Claims Inflation

A guide to help your customers understand insurance premiums.

Overview

Over the past few years, the motor insurance sector has faced significant challenges due to extraordinary levels of inflation. A review of motor insurer's recent results shows that most have struggled to be profitable and in 2023, for every £1 collected in premiums, insurers paid £1.12 in claims. As a result, most insurers raised insurance premiums, impacting their customers.

In 2024, the market received some good news, with costs beginning to reduce and return to prior levels in some areas of claims. That led to reduced premiums for everyday vehicles, whilst reductions remained slow for commercial vehicle risks, where premiums took longer to respond to inflation challenges and consequently take longer to reflect potential reductions.

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

Why are insurance premiums so high?

As with the Consumer Prices Index ("CPI"), motor claims inflation improved through 2024 as wage increases stabilised. Over the last two years, improved capacity improvements in the repair market, resilience in the supply chain, and a reduction in the value of secondhand cars are helping to bring some price stability. However, the cost of repairs and second hand car prices remain unstable and highly sensitive to economic shocks.

There are a number of domestic drivers for claims inflation in 2025:

- Vehicle repair networks are adjusting workshop practices to cater for an increasing proportion of battery electric vehicles. There remains a shortage of skilled technicians. The need to accommodate additional safeguards, such as powering down batteries, is likely to lead to longer repair times, and increased car rental costs, as the electric vehicle car parc grows.
- Recent changes to Employers National Insurance Contributions ("ENIC") are likely to increase the cost of repairs and care, with inflation on large personal injury claims subject to the greatest inflationary pressure.
- The cost of personal injury claims has experienced significant inflation due to increases in the whiplash tariff and the Judiciary College Guidelines for non-whiplash injury.
- The Personal Injury Discount rate has increased to 0.5% in England & Wales, Scotland, and Northern Ireland. This has positively impacted reinsurance costs.

Overall we expect claims inflation to fall within a range of 6-8% during 2025 but there remain a number of uncertainties not least the impact of the tariff's recently imposed by the US on other countries which may ultimately lead to revised trade deals but will almost certainly cause some volatility in prices in the short term.

Supply chain

Supply chains have become more resilient with manufacturers focusing on understanding the key components and commodities across the supply tiers as they widen sourcing and distribution strategies. Capacity in the repair market remains good and is benefitting from lower claims frequency (c-10%) across the market. The parts shortages experienced post-COVID, have largely remediated.

New registrations of motor vehicles remain below pre-COVID levels as the motor industry wrestles with the transition away from combustion engines towards electric to align with the 2035 target on net zero emissions. Manufacturers have already reduced production of traditional Internal Combustion Engine ("ICE") vehicles to ensure interim targets on the proportion of electric vehicles sold are not breached. However, the unintended consequence might be to push demand into the second-hand car market causing inflation.

Repair

Labour rates increased by 14% in Q1 2024 in response to ongoing pressures in the repair sector. Rates are thought to have stabilised, though increases to the National Minimum wage (7%) and Employers National Insurance Contributions (+1.5%), are likely to be passed on.

Electric Vehicles ("EV's) take 14% longer to repair with the cost of repair 25% more expensive than ICE vehicles. At present <5% of the used car market is made up of EV's but as the car parc transitions towards EV's, there will be a corresponding increase in the cost of repair which will impact claims inflation.

The industry remains vulnerable to economic shocks caused by geo-political activity. In Q1 2024 the Red Sea crisis led to an 8% increase in parts prices as the cost of transportation by container ships increased by 300% during this period. Whilst parts prices stabilised for much of the year, in Q4 there was a further increase of 4%.

Advanced Driver-Assistant Systems ("ADAS") continues to grow with adaptive cruise control, lane keeping assist and automated parking now integrated in many vehicles. This technology adds more complexity and expense to the cost of repairing vehicles.

Second hand car values

During 2024, second hand car values reduced and were close to prior year values. However, there were three million less new vehicles built during COVID which is now impacting the value of 3-5 year old vehicles as the shortfall affects availability.

In May 2025, the Consumer Confidence Index (-3) was down on the prior year with inflation and wider concerns on the potential impact of US tariffs continuing to occupy the minds of purchasers. Any perceived economic downturn will almost certainly lead to more prudence in consumer spending and potentially increase demand for second hand cars.

Recent market data indicates that although used car prices are lower than the elevated prices post-COVID, they are rising with demand especially strong in vehicles five years old or more.

EV's are c30% more expensive than traditional ICE vehicles. As the transition to electric vehicles gathers pace, we expect the impact on total loss inflation to move adversely even within increasing price competition in the EV market.

From a regulatory perspective, the Financial Ombudsman has mandated that insurers should offer customers the highest of comparable guide values when making a total loss offer to avoid the risk of a customer being treated unfairly. This will increase claim severity on total loss claims.

Credit hire

Car rental periods have come down but continue to be 13% longer than pre-COVID and this is expected to endure because of a reduced volume of parts held in distribution hubs.

Rates remain volatile driven by demand and seasonal factors. Under a market agreement, agreed credit hire rates increased by 7% in July 2024 and an annual review of rates will take place in the future with any increase directly linked to basic hire market rates. Whilst there is some evidence that market rates have come down in recent months, we consider this is largely due to excess supply and once the market corrects, we expect rates to increase.

A recent review by a national law firm concluded the cost of credit hire is now five times higher than in 2014, considerably outpacing CPI inflation during the intervening period.

Personal injury

The Judicial College Guidelines for England & Wales ("the JCG") have been uprated with a 23% increase in the value of personal injury claims excluding whiplash. This increase affects all claims regardless of the date of event and so will inflate the cost of historic and future claims.

Alongside the JCG update, a review of the whiplash tariff has resulted in a 15% increase. This will come into force for accidents occurring on or after 31 May 2025. Despite increasing the levels of compensation for personal injury, there are no immediate plans from the government to review the Small Claims Court limit for injury claims of £5,000. Any claims below this limit do not attract legal costs.

Once the revised whiplash tariff comes into force, it is widely anticipated a higher proportion of claims will exceed £5,000 in value and enable recovery of legal costs from the insurer. This will increase claim severity.

Large injury claims

Care costs, which affect claims involving the most serious injuries, continue to rise at a rate above inflation. Recent data from the Office of National Statistics indicates care rates have risen to 6% in the period to April 2024 which is significantly above historical norms.

Our own research suggests the ONS data may underestimate the actual inflation, because of a time lag in the collection of data, and that care rates have increased by as much as 12% during 2024.

The government has already made a policy commitment to introduce fair pay for care workers and has recently announced a new immigration policy which will put an end to overseas recruitment of care workers and likely to put pressure on rates as supply diminishes.

Furthermore the increase in ENIC contributions, lowering of the entry threshold for application of contributions to £5,000 and the increase in the minimum wage of 7% from April 2025, will inevitably be passed on and exacerbate underlying costs pressures.

The personal injury discount rate, used to calculate the level of investment returns expected on Large Personal injury claims, has increased to 0.5% in England, Scotland and Northern Ireland. This change will reduce the cost of the most expensive injury claims and has positively impacted the cost of reinsurance.

We expect Large Injury inflation to increase above historic norms during 2025 largely driven by care costs and reflecting the ongoing pressure on wage inflation.

Insurance fraud

The Association of British Insurers ("ABI") reported that £1.1 billion of fraudulent claims were detected in 2023, up 4% on the prior year and application fraud increased by 17%. Motor insurance was reported to be the area where most fraudulent claims occur contributing £500 million towards the total.

Whilst the number of personal injury claims has again fallen through 2024, the increasing levels of compensation based on the duration of injury, may act as stimulus for exaggerating the effect of an injury. The government's decision not to increase the small claims court limit is likely to exacerbate this issue and incentivise some level of opportunistic fraud.

Looking ahead

The Bank of England's ("BOE") forecasts for CPI inflation have deteriorated and it is now anticipated to be above the target of 2% until the end of 2027.

Wage inflation has proved a formidable challenge for the BOE and, as previously mentioned, the increased costs burden on employers from national insurance and minimum wage is likely to get passed on through price increases causing additional pressures. A recent spike in energy prices, due to an increase in the price cap, has also impacted CPI.

There remains ongoing concern about a global trade war following Donald Trump's tariff announcements, and the impact on inflation and global markets.

A temporary break of hostilities in Ukraine and improved relations with Russia would potentially ease pressure on energy prices and reduce the costs of parts production and distribution.

The government has set up a taskforce to look at the rising cost of motor insurance which is expected to report in Q3 2025. Repair, credit hire and personal injury costs continue to rise ahead of CPI and it remains unclear whether the government will look at further regulation to control costs in these areas.

How customers 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 claims 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 the claim down.

Install a dash cam

We recommend installing a dash cam in vehicles 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.

Concerns about fraud

We have a zero tolerance towards fraud and will repudiate claims where there is sufficient evidence to do so. Customers should share any concerns when reporting claims.

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

Why our claims service stands out

We're here to make the 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.