufacturers are struggling to move equipment out of Ukraine across borders.

Technological advancement

Improvements in motor technologies, such as ABS/ALKS, and light detecting headlamps create more expensive repair/replacement costs when a vehicle is damaged.

This has also resulted in a large increase in the theft of car parts, which is likely to increase further with a greater demand on hybrid and electric vehicles, where we might see an increased volume of theft to order.

The cost of hybrid/electric courtesy cars during repair is higher than historical courtesy cars – this will have an increasing impact as more hybrid/electric vehicles make up a greater proportion of all UK cars.

Credit hire costs will increase to align with longer repair times.

Electric vehicles (EV) use lithium batteries which have charging points at vulnerable damage areas on the vehicles – making it more expensive to repair due to:

- Charging point parts, and not just body parts, being replaced if involved in a minor incident.
- Lack of repair specialists causing delays.*
- Battery housing damage could be a safety issue which results in full replacement of the vehicle.
- Disposal costs of lithium batteries.

*This trend is predicted to worsen, with The Institute of the Motor Industry predicting that by 2030 the UK will need around 90,000 qualified technicians. Based on current estimates, there could be a shortfall of 35,700 technicians trained to handle EV repairs by 2030 which will result in extended delays to repair, storage and hire, and will mean those qualified will demand higher salaries (the cost of which will be passed back to the consumer/insurer).

What impact does this have if your customer's vehicle(s) is involved in an accident that requires it to be replaced or repaired?

If a vehicle needs to be repaired, there are challenges in sourcing some parts due to the various market issues.
Courtesy vehicles aren't always as readily available, as repair networks are also caught up in the vehicle supply chain problems.

To put this into context, during the pandemic repairers may have chosen not to renew leases on courtesy vehicles, due to the lack of need for these vehicles and the cost involved. It couldn't be foreseen that trying to source new vehicles, or secure leases for courtesy vehicles, once the industry reopened would be a real issue.

Insurers do though expect the repair networks to honour their contractual obligation to provide a courtesy vehicle where there's a customer need. The repair networks are doing what they can to source vehicles, and we generally find that a vehicle can be provided during a repair. However with limited stock the impact is often a delay to the repair starting.

Where a vehicle needs to be replaced, due to the supply pressure, the cost of second-hand vehicles, that are more readily available, are often above the list price of the equivalent new vehicle.

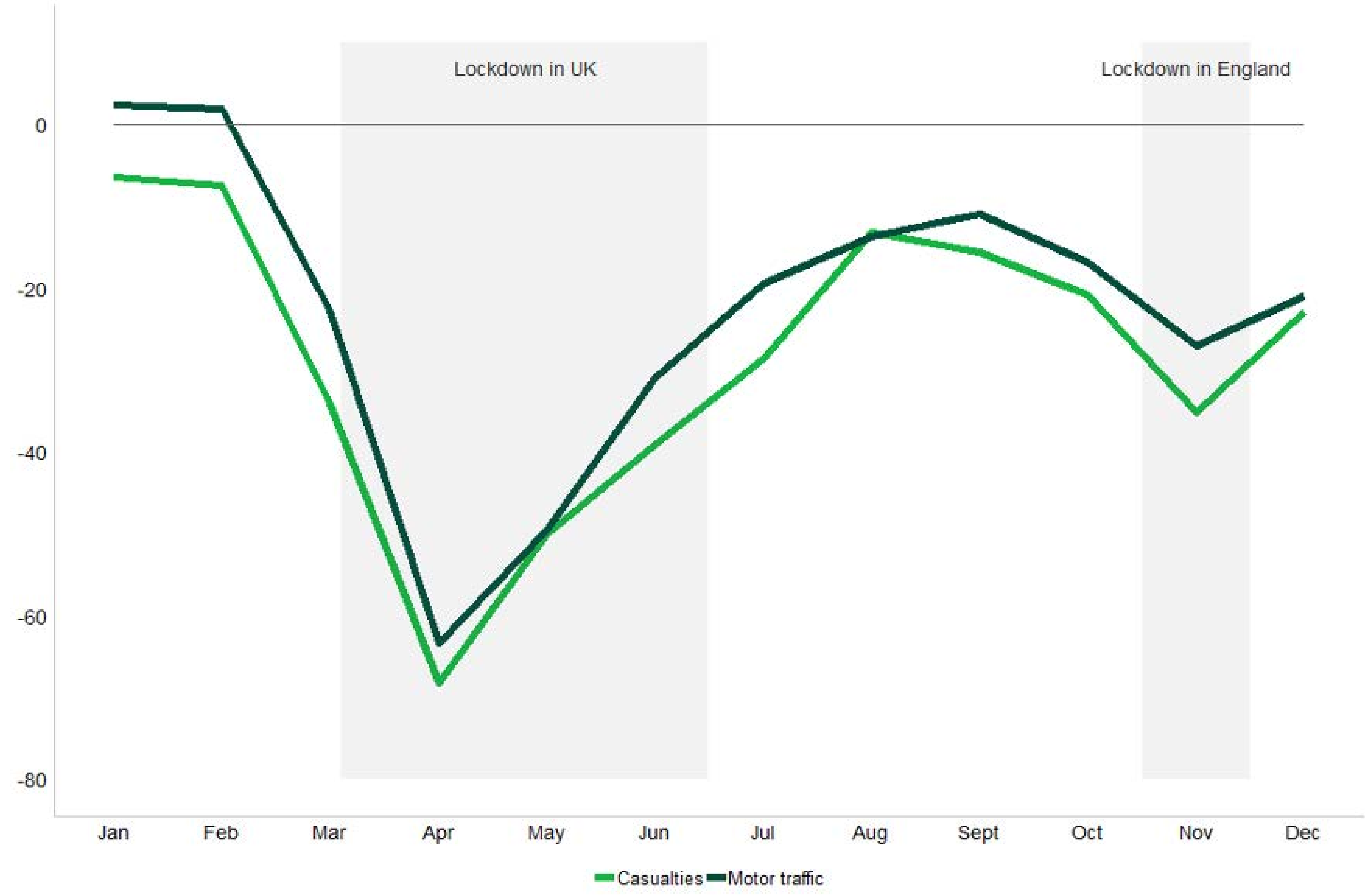
If a vehicle must be replaced brand new (in the event of gap cover, for example) then the wait times make it impossible to replace quickly, and there are no fixed guarantees on the cost of the vehicle at the final point of replacement.

The additional technology in hybrid and electric vehicles, and the difficulty in hiring hybrid and electric courtesy vehicles, all add to the ultimate claims expense.

What about Injury claims?

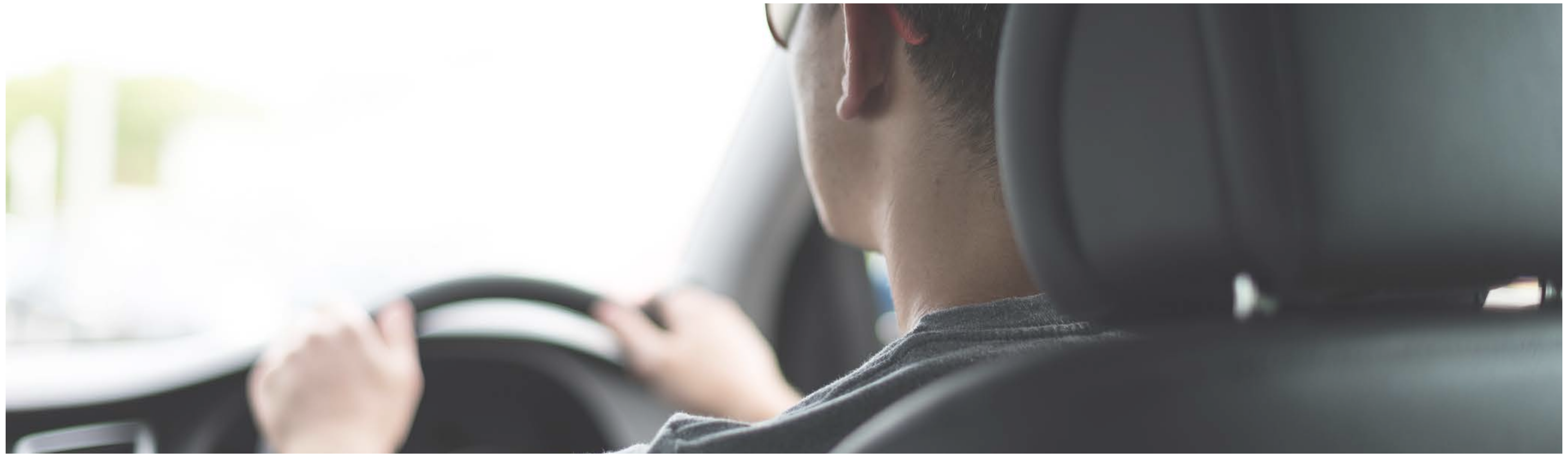
According to the Department of Transport, during 2020:

- There were an estimated 23,529 killed or seriously injured (KSI) casualties, a decrease of 22% compared to the same period in 2019.
- 115,584 casualties of all severities, down by 25% from 2019.
- The reduction in road traffic followed a similar trend in the same period and decreased by 21%.
- Pedal cyclist casualty rates per billion vehicle miles saw the greatest percentage decrease (34%) compared to all other road user types.



What about Injury claims?

The 2021 stats aren't released until later this year, however it's expected there may be some adjustment to road use:



- New technologies such as e-scooters may bring more serious accidents.
- General car and commuter traffic activity has increased again. However, the activity associated with commuting has lessened, and will be spread throughout the day and week due to hybrid working and more flexible hours.
- Delivery vans and lorries/HGV use will continue to increase, which may also heighten the potential for more serious incidents.

What about Injury claims?

Legal reforms in the bodily injury claims area have been created to help reduce costs, with the whiplash reforms coming into force on 31 March 2021. Before the reforms, if a claim for personal injury was valued at less than £1,000, it would fall into the small claims track and recovery of legal costs from your opponent wouldn't be permitted. The reforms have increased the small claims track limit to £5,000 for RTA claims. However, it will remain at £1,000 for all other personal injury claims.

This means that under the reforms, if there's been a RTA injury, the injuries must be valued in excess of £5,000 to pursue a claim with the assistance of a specialist personal injury solicitor.

Unrepresented claimants can process a claim through the Official Injury Claim (OIC) website, supported by government and MOJ guidance, and tariffs will ensure capped responses where negligence applies.

The Fixed Recoverable Costs (FCR) extension should, in theory, reduce legal costs and have a positive impact on claims costs reduction. FCR's prescribe the amount of damages that can be claimed back from a losing party in civil litigation. They are also a way of controlling a party's legal costs, by giving certainty in advance of the proceedings being issued as to the maximum amount they must pay if unsuccessful. An aim of fixed recoverable costs is to ensure that the 'costs of the case' are proportionate to the sum insured.

Insurers are also not allowed to offer to settle claims where no medical evidence is produced. The FCA will be following up the progress and savings that insurers can pass back to policyholders following the reforms.

It's not all bad news

There are some areas that may help to balance the costs a little:

- Insurers experienced less activity on the roads in lockdown which naturally resulted in less claims in 2020.
- Road activity has increased again, particularly with commercial vehicles. However, the activity associated with commuting has lessened due to hybrid working patterns, but in time this could revert to previous levels.
- The regulatory reforms in the bodily injury area have been designed to reduce costs. Whilst it's still too early to see the impact from this, it should reduce fraudulent claims and reduce costs associated with genuine ones.
- The use of better technology in vehicles lessens the potential for accidents. The vehicles that are involved in accidents are more expensive to repair though, particularly hybrid and electric. It's not yet clear on whether this will balance out, but reduced road activity should help.
- There are c31.7m (according to the RAC Foundation) cars on the roads in the UK and c424,000 (according to Next Green Car) are electric or hybrid – so the overall impact of the increased cost for EV repair isn't yet significant.

What's AXA doing to help?

We're working hard to mitigate the impact of market challenges to support customers and control claims costs where we can.

Vehicle damage claims

- **Investment in supply chain process automation** – Making sure that damaged vehicles go to the right area straight away.
- **Prioritising of vehicle need** – Commercial customers whose business will be affected are prioritised with repair networks and courtesy vehicle provision.
- **Mobility** – We have different options to source courtesy vehicles and we're also looking at alternative methods of mobility. We treat each customer uniquely, to ensure a solution that's agreeable.
- **Parts supply** – Our networks continue to use all options open to them in the sourcing of parts including Manufacturer, non OE and the use of Green parts, the latter supporting our Environmental, Social and Governance (ESG) strategy.
- **Live data sources used for vehicle replacement valuations** – We appreciate that vehicles are seeing unprecedented movements in value, and we try to ensure that the fairest offer is made to allow the claimant to replace their vehicle when damaged. Our tools provide us with real time vehicle values that allow us to ensure our customers aren't disadvantaged.
- **Repair networks** – We're working closely with our network repair partners to ensure that we retain capacity and prioritise customers who are immobile. With full EV capability we're confident that as the proportion of EV vehicles increases we have the capacity to support customer needs.
- **Faster payments** – We're in the process of introducing same day payment to our customers, as soon as the claim is authorised.

Injury claims

- **Opponent Based Strategy (OBS)** – Our dedicated team understands our legal opponents, and uses strategies that continue to minimise spend on general and special damages. We're using Strategically Informed Motor Bodily Injury Analytics (SIMBA) technology to support this by aligning our offer strategy to opponent litigation propensity.
- **Rehabilitation** – Fixed fees have been arranged with our providers.
- **Low Value RTA Official Injury Claims (OIC) portal** – We look at market insights to drive improvement in a fast-changing landscape.
- **Legal Panel Partnerships** – We've been collaborating with our trusted partners on innovation and cost control.
- **Civil Liability Act Handling Strategy** – We've adopted specialist handling strategies to control spend.
- **OIC Portal Manager** – We have OIC Portal visibility which allows operational control and ultimately helps to manage cost.

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