

Vehicle insurance in New Zealand

REPORT
DECEMBER 2009



Executive summary

The Ministry of Transport has been working on a review of compulsory third party vehicle insurance. In the last year, two surveys of motor vehicle insurance have been carried out. This report provides a summary of the key findings of the larger second survey.

The survey found that 7.6 percent of respondents were either uninsured, or did not know if their vehicle was insured. This is comparable with places with compulsory motor vehicle insurance systems.

The survey also found that young people owned a higher proportion of vehicles with third party insurance than any other age group. However, young people did not own the majority of uninsured vehicles. It was also found that over seventy percent of uninsured vehicles were owned by people aged under 40 years, with a relatively even split between those aged under 25 years and those aged over 25 years.

This survey provides a baseline for comparison for any future surveys of motor vehicle insurance.

Background

In June 2008, a discussion document was released to gain public feedback on the matter of compulsory vehicle insurance, as well as to gain further information about vehicle insurance in New Zealand generally.

In the discussion document, the Ministry of Transport used a working estimate of 25 percent of vehicles in New Zealand being uninsured. This was based on comparing the number of vehicles on the Motor Vehicle Register with the number of motor vehicle insurance policies. The Ministry acknowledges that this is not an ideal working estimate, as it fails to account for commercial vehicle fleets and vehicles covered by non-vehicle insurance (such as farm or business insurance policies).

As it is very difficult to accurately account for these vehicles, we have refined our focus to exclude these vehicles. Therefore this report considers the level of vehicle insurance in the privately-owned vehicle fleet.

The Ministry commissioned a piece of research in January 2009 with a sample size of 1000, to gain a better estimate of the number of uninsured privately-owned vehicles in New Zealand. The key finding of that research was that vehicle non-insurance was not significant in New Zealand, with fewer than 5 percent of respondents reporting owning a vehicle that was not insured.

A further piece of research was commissioned with a larger sample size of 4,000 people, to corroborate the findings of the first research project.

The form of both surveys was a telephone survey carried out by a commercial market research company. Three levels of questions were asked of survey participants:

1. Do you own a vehicle?
2. If so, is that vehicle insured?
3. If so, what type of insurance is held? Or, if not, why not?

The Ministry has not drawn any conclusions as to whether the motor vehicle insurance profile changed between the two surveys; and if so, why that may be. This is because it is unknown what effect the differences in the sample size of the survey have upon the resulting data.

Key finding on the level of insurance

The majority of survey participants who owned a vehicle were insured. Only 6.8 percent identified themselves as owning an uninsured vehicle, while a further 0.8 percent did not know if they had insurance for their vehicle. The Ministry has assumed that, for the purposes of this paper, those people who do not know if they had insurance for their vehicle did not have insurance. This figure is applicable to privately-owned vehicles only.

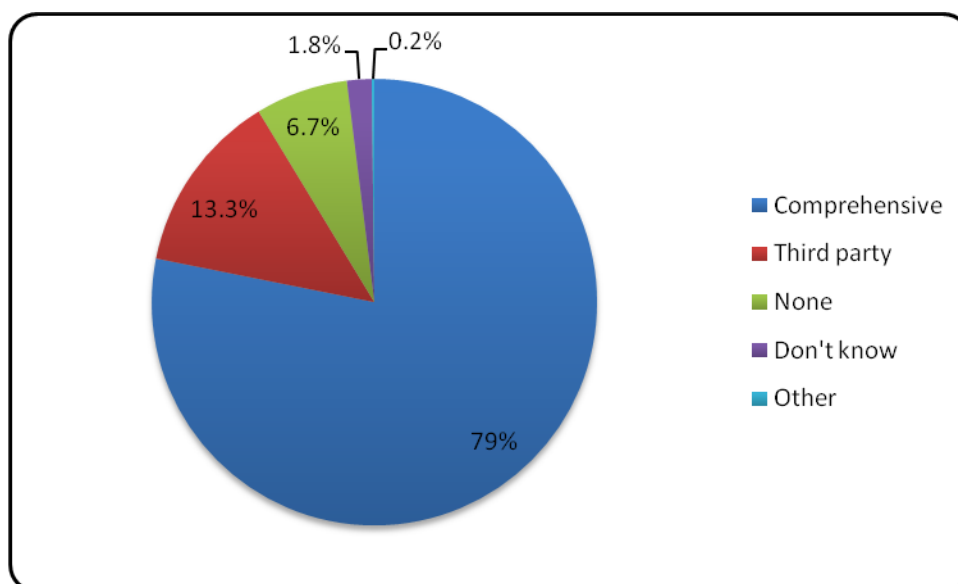
It should be noted that places with compulsory vehicle insurance do not achieve 100 percent compliance. In the United Kingdom, about six percent of all registered vehicles are estimated to be uninsured. This figure has not changed markedly over recent years despite compulsion, increasing levels of enforcement, and more severe sanctions. The national percentage of uninsured motorists in the United States is estimated to be 13.8 percent. Some western European countries with compulsory regimes have achieved very high levels of private vehicle insurance; in Sweden it is estimated that less than one percent of registered vehicles are not insured.

Other findings

Type of insurance held

The most common form of motor vehicle insurance policy among participants was comprehensive insurance, with 79 percent of all vehicle owners holding a comprehensive policy. This is the same proportion as found in the earlier survey. Third party (including third party, fire, and theft) policies were held by 13.3 percent of participants. This figure is slightly lower than that of the earlier survey.

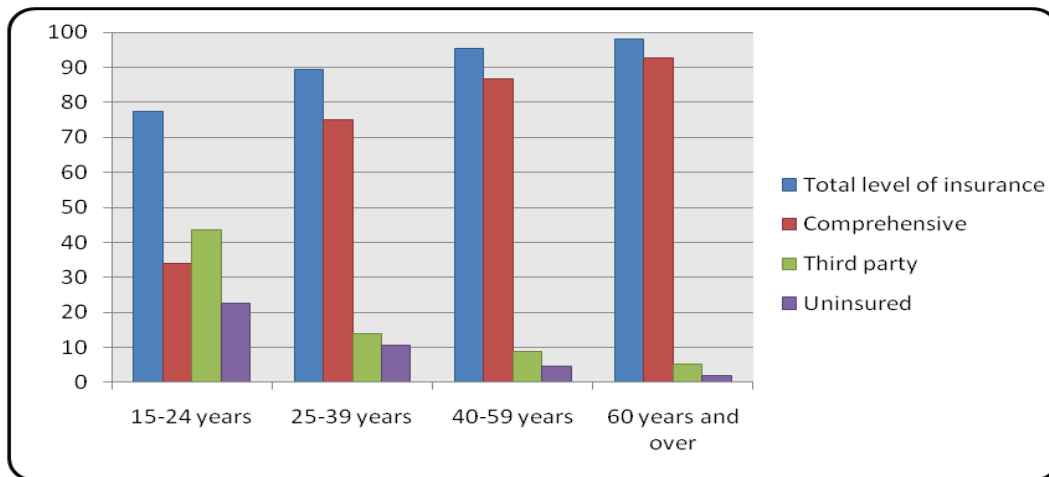
GRAPH 1: Motor vehicle insurance profile of respondents



Demographics

The findings indicate a correlation between age and motor vehicle insurance, particularly the type of insurance held. As Graph 2 illustrates, as the age of a vehicle owner increases, so does the likelihood of that person insuring their vehicle. Additionally, as the age of a vehicle owner increases so does the likelihood of that person purchasing comprehensive insurance over third party insurance. Younger owners had the highest proportion of third party vehicle insurance, and the highest proportion of uninsured vehicles.

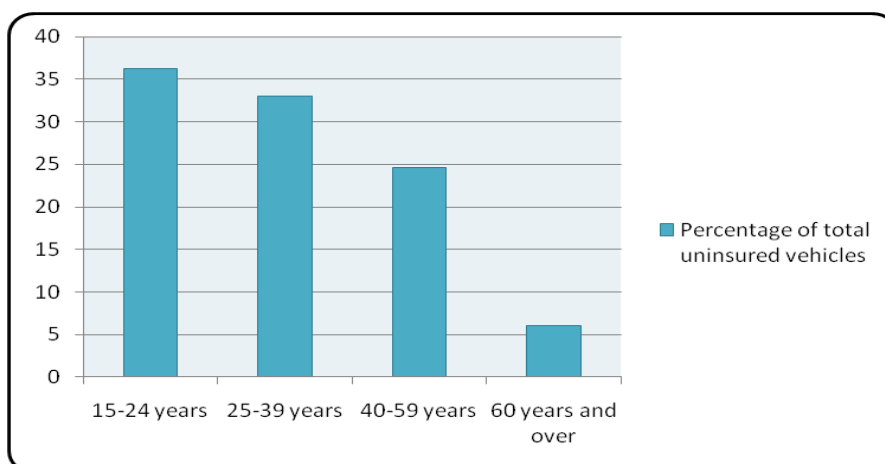
GRAPH 2: Level of motor vehicle insurance of sample, by age of owner



However, it would not be correct to infer that most uninsured vehicles are owned by younger drivers. As Graph 2 below illustrates, when examining the actual number of uninsured vehicles owned in each age group, there is a far more even distribution than indicated when the data is analysed by sample size (as in Graph 2).

Seventy percent of all uninsured vehicles are owned by people under the age of 40, with a fairly even split between those aged below 25 years, and those aged over 25 years. Graph 3 clearly shows that vehicle non-insurance is not a characteristic of young owners only.

GRAPH 3: Distribution of uninsured vehicles, by age of owner



It should also be noted that AMI Insurance’s submission on the June 2008 discussion document stated that it was the 25-39 year age group of motorists that dominated the uninsured motorist claims, representing over 50 percent of all motorists indebted to AMI Insurance.

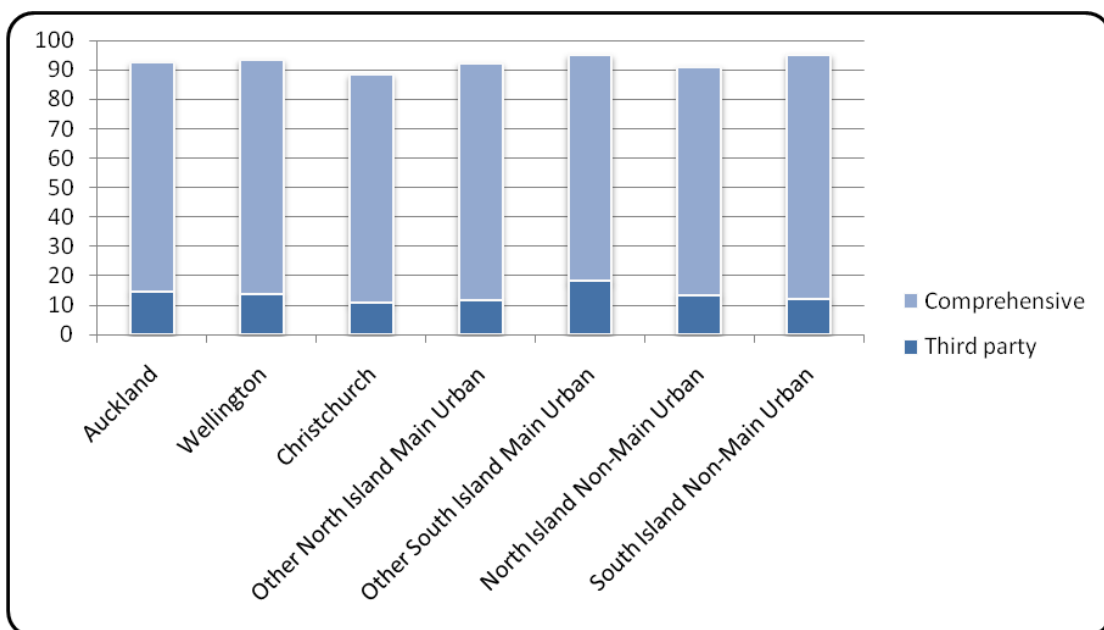
When the data is analysed by gender, female vehicle owners are more likely to purchase comprehensive vehicle insurance, when compared with male vehicle owners. The results also suggest that male vehicle owners are more likely to have an uninsured vehicle than female owners. As the data does not cross-reference breakdowns (ie gender by age), we cannot tell whether this effect is greater for any particular age groups.

Location

There is some regional variation in the insurance profile of different locations. The location of the survey participant was split by the main cities (Auckland, Wellington and Christchurch). If located outside of these cities, it was identified whether or not the participant was located in a main urban area.

Of interest is that while South Island Main Urban and Non-Main Urban areas have a comparatively high level of insurance, Christchurch has the lowest total level of insurance of the seven regions. This is in marked contrast with the smaller survey earlier this year, which found that Christchurch had the highest level of insurance of all the regions.

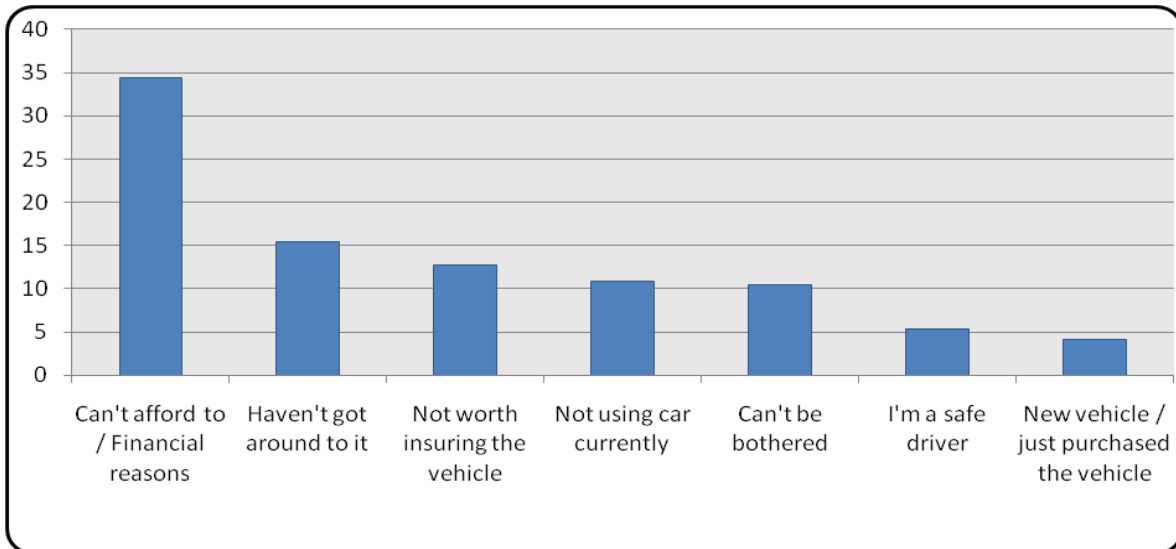
GRAPH 4: Level of motor vehicle insurance of sample, by location



Reasons for not obtaining motor vehicle insurance

The survey included asking those who did not insure their vehicle why they did not. As Graph 5 illustrates, over a third of respondents cited cost or financial pressures as the reason why they did not insure their vehicle. It is unclear whether these people had sought insurance and had been quoted a high annual premium, whether they perceived insurance to be expensive, or whether they had chosen to not renew their insurance policy due to cost pressures.

GRAPH 5: Reasons by owners of uninsured vehicles for not insuring vehicle (by percentage)



Conclusion

The results from the research suggest that the number of uninsured private vehicles in New Zealand is not high. As the research was based on a sample size of 4,000 people, officials believe that 7.6 percent is a robust working estimate of the number of uninsured private vehicles in New Zealand.

This research, and the earlier survey, indicates that New Zealand's level of uninsured vehicles is not out of step with other jurisdictions, including those jurisdictions with compulsory insurance regimes.

The problem associated with uninsured vehicles is the discrepancy in who bears the costs of property damage when the at-fault motorist is uninsured, and they cannot or will not bear the costs themselves. This is an issue of equity, rather than road safety. There is no information available regarding the crash risk of drivers of uninsured vehicles. Such information would need to be obtained before proposals for increasing levels of motor vehicle insurance coverage could be developed and evaluated.

The issue of compulsory third party vehicle insurance was raised in the *Safer Journeys* discussion document. This research will be used to help inform the advice provided to government in relation to the final *Safer Journeys* strategy. Officials will continue to monitor issues relating to motor vehicle insurance in New Zealand and overseas.