Car insurance premiums expected to rise

Era of cheaper premiums is coming to an end with some big names already raising the cost of cover.

Car insurance premiums are set to rise by as much as 15% over the next 12 months, wiping out most of the price falls enjoyed by motorists over the past two years. Insurers have been dipping into their cash reserves to keep down premiums in an attempt to win market share, but experts say this strategy is becoming increasingly unsustainable. The prediction comes soon after the government announced a crackdown on inflated accident repair bills, paid by the "at fault" driver's insurer. It was hoped that a cap on repair charges would mean reductions in premiums, but the AA has warned of a 10% to 15% incease over the next 12 months.

Motorists have benefitted from steep falls in the cost of cover since the government banned lawyers from paying referral fees to insurers and introduced medical checks for whiplash claims. Rivalry between insurers has also contributed to the 24% drop in premiums since the start of 2012. The first quarter of this year saw a record 5.6% fall to an average £531, according to the AA insurance premium index. New figures due out next month are expected to show a slowing in the rate of decline, but there is already evidence that the trend is reversing. The insurer Hastings applied "selected" increases last month and it expects more this year.

Sources indicate that some of the largest insurers, including Esure and Admiral have also raised premiums for some risk profiles. Esure, which owns Sheilas' Wheels, said: "All insurers make frequent tweaks to the many factors that make up car insurance prices. These tweaks are both up and down, based on claims experience". Admiral, owner of confused.com, declined to comment.

Smaller than expected savings from the personal injury reforms will also have an impact. "The actuary Towers Watson said insurers had been expecting 5% to 6% but the actual savings were only up to 3%.

Reforms by the Competition and Markets Authority, including a possible ban on lucrative add-ons such as protected no-claims discounts, could hit profits further said John Fairhurst.

"Ultimately, motor insurers still need to make money. Sooner or later underlying price rises for consumers will be inevitable for the market to be sustainable".

After nearly two years of falling prices, I expect car insurance premiums to start rising in line with inflation over the next 12 months.

The best way to cut motor premiums is to shop around. The consumer group Which? estimates savings of 20% can be made from the cheapest deal compared with a renewal quote. John Fairhurst says "Anyone who shops around on renewal, and has not made a claim, is likely to see their next premium is lower".

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