HM Treasury

Effect of the Civil Liability Act 2018 on motor insurance policyholders

March 2025

HM Treasury

Effect of the Civil Liability Act 2018 on motor insurance policyholders

Presented to Parliament pursuant to Section 11 (7) of the Civil Liability Act 2018 and the subsequent Civil Liability (Information Requirements) and Risk Transformation (Amendment) Regulations 2020

March 2025

This publication is available at: www.gov.uk/official-documents.

Any enquiries regarding this publication should be sent to us at public.enquiries@hmtreasury.gov.uk

ISBN 978-1-917151-82-5

PU 3489

Contents

Chapter 1
Introduction

1.1 The Civil Liability Act 2018 ("the Act") reformed the claims process for road traffic accident related whiplash injuries in England and Wales and changed the method for setting the personal injury discount rate applied to lump sum awards of damages. The Government was concerned about the rising number and cost of exaggerated or fraudulent whiplash claims driving up insurance premiums.

1.2 Part 1 of the Act came fully into force on 31 May 2021 to:

- Implement a statutory definition of a 'whiplash injury'.
- Ban whiplash claims settlements without medical evidence.
- Use a fixed tariff of damages for pain, suffering, and loss of amenity that a court may award for road traffic accident related whiplash injuries of up to two-years duration and any minor psychological injuries suffered on the same occasion.

1.3 Part 2 of the Act came into force on 20 December 2018. It provided that the Lord Chancellor must conduct regular reviews of the Personal Injury Discount Rate every five years and specified that an expert panel must be established to be consulted for each review. It also changed for the purpose of setting the rate, the level of risk that an investor of damages is assumed to be willing to take in investing his or her lump sum award of damages for future financial loss from "very low" to "low". The intention of this was to provide for those who suffer life-changing injuries to receive the appropriate level of compensation, neither more nor less.

1.4 The Civil Liability (Information Requirements) and Risk Transformation (Amendment) Regulations 2020 ("the Information Requirements regulations") required insurers to provide information to the Financial Conduct Authority ("FCA") about claims under private motor insurance policies in respect of personal injuries sustained by third parties. 30 insurers provided information to the FCA about the effect of the Act on policyholders for the period 1 April 2020 to 31 March 2023.

1.5 This report meets HM Treasury's obligation under section 11(7) of the Act to prepare and lay before Parliament a report that:

- Summarises the information provided by insurers about the effects of Part 1 and 2 of the Act; and
- Gives a view on whether and how individuals who are policyholders have benefitted from any reductions in costs for insurers.

Chapter 2

Information provided by insurers

2.1 In line with the Information Requirement regulations, firms developed a counterfactual scenario to estimate how much higher whiplash claims costs and insurance premiums would have been if the Act were not to exist. Additionally, under the Information Requirement regulations, when providing counterfactual information related to the personal injury discount rate, insurers were to assume the discount rate set by regulation 2 of the Damages (Personal Injury) Order 2017 to be the discount rate if the Act were not to exist.

Claims costs

2.2 Across the three reporting years, there was a year-on-year decrease in the total value of third-party personal injury claims under private motor insurance policies, as seen in Table 1. Insurers reported that macro-economic factors such as the COVID-19 pandemic would have changed vehicle use and driving behaviours, affected the frequency and severity of accidents, the number of claims made, and insurers' pricing decisions.

2.3 The reported data suggests the reduction in the value of claims over this period was greater than what would have been expected were the Act not to exist. In the final year of reporting, insurers reported total claims values 7.83% lower than what would have otherwise been expected.

Table 1 – Effect of the Act on total claims costs to insurers

Report Year (1 April to 31 March)	Total gross amount of the ultimate value of claims	Counterfactual scenario (if the Act were not to exist)	Difference
2020 to 2021	£2.86 billion	£2.92 billion	-1.84% (£53.7 million)
2021 to 2022	£2.60 billion	£2.69 billion	-3.28% (£88.3 million)
2022 to 2023	£2.33 billion	£2.53 billion	-7.83% (£198.1 million)

Gross written premium

2.4 Insurers reported year-on-year decreases in total gross written premiums ("GWP"). Comparing the 1 April 2020 to 31 March 2021 reporting year with the 1 April 2022 to 31 March 2023 reporting year, GWP fell from £12.7 billion to £11.8 billion (Table 2). GWP in the final reporting year of 1 April 2022 to 31 March 2023 was 4.08% lower than would have been expected were the Act not to exist.

Table 2 – Effect of the Act on total GWPs for private motor insurers

Report Year (1 April to 31 March)	Total GWP for Private Motor Insurance Policies	Counterfactual scenario (if the Act were not to exist)	Difference
2020 to 2021	£12.7 billion	£12.9 billion	-1.12% (£144.0 million)
2021 to 2022	£12.3 billion	£12.7 billion	-3.28% (£416.4 million)
2022 to 2023	£ 11.8 billion	£12.3 billion	-4.08% (£502.9 million)

Individual premiums

2.5 The data shows that a component in the reduced gross written premium for insurers was the decrease in premiums for individual policyholders. In the final reporting year, the data shows the benefit to policyholders of reduced claims costs to be £15 per policy (Table 3).

Table 3 – Effect of the Act on average savings per policyholder

Report Year (1 April to 31 March)	Average premium per policy	Average counterfactual premium per policy were the Act not to exist	Difference
2020 to 2021	£391	£395	-1.08% (£4)
2021 to 2022	£357	£369	-3.28% (£12)
2022 to 2023	£351	£367	-4.18% (£15)

Wider effects because of the Act

2.6 8 of the 30 insurers indicated some wider benefits such as the reinvestment of savings into technology to improve customer journeys and claims experiences. A small number of respondents expressed their concern that there had been a displacement of cost savings from whiplash injuries towards non-whiplash soft tissue injuries, which they felt is an ongoing trend and increased after the Act was implemented.

2.7 Some respondents noted a decrease in resolution time for whiplash-only injuries, possibly due to mandatory medical reports deterring fraudulent claimants. Claims for additional soft tissue injuries were often reduced after medical reports were received.

Chapter 3

Assessment of benefits to policyholders

3.1 The information provided by insurers shows that individuals who are policyholders benefitted from the reductions in costs for insurers through paying lower premiums over the reporting period of 2020 to 2023 than would otherwise have been the case if the Act didn't exist.

HM Treasury contacts

This document can be downloaded from www.gov.uk

If you require this information in an alternative format or have general enquiries about HM Treasury and its work, contact:

Correspondence Team
HM Treasury
1 Horse Guards Road
London
SW1A 2HQ

Tel: 020 7270 5000

Email: public.enquiries@hmtreasury.gov.uk