

**Title: Amendment of the Road Traffic Act (RTA) 1988 to remove the requirement of a policyholder to return a motor insurance certificate if they cancel their policy mid term**

## Impact Assessment (IA)

**Date:** 24/04/2013

**Stage:** Final

**Source of intervention:** Domestic

**Type of measure:** Primary legislation

**Contact for enquiries:**  
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**IA No:** DfT00223

**Lead department or agency:**

Department for Transport

**Other departments or agencies:**

### Summary: Intervention and Options

**RPC:** RPC Opinion Status

#### Cost of Preferred (or more likely) Option

Total Net Present Value	Business Net Present Value	Net cost to business per year (EANCB on 2009 prices)	In scope of One-In, One-Out?	Measure qualifies as One-Out?
£309.67	309.67	-28.69	YES	Out

#### What is the problem under consideration? Why is government intervention necessary?

As part of the Government's Red Tape Challenge for road transport we examined what policy measures might place unnecessary burden on motorists and proposed to remove the need for a certificate in order to reduce paperwork for motorists and insurance providers. Instead those who require evidence of the insurance status of a vehicle, e.g. police, would use the Motor Insurance Database (MID). Intervention is necessary to remove the requirement in the RTA 1988 to reduce burden on motorists and insurers. Consultation revealed the industry is fundamentally opposed to this for commercial reasons and withdrew the figure of £1 per certificate saving on which the previous IA was conducted. Instead we will remove the requirement of policyholders to return the certificate if they cancel in mid-term which has significant benefits with no costs. This can only be done through primary legislation.

#### What are the policy objectives and the intended effects?

The objective is to remove the requirement in the Road Traffic Act 1988 which requires policyholders to return their motor insurance certificate if they cancel their policy or security mid term. The MID would be the evidence the policy has been cancelled. This should save insurers administration costs of reminding policyholders to return certificates, such as ensuring their return and processing returned certificates. The intended effects of the policy is to remove unnecessary burden on motorists by reducing paperwork. If the insurers pass on the full (best estimate) saving of £36m to policyholders, then it would translate to an about £1.20 saving for each policyholder. This estimate is based on figures provided by the ABI and the insurance industry. Although we have scrutinised them closely we are not in a position to confirm them with any certainty.

#### What policy options have been considered, including any alternatives to regulation? Please justify preferred option (further details in Evidence Base)

**Option 1** – Do nothing.

**Option 2 – (preferred option)** Allow insurers to retain the certificate because it has important uses in certain situations, such as for fleet policies. However, we will remove the requirement of policyholders to return the certificate if they cancel it mid term. This would save insurers about £27-£46 million per annum with minimal costs (constant 2013 prices), a saving which could be passed on to policyholders.

**Option 3 consultation option** – We consulted on the removing the Certificate of Insurance as the legal proof of motor insurance and to designate the Motor Insurers' Database (MID) as the legal record. The Minister agreed not to pursue this following consultation because insurers did not want it, the savings were based on incorrect figures and the benefits would not be as good as option 2 with considerable costs to improve access to MID.

#### Will the policy be reviewed? It will/will not be reviewed. If applicable, set review date: Month/Year

Does implementation go beyond minimum EU requirements?	N/A				
Are any of these organisations in scope? If Micros not exempted set out reason in Evidence Base.	<b>Micro</b> Yes	<b>&lt; 20</b> Yes	<b>Small</b> Yes	<b>Medium</b> Yes	<b>Large</b> Yes
What is the CO <sub>2</sub> equivalent change in greenhouse gas emissions? (Million tonnes CO <sub>2</sub> equivalent)	<b>Traded:</b> N/A		<b>Non-traded:</b>		

**I have read the Impact Assessment and I am satisfied that, given the available evidence, it represents a reasonable view of the likely costs, benefits and impact of the leading options.**

Signed by the responsible Minister:

Stephen Hammond

Date:

03/10/2013

# Summary: Analysis & Evidence

# Policy Option 2

**Description:** Amend the Road Traffic Act to remove the requirement to return a certificate of insurance if cancelled mid term.

## FULL ECONOMIC ASSESSMENT

Price Base Year 2013	PV Base Year 2014	Time Period Years 10	Net Benefit (Present Value (PV)) (£m)		
			Low: £227.48m	High: £391.86m	Best Estimate: £309.67m

COSTS (£m)	Total Transition (Constant Price) Years	Average Annual (excl. Transition) (Constant Price)	Total Cost (Present Value)
Low	0	0	0
High	0	0	0
Best Estimate	£0m	0	£0m

### Description and scale of key monetised costs by 'main affected groups'

There is no cost to insurers for updating the MID to ensure that cancelled policies are recorded as they do this presently. Organisations such as the police, courts and policyholders have access to the MID presently and their rights and access would not change.

### Other key non-monetised costs by 'main affected groups'

None.

BENEFITS (£m)	Total Transition (Constant Price) Years	Average Annual (excl. Transition) (Constant Price)	Total Benefit (Present Value)
Low	0	26.5m	£227.5m
High	0	£45.7m	£391.9m
Best Estimate	0	£36.1m	£309.7m

### Description and scale of key monetised benefits by 'main affected groups'

Based on figures provided by the ABI, we estimate savings of £27-£46 million (constant 2013 prices) per year for ten years (2014-2023). Presently insurers are required to ask a policyholder to return their cancelled certificate if a policy is cancelled mid-term. The insurer would no longer have to undertake the following for each cancellation: receive post, checking, reconciliation, scanning/microfilming, filing, storage or destruction and issuing reminders or, in some cases, taking legal action. The (best estimate) £36 million saving means if insurers pass this on in full there is a potential benefit to motorists of around £1.20 per policy.<sup>1</sup>

### Other key non-monetised benefits by 'main affected groups'

It is consistent with current practice by the police who do not rely solely on the paper or electronic versions of the insurance policy as proof of insurance when stopping vehicles at the roadside. Rather, they use a download from the MID to identify vehicles on the road without an insurance policy in force. An additional benefit of this policy which we have not monetised is that it reduces risk exposure to insurers, since at present insurers are still liable if an accident takes place after cancellation of a policy but before the certificate has been returned. We also have not quantified the reduced inconvenience for policyholders in terms of their time and costs of returning their certificate.

Key assumptions/sensitivities/risks (%)	Discount rate	3.5
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<sup>1</sup> This is calculated by dividing £36 million by about 30 million policies held each year.

Insurers request that all certificates are returned for all six million policies cancelled annually. Even if they did not return all of them the logic implies that there is a benefit to proceeding with this because benefits will outweigh the costs. There is a risk of cancelled insurance certificates remaining in circulation but this is a manageable risk because the police, for instance rarely rely on them because they regard the MID as more authoritative evidence of insurance if they stop a vehicle suspected of being uninsured.

We assume the number of certificates cancelled annually increases by the forecast growth rate of car ownership.

Because of previous concerns about the accuracy of the figures, we have now calculated a range based on contributions from two different insurance companies. To be conservative, we have used salary figures provided by the company suggesting lower values, and included a 20% range around these figures. We have not costed the occasions when insurers remind policyholders by telephone, nor the cost for policyholders of returning their certificates. We have not included any overheads savings, as we assume time savings would be utilised by employees to do other productive work. We have not included any increases in the working value of time through the appraisal period.

We have received clearance provided we work with the ABI to remove insurance certificates in longer term. We have no agreed timeframe for this. If this is done within ten years then there would still be a net benefit, but it would not be as high as in the ten year calculation in this Impact Assessment and there would be some costs in changes to the MID.

### BUSINESS ASSESSMENT (Option 2)

<b>Direct impact on business (Equivalent Annual) £m:</b>			<b>In scope of OIOO?</b>	<b>Measure qualifies as</b>
<b>Costs: 0</b>	<b>Benefits: £28.7</b>	<b>Net: £28.7</b>	Yes	OUT

## Evidence Base

### Problem under Consideration:

Under current law an insurance policy has no effect for the purposes of the Road Traffic Act 1988 unless a certificate is delivered. However, in practice many organisations, in particular the police, no longer rely on the insurance certificate and use information held on the Motor Insurers' Database (MID) as de facto evidence that a vehicle has an insurance policy in force. EU Directive 2000/26/EC transposed into UK law by the Motor Vehicles (Compulsory Insurance) (Information Centre and Compensation Body) Regulations 2003 requires all member states to have a central database of motor insurance policies. The MID, managed by the Motor Insurers' Bureau (MIB), is the UK repository of details of all motor insurance policies. Insurers are required by law to enter details of all motor insurance policies onto the MID.

As a Red Tape Challenge (RTC) measure we proposed at consultation stage to remove this practice of issuing certificates, either hard or electronic copies, and instead use the electronic record held on the MID as evidence of insurance. Instead the legal evidence of insurance would be the record held on the MID. The police and other organisations, e.g. hire/rental companies would be able to check the MID rather than relying on a document which may have been easily forged. Many organisations such as the police presently use information from the MID as de facto evidence that a vehicle has an insurance policy in force. The Police identify drivers who drive without insurance on the road through the Police National Computer (PNC) which obtains information from a download of information from the MID. The Police can request a certificate of insurance to be produced at the station within seven days, but if they are unsure about the insurance status, they can call the MIB's helpline who will in turn contact the insurer. Legally, policy holders should return a certificate to their insurer if it is cancelled although in practice this is not always done. It is possible therefore even if a driver produces a certificate of insurance it might not be valid or be a fraudulent copy. For motorists, they would no longer need to retain certificates after their validity period in the event of a claim being made against them or return certificates if they cancelled their policy mid-term. Policyholders fall foul of the law by not returning their certificates if a policy is cancelled mid term.

Following consultation the insurance industry, especially the ABI is opposed to the removal of insurance certificates. They consider that they have importance for motor traders and fleet operators where vehicles are not named individually on the certificate and they would not be reflected on the MID. They are also in standard format which policyholders are used to and easily understand.

### **Rationale for intervention;**

As a result we have undertaken further discussions with the insurance industry and revised the calculations. We now believe the costs of implanting the option proposed at consultation would not provide substantial benefits. There would need to be expensive changes to the MID but no savings by not issuing the certificate because the ABI now inform us the cost of issuing them is negligible. Instead we will legislate for the ABI's alternative proposal of removing the requirement for policyholders to return the certificate if a policy is cancelled mid term (**Option 2**) and use the MID as evidence of cancellation. This can only be done through primary legislation and would provide real benefits, with little cost as expensive changes to the MID would not be necessary.

This does not impact on the related RTC proposal to remove the need to provide evidence of valid insurance when applying for a tax disc. That is being taken forward separately by the DVLA. The implementation of Continuous Insurance Enforcement (CIE) has negated the need to verify that valid insurance is in place before a tax disc is issued because there are continual monthly checks between the DVLA vehicle database and the MID.

### *Scope of geographic coverage*

The proposal will only apply to Great Britain. In Northern Ireland, motor insurance is a devolved matter.

### • **Policy objective;**

The removal of the requirement that a policyholder should return their insurance certificate if they cancel their policy mid term would meet our objective to provide benefits for insurers of not having to chase policyholders for certificates of cancelled policies. There would be no costs because changes to the MID would not be necessary. The intended effects of the policy is to remove unnecessary burden on motorists by reducing paperwork. As a result of removing unnecessary Red Tape, policyholders should realise benefit from insurers passing on savings through reduced premiums. . This would open the door in future to removing the insurance certificate when the industry is ready.

### **Options considered (including do nothing);**

Option 1: Do nothing. This would leave the certificate of insurance as the legal evidence of motor insurance and the policyholder would have to return it if they cancelled their policies mid term.

Option 2: **Retain the requirement to issue insurance certificates but amend the Road Traffic Act 1988 to remove the requirement of policyholders to return their motor insurance certificates if they cancel their policies mid-term.** There would be benefits of £27-£46m million per annum, with virtually no costs. The removal of this unnecessary Red Tape will save insurers money which should be passed on to policyholders. There might be a very small cost to the insurance industry and wider society of familiarising themselves with the revised requirements. We have adopted a conservative approach and have not costed the insurer making reminder telephone calls to the policyholder so the savings could potentially be more. In fact if the figures were even lower than this there would still be good economic rationale for reform, and benefits to pass onto motorists.

- **Monetised and non-monetised costs and benefits of each option (including administrative burden);**

**Option 1:** Do nothing.

No change in costs and benefits.

## **Option 2**

We will retain the requirement to issue insurance certificates but amend the Road Traffic Act 1988 to remove the requirement of a policyholder to return motor insurance certificates if they cancel their policy mid term.

### Monetised Costs

There would be no costs because no IT changes to the MID would be necessary. Presently insurers update the MID when a policy is cancelled and this would continue. Enforcement authorities such as the police who have a download from the MID for their Automatic Number Plate Recognition (ANPR), in order to target uninsured vehicles on the road would not require any further information than they do now. The policyholder would probably expect to see the same information on the MID as presently appears on the askmid.com website.

### Non-monetised costs

None.

### Monetised Benefits

These have been calculated at £27-£46 million per annum for insurers.

The ABI estimates that 6 million policyholders cancel their policies mid term. S147 (4) of the Road Traffic Act 1988 requires policyholders to return their certificates or make a statutory declaration that they have lost them. To calculate the average annual benefit we assume that the number of policyholders rises at the same annual rate as forecast car ownership<sup>2</sup>.

In order to assess the benefits from this we can look at what happens in three stages:

Stage 1) The customer returns certificate as per instructions. The insurer undertakes the following; receives post, checks, reconciles the certificate to the policyholder, scans/microfilms, files, stores or destroys the certificate.

The ABI estimates that about **60%** of policyholders who cancel their certificates fall into this category.

Stage 2). If the customer fails to return the certificate after initial request (stage 1) but does so following a reminder, the insurers issues reminder (s); receive post, checks, reconciles the certificate to the policyholder, scans/microfilms, files, stores and destroys the certificate.

The ABI estimates that about **30%** of policyholders who cancel their certificates fall into this category.

Stage 3). The customer fails to return certificate altogether. The insurer issues reminder(s), checks against records, signs off or closes the process and decides whether or not to take legal

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<sup>2</sup> Source: DfT National Car Ownership Model (NATCOP) 2013.

action. In terms of the costs involved for those that fail to return at all after stages 1 and 2, the cost will very much depend on whether legal proceedings are taken to void the certificate, or the Insurer just closes their file and accepts that they may be exposed to potential claims due to the non-return of certificates.

The ABI estimates that about **10%** of policyholders who cancel their certificates fall into this category.

The table below shows the time and salary estimates we have used to calculate the upper and lower-bound costs of performing stages 1-3. Time estimates were provided by two different insurance companies; for salary estimates we used the lower figures provided by the insurance industry and included a range of plus or minus 20%. These figures also include a 20% uplift, as proposed by the insurance industry, to cover non-wage labour costs. To calculate costs per minute, we assume 210 working days per year and 7 hours per working day.

Table: unit, labour and total costs for each action performed at stages 1 through 3

	<i>minutes</i>		<i>labour cost</i>		<i>Total cost</i>	
	lower	upper	lower	upper	lower	upper
Receiving and checking post	1	2	24,000	36,000	£0.27	£0.82
Administration: reconciling certificate with policy-holder details	2	5	19,200	28,800	£0.44	£1.63
Filing/storage of certificate	2	2	14,400	21,600	£0.33	£0.49
<b>Total Stage 1</b>	<b>5</b>	<b>9</b>			<b>£1.03</b>	<b>£2.94</b>
Reminder(s) issued	1	2	19,200	28,800	£0.22	£0.65
Receiving and checking post	1	2	24,000	36,000	£0.27	£0.82
Sending additional post/calling policy holder	0	4	24,000	36,000	£0.00	£1.63
Administration: reconciling certificate with policy-holder details	2	5	19,200	28,800	£0.44	£1.63
Filing/storage of certificate	2	2	14,400	21,600	£0.33	£0.49
<b>Total Stage 2</b>	<b>6</b>	<b>15</b>			<b>£1.25</b>	<b>£5.22</b>
Reminder(s) issued	1	2	19,200	28,800	£0.22	£0.65
Receiving and checking post	1	2	24,000	36,000	£0.27	£0.82
Administration: reconciling certificate with policy-holder details	2	5	19,200	28,800	£0.44	£1.63
Sending additional post/calling policy holder	0	4	24,000	36,000	£0.00	£1.63
Filing/storage of certificate or closure of file	2	2	14,400	21,600	£0.33	£0.49
Supervisor decides whether or not legal action should be taken	5	10	24,000	36,000	£1.36	£4.08
<b>Total Stage 3</b>	<b>11</b>	<b>25</b>			<b>£2.61</b>	<b>£9.31</b>

In addition to the costs listed in this table, we also included a £1 postage cost for all cases reaching stage 2 and stage 3. In discussions with the ABI legal proceedings are commenced in about 10% of stage three cases, that is 1% of all of those who cancel their policies in mid term. ABI estimate the costs are on average about £250 per case as legal proceedings are often carried out in bulk. The table below summarises the total costs per insurance policy of each of stages 1 through 4.

Table: Total cost per insurance policy of each of stages 1 through 4

	<b>lower</b>	<b>upper</b>
Stage 1	£1.03	£2.94
Stage 2	£2.25	£6.22
Stage 3	£3.61	£10.31
Stage 4 (Legal Case)	£250	£250

For further details of cost calculations, a breakdown of total benefit estimates for the first year (2014) is shown in Appendix 1.

For the policyholder, if insurers pass on the full effect of the (best estimate) £36 million benefits then they could expect to see their premiums fall by almost £1.20 per policy. This has been calculated based on a benefit of £36 million per annum divided by about 30 million policy holders per year over the appraisal period.

There is in addition an overall benefit of removing this requirement in that it helps the industry to understand their potential exposure to risk at any point in time and what their total potential liability is. The industry has not provided an estimate of the savings for this. While individual Insurers may be better or worse off, depending on their approach to collecting certificates, the overall cost for claims will stay the same if the MID becomes proof of cancellation if the certificate is cancelled because the claim will still need to be paid. It will be paid by the MIB as an uninsured claim, and the cost will be recovered via socialising it through the MIB's levy on insurers.

#### Non monetised benefits

We have not costed the occasions when insurers remind policyholders by telephone, nor the cost for policyholders of returning their certificates. However, both of these are expected to bring some additional benefits.

This is consistent with current practice by the police. They do not rely solely on the paper or electronic versions of the insurance policy as proof of insurance when stopping vehicles at the roadside. Rather, they use a download from the MID to identify vehicles on the road without an insurance policy in force. The policyholder would not have the inconvenience of having to return the insurance certificate. In addition this would help us to work with the insurance industry to remove the requirement to issue an insurance certificate when the industry is ready and the benefits of this can be justified.

We will also propose to alter slightly the existing legislation regarding the provision of insurance certificates: retaining the requirement for insurers to issue an insurance certificate, but removing the link between the insurance policy having no effect until an insurance certificate is delivered to the policyholder, as the police and insurers hardly ever recognise delivery of the insurance certificate as significant. This will reflect what happens in practice so is more of a technical tidying up. The ABI now think that the cost of issuing the insurance certificate is negligible and without the certificate they would still need to issue the information in another form.

#### Net Present Value

The net present value of estimated benefits (£226-386m over ten years) of amending the Road Traffic Act to remove the requirement to return a certificate if a policy is cancelled mid term outweighs the estimated costs (£0m), providing a net benefit of £306m (best estimate NPV).

#### **Option 2**

As explained above the ABI reveals estimated annual savings of £27-£46 million (constant 2013 prices). There would be no changes to the MID nor would there be a cost of issuing certificates as the insurers would still have to issue information to the policyholder in any case.

- **Risks and assumptions;**

### **Option 2**

We assume the number of certificates cancelled annually increases by the forecast growth rate of car ownership.

Because of previous concerns about the accuracy of the figures, we have now calculated a range based on contributions from two different insurance companies. To be conservative, we have used salary figures provided by the company suggesting lower values, and included a 20% range around these figures.

We have not included any overheads savings, as we assume time savings would be utilised by employees to do other productive work. We have not included any increases in the working value of time through the appraisal period.

- **Direct costs and benefits to business calculations (following OIOO methodology);**

### **Option 2**

The updated proposal is within scope of OITO. As explained this has benefits for the sector of £27-£46 million per annum and removes unnecessary red tape. This will be sent for validation with the Regulatory Policy Committee.

- **Summary and preferred option with description of implementation plan.**

Our preferred option is 2. It has considerable benefits and no costs such as changes to the MID. This is supported by the insurance industry. This will be done by primary legislation and we have a bid for a slot in the Cabinet Office's De-Regulation Bill.

- **Specific impact test**

### **Competition & Small firms**

#### **Option 2**

Not applicable as there would be no need to return certificates.

### **Equality**

#### **Option 2**

No-one would be required to return their certificates.

### **Option 3**

This is what we proposed in consultation but have since rejected. This was to change the law to remove the Certificate of Insurance as the legal evidence of insurance and designate the Motor Insurers' Database (MID) as the legal proof of motor insurance. The benefits would be £27-£46 million as in option 2 because a side effect of removing the requirement to issue the insurance certificate would be the removal of the need to return it. However, the benefits



explained at consultation of not issuing the certificate are not realistic because the cost of issuing the certificate would be negligible and not £1 as stated at consultation.

There would be significant IT costs of about £15 million as a one off payment (based on similar projects) to allow improved access for users such as the police and policyholders. We would not know the nature of the changes required and how long they would take. The insurance industry is strongly opposed to this because they think there are instances when the certificate has important uses in certain situations, such as for fleet policies and policyholders prefer the standard format of certificates. There would also need to be certificates issued for some people such as those travelling abroad or without access to the internet. Even without a certificate insurers would need to provide this information to policyholders so there would be no benefit of removing certificates.

## Appendix 1: Breakdown of total benefit estimates for the first year (2014)

	certificates	cost per certificate (£)		total cost (£m)	
		lower	upper	lower	upper
<b>total cancelled</b>	6,071,067	-	-	-	-
<b>Stage 1 (60%)</b>	3,642,640	£1.03	£2.94	£3.8m	£10.7m
<b>Stage 2 (30%)</b>	1,821,320	£2.25	£6.22	£4.1m	£11.3m
<b>Stage 3 (10%)</b>	607,107	£3.61	£10.31	£2.2m	£6.3m
<b>Stage 4 (1%)</b>	60,711	£250	£250	£15.2m	£15.2m
			<b>Total</b>	<b>£25.2m</b>	<b>£43.5m</b>