

Date issued: 05/07/2016

Setting the record straight – Rising motor vehicle insurance costs in line with inflation

Dear Member

In last Saturday's Herald Sun (2 July, 2016: Page 21), Insurance Giant, Suncorp Group, blamed higher repair costs for the changes in excess fees and premium hikes.

While car insurance excess and premiums may have increased, independent research points towards the fact that such rises are typically in line with inflation and other trends in the economy.

Over the last decade, motor vehicle insurance prices have risen at an annual average rate of 1.7% in NSW and a similar rate in Victoria. These increases are well below the average rise in the Consumer Price Index (CPI) of 2.8% for the decade. This suggests that competition between insurance companies, combined with cost savings from new business models have placed downward pressure on premiums overall.

VACC points out that when taking account of the growth in average weekly earnings and the rise in the net wealth of households over the decade, rises in insurance premiums seem rather modest by comparison and relatively affordable.

Data also shows that whilst the average claim size has risen, this is to be expected as a result of inflationary pressure over time and the increased complexity of modern vehicle repairs.

There is also evidence that the frequency of accidents and insurance claims has decreased over the last decade and that the loss ratios for insurance companies (total losses in claims to total premiums earned) are at some of their lowest levels recorded.

All of these points indicate that rises in premiums and other trends should be considered in context and are driven by a range of factors including the level of competition, frequency of accidents, the age of motor vehicle fleet, natural disasters and the cost of repairs.

John Guest

Industry Policy & Division Leader

Industrial Relations, Policy & Engagement

VACC

Level 7 | 464 St Kilda Road | Melbourne Vic 3004

P: 03 9829 1142 | F: 03 9820 3401 | W: vacc.com.au