

Institute of Actuaries of Australia

# The Magic Pudding: Motor Accidents in the UK

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# **The Magic Pudding: Motor Accidents in the UK**

## **Abstract**

Motor insurance in the UK has been very controversial in recent years particularly with regards to bodily injury claims. This paper summarises the developments and trends in the UK Motor market, causes of these trends and UK Government responses. It examines the lessons learnt in the UK and whether they are relevant for Australian jurisdictions.

*Key Words: bodily injury; motor insurance; fraud*

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## **Introduction**

This paper aims only to tell a little story – the story of the magic pudding of motor insurance premiums.

The author has three important messages:

1. Thanks for the encouragement of peers including Andrew Matthews and Chris Dolman to take the trouble of writing the paper, and to Jamie Reid for rescuing its completion and delivery to the conference
2. Extra special thanks to Hecy Su (an actuarial analyst) and Samantha Taouk (a co-op student) who did all the research and all the hard work – hopefully this non-traditional task will give them a little perspective on the environment in which our actuarial work takes place
3. Don't take it all too seriously – while care has been taken to present the 'Google' research fairly, this story should not be taken as a serious or complete narrative of the history and current state of the UK motor market.

## **For Those Under the Age of 50**

*The Magic Pudding: Being The Adventures of Bunyip Bluegum and his friends Bill Barnacle and Sam Sawnoff* is a classic Australian children's book written and illustrated by Norman Lindsay.

It tells of a magic pudding which, no matter how often it is eaten, always reforms in order to be eaten again. It is owned by three companions who must defend it against Pudding Thieves who want it for themselves.

(courtesy of Wikipedia)

## **Been Injured? Not your fault? We can help!**

### **The Children's Book Version**

There is a beautifully designed system to help innocent victims of car accidents in the UK get the compensation due to them. The system involves:

- Claims management companies that will do all the work for you in running the claim, organising solicitors and repairers, dealing with the insurance company and the court – all at no cost to you – and available by text message, phone or internet (they used to even visit you in hospital before that was banned)
- Personal injury lawyers, devoted to your case who will guarantee that you pay nothing even if you lose and that, if you win (with their very high success rate) you will get 100% of the compensation awarded to you
- Credit hire companies – will deliver to your door a nice car (at least as good as the one you had damaged) at no cost to you – and no rush to take it back. There is, of course, no cost to you because they get paid by the insurance company as part of your claim, and if your claim is unsuccessful they just don't get paid
- Credit repairers – the claims management company can probably also arrange for someone to repair your car on the same terms as the credit hire car. No prior approval from the insurer needed
- After the event insurance – a very clever insurance product that the claims management company can arrange for you, at no up-front cost to you. In the unlikely event that you were to lose your claim this insurance policy will cover any out-of-pocket legal costs you may have plus the full amount of any of the insurer's costs that might be awarded against you. The company that provides this after the event policy doesn't need any premium up front because they collect it as part of the damages from the other person's motor insurer. Some of the better policies very considerately waive the premium if you lose, expecting that they will get enough premiums from the cases that are won to cover this contingency
- A great support network – lots of helpful people like tow truck drivers, medical receptionists, repair shops, insurance brokers, your own insurance company, policemen and ambulance drivers will get one of the claims management companies to give you a no-obligation call.

Now on to the factual version.

### **Claims Management Companies (CMCs)**

People involved in a motor accident in the UK can engage a CMC to help them claim compensation from an insurance company.

In the event of an injury, the CMC can arrange legal advice on a no-win, no-fee basis. As of March 2011 there were over 3,000 companies authorised to assist with personal injury claims. Adverts for these companies are a common sight in the UK media.

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CMCs have sometimes generated controversy, with well-publicised examples of “misleading marketing, high pressure selling, unfair contracts, poor customer service, outright scams and fraud<sup>1</sup>.”

In 2007 the UK government established the Claims Management Regulator to oversee CMCs. Some marketing techniques such as cold calling are now illegal, although there are a number of examples of this continuing.

### **Personal Injury Lawyers**

In addition to obtaining referrals from CMCs, some solicitors advertise directly to people who have been involved in motor accidents.

Promotional material typically states that no costs are payable if the claimant doesn't receive compensation. If the claimant is successful they are promised 100% of the amount awarded, with all the solicitor's fees recovered from the other party.

Solicitors refer to these arrangements as Conditional Fee Agreements (CFAs). The CFA includes a success fee payable to the solicitor if the claim succeeds. This success fee is also currently recovered from the losing party.

Since publically funded legal aid is not available for UK personal injury claims, CFAs protect injured parties from the cost uncertainty of legal action. However, CFAs are also often used when liability is admitted and an injury is clear. The solicitor is therefore able to claim a success fee, even though there was (almost) no possibility of losing the case.

### **After the Event Insurance**

CMCs or Personal injury solicitors can arrange insurance to cover the cost of legal action. The name “after the event” (ATE) refers to the fact the insurance is purchased after the injury has occurred.

The insurance covers the claimant's legal expenses if the legal action is unsuccessful. If the claimant is successful, they will get to recover legal costs (including the insurance premium) from the other party.

The premium is typically not payable until the legal action is completed, and may not be payable at all if the legal action is unsuccessful.

### ***The “Super-Claimant”***

In his report “Review of Civil Litigation Costs”, Lord Justice Jackson describes how plaintiff law firms used ATE insurance as part of a package of measures to create a “super-claimant”.

Clients of the law firm are offered a package comprising a CFA (on a no win, low fee basis, but with a success fee of 100% of costs), ATE insurance (premium ranging between 20% and 65% of costs) and third party funding of the above.

However, this package means that the other side will face a significant cost burden if the legal action is lost, which would include the costs of both sides (as usual), plus the ATE premium and the success fee (together up to 165% of costs).

The super-claimant therefore has minimal exposure to costs liability, whereas

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<sup>1</sup> Quote from UK government minister Jonathan Djanogly in the Claims Management Regulation annual report: <http://www.justice.gov.uk/downloads/guidance/inspection-monitoring/cmr-annual-report-2009-10.pdf>

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the opponent has a very substantial exposure to costs risk. This would incentivise the opponent to settle early, while the ATE insurance premium and success fee remain at a low level.

### **Credit Hire**

Other services provided by claim management companies include arranging replacement vehicles and co-ordinating any repair works. The costs of these services are recovered from the at-fault driver's insurer.

Credit hire companies obtain referrals from insurance brokers, breakdown companies and garages.

As in Australia, many UK insurers pay for a replacement vehicle while car is being repaired. The credit hire businesses are able to attract customers (and create cost pressures for insurers) by:

- Offering a "like-for-like" replacement vehicle, whether this is a mini or a Mercedes. Insurance companies tend to offer a more basic replacement vehicle. There have been examples of very large claims against insurers for the use of prestige vehicles for long periods of time.
- Providing a replacement vehicle even if the repair only takes a few hours.

Insurers have observed that repair periods are longer when credit hire vehicles are provided. Customers may not be in a hurry to get their cars back if the replacement vehicle is just as good.

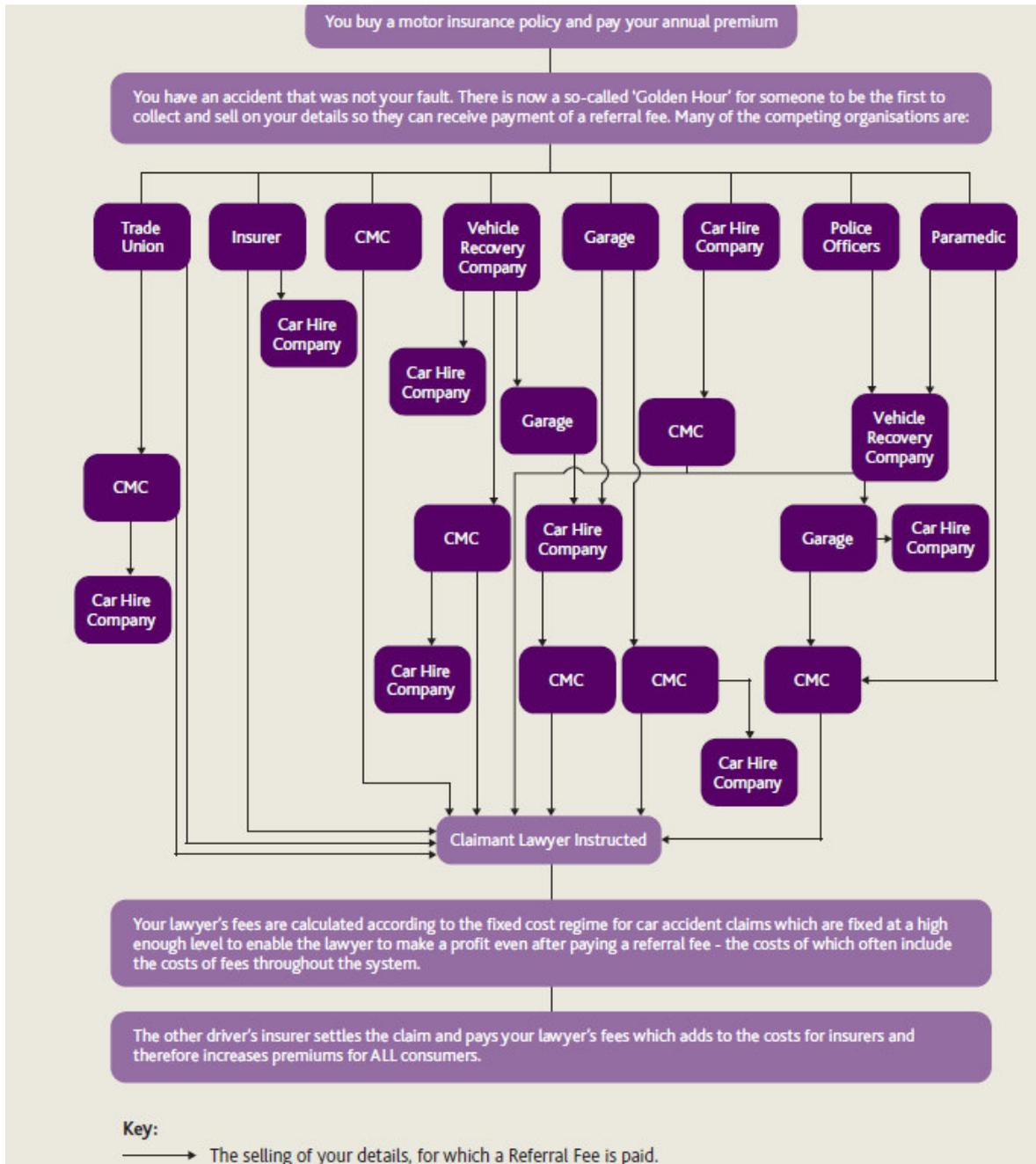
### **Referral Network**

The following figure from the Association of British Insurers (ABI) shows how accidents are referred to CMCs and personal injury solicitors. A referral fee is generally paid each time a claim is passed on, and the fees can be several hundred pounds.

The purpose of the diagram is to show the potential number of referrals involved, and indicate the extent to which referral fees are used. Other companies that may refer claims include insurance brokers and aggregators. The fees are ultimately paid by the at-fault vehicle's insurer because they end up as part of costs that are compensated in the legal fees, car hire, repair costs and after the event insurance premiums.

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**Figure 1 – Referral Network**  
(Association of British Insurers, September 2011)



The diagram shows insurers are themselves involved in referring claims to personal injury solicitors, even though the associated claims costs and legal fees are ultimately paid by the insurance industry. Insurers have argued that, given someone will probably refer the claim and pocket a referral fee, there is no reason why the fee shouldn't go to an insurer.

## Not Injured? Help yourself!

### Whiplash

*"Despite the statistics I doubt that the UK has some of the weakest necks in Europe. Often difficult to diagnose, easy to fake and exaggerate, whiplash is a fraudsters dream"*

James Dalton, Assistant Director of Motor and Liability, Association of British Insurers (ABI)

Whiplash is a term used to describe injuries to the neck or spine following a sudden strain, for example, in a rear-end motor collision.

According to the ABI, one in every 140 people in the UK claimed for whiplash last year. Three quarter of UK personal injury claims are for whiplash. The total cost to insurers is around £2 billion per year, compared to premium income of around £10 billion.

There is a widely held view in the insurance industry that most whiplash claims are fraudulent.

### Other Fraud

The following common insurance scams were recently identified by the ABI:

- **Phantom passengers** – a car containing only the driver (no passengers) will be involved in a minor accident. The driver makes a personal injury claim involving whiplash along with three "passengers" who were not in the vehicle at the time.
- **Crash for Cash** – a car will brake sharply, usually in an unexpected position such as a roundabout or slip road, and often with brake lights non-operational. This induces the innocent motorist to drive into the back of their car. The fraudster will then make a claim for personal injury usually involving a claim for whiplash. Staged accidents may also involve a claim for phantom passengers.
- **Exaggerated Claims** – exaggeration of injuries can often be accompanied by inflated and wholly fictitious claims for loss of earnings, medical expenses, physiotherapy etc. Fraudulent road traffic accidents may be accompanied by inflated and bogus claims for credit hire, storage, recovery, repair, translation fees.

The Insurance Fraud Bureau estimated that 30,000 crashes are staged each year, with each claim averaging about £17,000.

The ABI estimated the total cost of fraudulent motor insurance claims at £360 million per year.

## The Cost of the Pudding

Increasing costs for motor insurers have resulted in underwriting losses, and increases in premiums for customers.

### The Cost to Insurers

UK motor insurers made an underwriting loss of almost £2 billion in 2010, equivalent to around 17% of premium. The UK motor insurance industry has not been profitable for the last 16 years.

The number of UK motor accidents has reduced in recent years, due to improved vehicle safety and other initiatives. However the total cost of bodily injury claims has been increasing at around 30% per annum. Cost pressures include both increasing claim size (for example, due to legal expenses) and increasing claim frequency (for example, from whiplash).

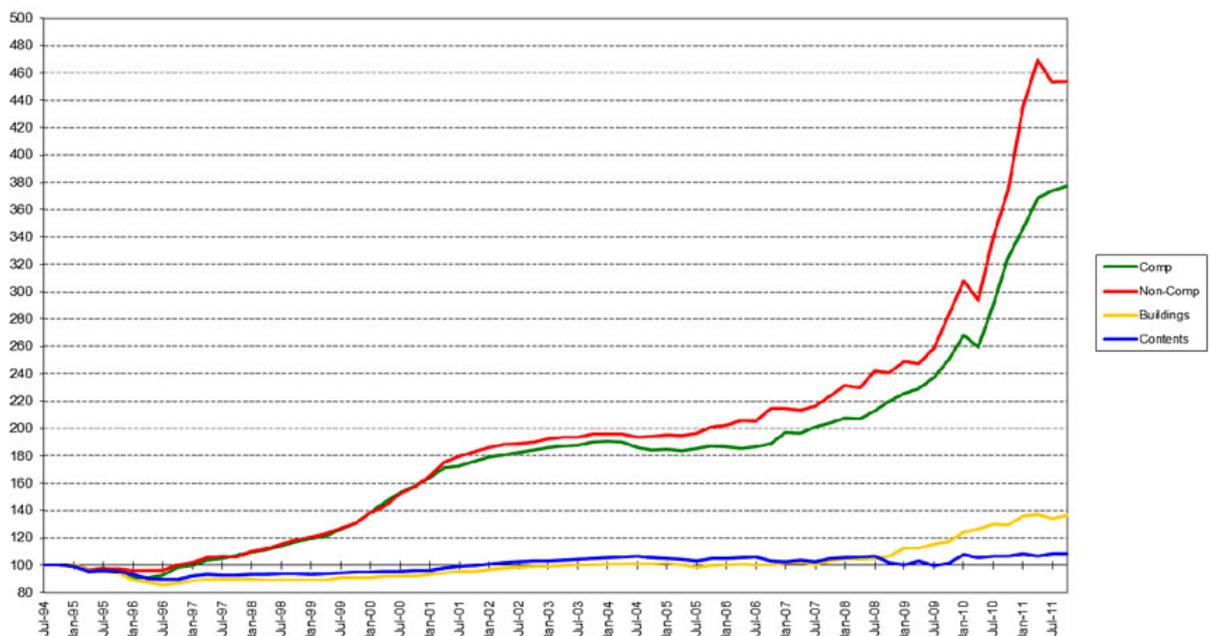
### The Cost to Customers

Insurance premiums have risen significantly as insurers move to reduce losses, with very large increases over the last couple of years. The average premium increased by 40% in the year to March 2011.

The following figure, prepared by UK motoring organisation The AA, shows how insurance premiums have changed since 1994 for motor and home insurance. Comprehensive and non-comprehensive (third party only) insurance are shown separately.

While motor insurance is compulsory in the UK, one consequence of high premiums is that many drivers choose not to insure. Since the cost of certain claims from uninsured drivers is met by a levy on all insurers, this further increases pressure on premiums. It has been estimated that approximately one out of every 20 motorists drives without cover, and that this adds about £30 a year to the average motor premium.

AA British Insurance Premium Index Market average trends since 1994



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### **Government Response**

The increases in premiums over the last couple of years may trigger a meaningful response from government.

The government commissioned a review of the costs of civil litigation, and Lord Justice Jackson published his final report in December 2009. The recommendations of the review included:

- Banning referral fees
- Stopping successful claimants recovering success fees and ATE premiums from the losing party
  - This would give claimants more interest in the cost of litigation, encouraging people to “shop around” for the solicitor offering the best value success fee and the most reasonable ATE premium
  - General damages would increase by 10% to (approximately) compensate claimants for having to pay part of the legal fees
- Fixing the amount of legal costs that can be recovered for smaller claims (up to £25,000)
- Encouraging people to purchase “Before the Event” legal expenses insurance.

In September 2011 the UK government announced it would introduce legislation to ban referral fees, and require success fees to be paid by claimants rather than the defendant.

Announcing these proposals, Justice Minister Jonathan Djanogly said:

“Honest motorists are seeing their premiums hiked up as insurance companies cover the increasing costs of more and more compensation claims. Many of the claims are spurious and only happen because the current system allows too many people to profit from minor accidents and incidents. (The changes) will make claimants think harder about whether to sue.”

## Relevance to the Australian Market

Many personal injury schemes in Australia have been through 'out of control' periods when the cost of claims increased rapidly through the behaviour of accident victims and various service providers taking advantage of the 'the magic pudding' of other people's insurance premiums.

### **GIO Blitz on Fraud**

Sun Herald, 30 September 1989

THE NSW Government Insurance Office, using its new high-tech "computer tracking system", is set to reopen more than 100,000 suspicious claims dating back to 1985.

People found to have received compensation for false injury claims will be asked to return the money or face prosecution and possible jail sentences.

GIO Fraud and Investigations manager, Mr Charles Hodges, said yesterday insurance fraud had become the "fashionable" crime of the 1980s.

'HEADS IN THE SAND'

"I think insurance companies have, in the past, had their heads in the sand, hoping fraud was not happening to them," Mr Hodges said.

"We have admitted we may not have been as efficient as we might have been -but now we are taking steps to correct that.

The GIO's crackdown follows the amazing revelation by NSW Police Minister Ted Pickering that more than half the 66,800 third party insurance claims currently before the GIO are suspected of being fraudulent.

And a major Sun-Herald investigation during the week has found that to be merely the tip of the iceberg. In cold cash, fake insurance claims are now costing honest policy-holders up to \$1.6 billion a year.

### **Who would step in to regulate?**

A crucial difference between Australia and this recent UK experience is that, at least for our motor accident (CTP) and workers compensation schemes there is a state regulator of some kind with a degree of responsibility for balancing the interests of premium payers and injured persons.

In the case of UK motor this scheme regulator was (and still is) completely absent. The attempt by the Department of Justice to regulate the Claims Management Companies by registration and monitoring seems to have been spectacularly unsuccessful in dealing with the underlying issues.

### **Lessons we can learn from the UK**

The author was surprised (perhaps even shocked) that the country of origin of our legal system and traditions could encounter this problem so recently, and be so slow to react.

Having always regarding the legal system in the UK as relatively conservative and sensible, the idea that this litigation system could spawn such a large and robust

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industry of businesses and people taking advantage of the magic pudding of unregulated insurance premiums was difficult to accept.

The lessons to be learned include:

- Making it too easy to claim will incur an inevitable cost
- An industry supporting claimants at the insurers' expense is very difficult to control and can grow unnoticed
- Full restoration (including all costs of restoration, advice and protection) will not be affordable without direct cost constraints such as scheduled fees
- General damages for minor injuries is a difficult area of compensation
- Sadly, human nature must be regarded from a cynical perspective in scheme design.

## **Appendices**

For those with more interest in this topic, this appendix reproduces some of the information we found during our research.

Note that most of the material is copied from other sources, rather than being the work of the author.

### **Claims Management Companies**

Much of this material is taken from a presentation by the Third Party Working Party, GI Pricing Seminar 2010 (The Actuarial Profession) - *Third Party Motor Claims Some Preliminary Results*.

#### *What is a Claims Management Company?*

Claims management services consist of advice or services in respect of claims for compensation, restitution, repayment or any other remedy for loss or damage, or in respect of some other obligation. Claims management services cover litigation, or claims under regulation schemes or voluntary arrangements.

#### *Services Provided*

- Credit repair, credit hire, fleet support, claims administration, Third Party Personal Injury (TPPI) referral
- Arranging of finance and After The Event insurance

The abolition of legal aid for personal injury claims, the introduction of conditional fee agreements for lawyers and the appearance of and growth in claims management companies led to a rapid expansion of litigation from the mid-1990s. This led to public concern at the development of a "compensation culture".

#### *History*

- Until 1984, advertising by solicitors was banned
- Conditional Fee Agreements ("no win, no fee") have been allowed in personal injury cases since 1995
- Legal aid removed in personal injury cases from April 2000, resulting in rapid expansion in claims and accident management companies

#### *How They Get Their Business*

- Predominantly by advertising
- Referrals (see referral fees section)
- TV ads
- Door-to-Door Sales
- Leafleting on the streets

While cold calling is forbidden there are numerous examples of this happening. The following are examples of unsolicited text messages received in the UK:

*Our records indicate that you may be entitled to 3750 pounds for the Accident you had. To claim for free reply with YES to this msg. To opt out text STOP*

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*You have still not claimed the compensation for your accident. You may be entitled up to £3650. To find out more reply 'CLAIM'. Thank you.*

*You have still not claimed the compensation you are due for the accident you have. To start the process please reply YES. To opt out text STOP.*

According to the UK Ministry of Justice, examples of breaches of the rules for Marketing and Advertising Claims Management Services include:

- Offering upfront cash payments to prospective clients
- Telemarketing to members of the public to acquire personal injury cases
- Unqualified use of 'No Win, No Fee' type statements i.e.
  - "It is FREE to claim"
  - "It costs nothing to claim – what do you have to lose?"
- Unjustified and/ or misleading claims in advertising i.e. unjustified claims about success rates.
  - "We have a 100% success rate"
  - "A positive outcome is guaranteed"

### *Regulation of Claim Management Companies*

- Claims Management Regulator (CMR) established April 2007
- Regulation only applies to England and Wales
- Concerns about the method of operation of some claims management companies led to a provision in the Compensation Act 2006 for such companies to be regulated
- Any business providing claims management services to be either authorised or exempt by the CMR
- By May 2009, 2928 firms had been authorised, with over 1500 active in personal injury claims with a combined turnover of £300m

It is now illegal, for example, for representatives of claims management companies to visit accident victims in hospital with a view to encouraging them to make a claim through their organisation. Similarly, claims management firms are now prevented from placing adverts in hospitals and surgeries encouraging patients to make claims against doctors.

### *The Current Market*

CMR figures (Ministry of Justice, 2010/11) show:

- Number of authorised business (at end March 2011) = 3,213
- CMC revenue has increased by 57% in one year despite the number of authorized CMCs only increasing by 3%
- A total of 349 firms were closed down last year in comparison to 35 the year before – a ten-fold increase – and 256 of these companies operated in the personal-injury market
- Almost a quarter of all authorised businesses are based in the North West region. The next four largest areas are London, West Midlands, Yorkshire and Humberside and the South East, which account for more than half of all authorised businesses.

## **Credit Hire**

### *What is Credit Hire?*

Credit Hire operators (CHOs) were established in the 1980s to give innocent drivers replacement vehicles on credit after an accident. These companies can arrange the repair, provide replacement vehicles and recover the cost of the hire and other uninsured losses from the person at-fault's insurer.

### *Services Provided*

- Replacement vehicles are loaned to innocent drivers involved in road accidents while their damaged vehicle is being repaired
- Arrange the repair, provide replacement vehicles and recover the cost of the hire and other uninsured losses from the person at-fault's insurer
- Obtain business from referrals from insurance brokers, breakdown companies, garages and insurance companies

According to The Accident Management Association (AMA), UK Credit Hire turnover in 2008 was estimated at £600-£650 million, with a further £300 million in credit repair

### *Large Claims*

There have been some high profile court cases where large amounts were charged to insurers for use of luxury cars.

In one controversial case, an Audi A6 2.7 TDi Quattro S Line saloon belonging to Beechwood Birmingham, a large Audi, was damaged in an accident. The company referred itself to Accident Exchange and went on to claim £33,345.40 special damages for the hire of a replacement prestige Audi vehicle from them for a period of 120 days while their vehicle was undergoing repair.

Allianz disputed the claim and was able to demonstrate that, at any one time, the claimant would have had at least 64 other vehicles in its possession. Judge Sir Mark Potter ruled that it was wrong in both logic and law to adopt the spot hire rate as a fair approach to the measure of the claimant's damages for loss of use and the damage claim was reduced to £3000 (Focus on: Credit hire, August/September 2010).

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### After the Event Insurance

#### *What it is?*

- A relatively recent insurance product created under the Access to Justice Act of 1999 – since then the insurance industry in the UK has seen growth in both the number of companies offering ATE insurance and the types available (i.e. litigation, conditional-fee, post-event and legal expenses insurance)
- Taken out once an injury has occurred and the individual has decided to pursue a claim against another party. It covers the claimant in the event that they lose their case and are required to pay the costs of the other side.
- It is available at any time after a dispute has arisen up until the determination of the trial
- It is the solicitor, not the client, who decides whether to insure the case

#### *What it Covers*

- Policies vary in what they cover but they may include: opponents' lawyers' fees; disbursements such as expert witness fees, court fees, travel expenses and the costs of the insurance premium
- It is also possible to purchase policies which cover both sides' costs
- Under the Access to Justice Act 1999 it has been possible to recover the cost of the ATE premium from the losing side since 2000
- Client wins → opponent will pay the fees in some cases including the premium for the ATE insurance
- Client loses → insurance will cover the expenses that he or she would otherwise have to bear

#### *Who Pays for Premiums?*

- Premium is typically due after the conclusion of the legal case and is contingent on success
- Client wins → premium is passed on to the loser as part of the legal fees
- Client loses → insurance policy may include a clause which insures the premium, so the client will not have to pay for it
- Premium will be 25-60% of the amount of cover being sought

## **Government Response**

### *Previous Ministry of Justice Reforms:*

- Came into effect 30<sup>th</sup> April 2010
- Aims to speed up the process of claims settlement and remove duplication of work and costs on the part of solicitors
- Applies to motor injury claims between £1,000 and £10,000 occurring in England or Wales.
- Strict timescales for an insurer to admit/deny liability and to make offers of settlement. If timescales not met then the claim falls out of the process
- The reduction in legal fees should also mean that solicitors have less capacity to pay referral fees to CMCs

### *Jackson Review:*

- In January 2010, Lord Justice Jackson published the report on his comprehensive review of civil litigation costs
- Jackson concluded that costs are often disproportionate and impede access to justice and recommended:
  - Banning referral fees
  - Abolishing the recoverability of success fees and ATE premiums
  - Increasing general damages awards by 10%
  - Introducing fixed legal costs for fast track cases worth up to £25,000
  - Promoting Before the Event legal expense insurance

### *Government Response*

The UK government has announced it intends to ban referral fees, and abolish the recoverability of success fees and ATE premiums. In making the announcement, the government noted the current arrangements have led to high costs, encouraged a compensation culture and led to the growth of an industry which pursues claimants for profit. Insurance companies inevitably pass the costs they incur through increased compensation claims directly onto motorists and those with other insurance policies, unnecessarily forcing up the cost of living.

Responding to the announcement, Otto Thoresen, ABI's Director General, said "We are very pleased that the Government has listened to the insurance industry's campaign for a ban on referral fees. They add no value and encourage spurious and exaggerated personal injury claims".

"It is important that the ban must be watertight and apply across the board. Banning referral fees is an important first step in tackling our dysfunctional compensation system, and needs to be accompanied by a reduction in legal costs and action to tackle whiplash if honest customers are to benefit from these reforms".

## Recent Press Coverage

This newspaper article from October 2011 provides a good summary of the scale of the issue and the political response.

### **Motorists fleeced of £2bn a year by 'money-grabbing parasites and dodgy lawyers', MPs told**

UK Daily Mail, 12th October 2011

Motorists are being fleeced of £2billion a year in unnecessary insurance costs caused by money-grabbing 'parasites' and 'dodgy solicitors' whose actions are little short of criminal, MP's were told yesterday.

Former Home Secretary Jack Straw took a swipe at lawyers, claims firms, garages, credit hire firms and others engaged in a controversial cash-for-contacts referral fee 'racket' which he said in any other walk of life would be condemned as 'bribery.'

He told the House of Commons Transport Committee that as a result of the claims 'merry-go-round' some rocketing car insurance premiums have now reached 'extortionate' levels.

Justice minister Jonathan Djanogly reiterated the Government's intention to outlaw referral fees, crack-down on bogus whiplash claims, to spare the UK's 33 million motorists 'the symptoms of a sick, suing culture,' and to help ease insurance premiums.

Outlawing such practices should see car insurance policies – which are legally compulsory – tumble by up to a fifth if Mr Straw's assessment holds true.

This is in sharp contrast to a rise 'in cash terms' of 75 per cent over the last decade – or about 50 per cent after inflation.

Mr Straw, the Labour MP for Blackburn, said the scandal was hitting 'perfectly law-abiding people' with sky-high insurance costs.

Mr Straw, whose own investigation into how even the police are taking tip-fees, prompted the select committee to re-open its earlier enquiry, said: 'What I am clear about is that of a total of about £9billion premium income, £2billion is costs caused by people who can be accurately be classed as the parasites in the system.

'They were not there before when premiums were significantly lower.'

Highlighting the widespread and pernicious nature of the accident claim 'cold calling' epidemic that the public is being subjected to by phone and SMS Text, Mr Straw told MPs that the previous night, while he was preparing his evidence to the committee, he had been phoned at home by a claims accident company seeking to represent him over an alleged accident in the last three years: 'I'd not had an accident in the last three years,' he told MPs.

'But it shows the relentless pressure inside these very dodgy firms.'

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Mr Straw added: 'Claims management companies are parasitic. In any other walk of life, we would describe this racket by referral companies as bribery.'

'These practices are leading to very substantial (insurance) increases on law-abiding motorists.'

He noted: 'You only have to turn on daytime TV to see lots of dodgy solicitors' firms which are part of this racket.' He said there were two firms of solicitors within 100 yards of his own front door offering '£600 for a referral.'

Justice Minister Jonathan Djanogly told the committee the Government's decision to ban the 'merry-go-round' of referral fees was 'appropriate' and had been 'generally welcomed'.

Referral fees were part of the 'sick, suing culture' that was keeping premiums artificially high: 'We want the benefit to feed through to the consumer in the form of lower premiums.'

He believed the Government's reforms would bring commonsense to the system by weeding out greedy claims, noting how under the current system: 'If you are a claimant and have no chance of losing, you are almost crazy not to sue. Why wouldn't you? That's what we propose to reverse.'

But he did not want the cash now being earned by claims-companies to be siphoned off by legal firms using claims companies 'as their advertising arms.'

Roads Minister Mike Penning condemned the claims firms as 'ambulance chasers' noting: 'As a human being I find it very difficult that any organisation would seek to profit from others' injury. Yet fifty per cent of claims are personal injury claims.'

Critics say soaring premiums are tempting some to drive uninsured – with an estimated 1.3 million drivers now on the road without insurance.

MPs on the Transport select committee report have already condemned the current system as 'dysfunctional'.

The average price for annual comprehensive car insurance cover rose by a staggering 40 per cent in the year to March – from £636 to £892. By the end of June, it had reached £923.90 and is fast rocketing towards four-figures.

Paul Evans, chief executive of insurance company AXA UK, said increases had slowed to about a 1 to 2% rise a month but added: "We shall continue to see continuing increases in the months to come."

<http://www.dailymail.co.uk/news/article-2047539/Jack-Straw-Motorists-fleeced-2bn-year-car-insurance-parasites.html>