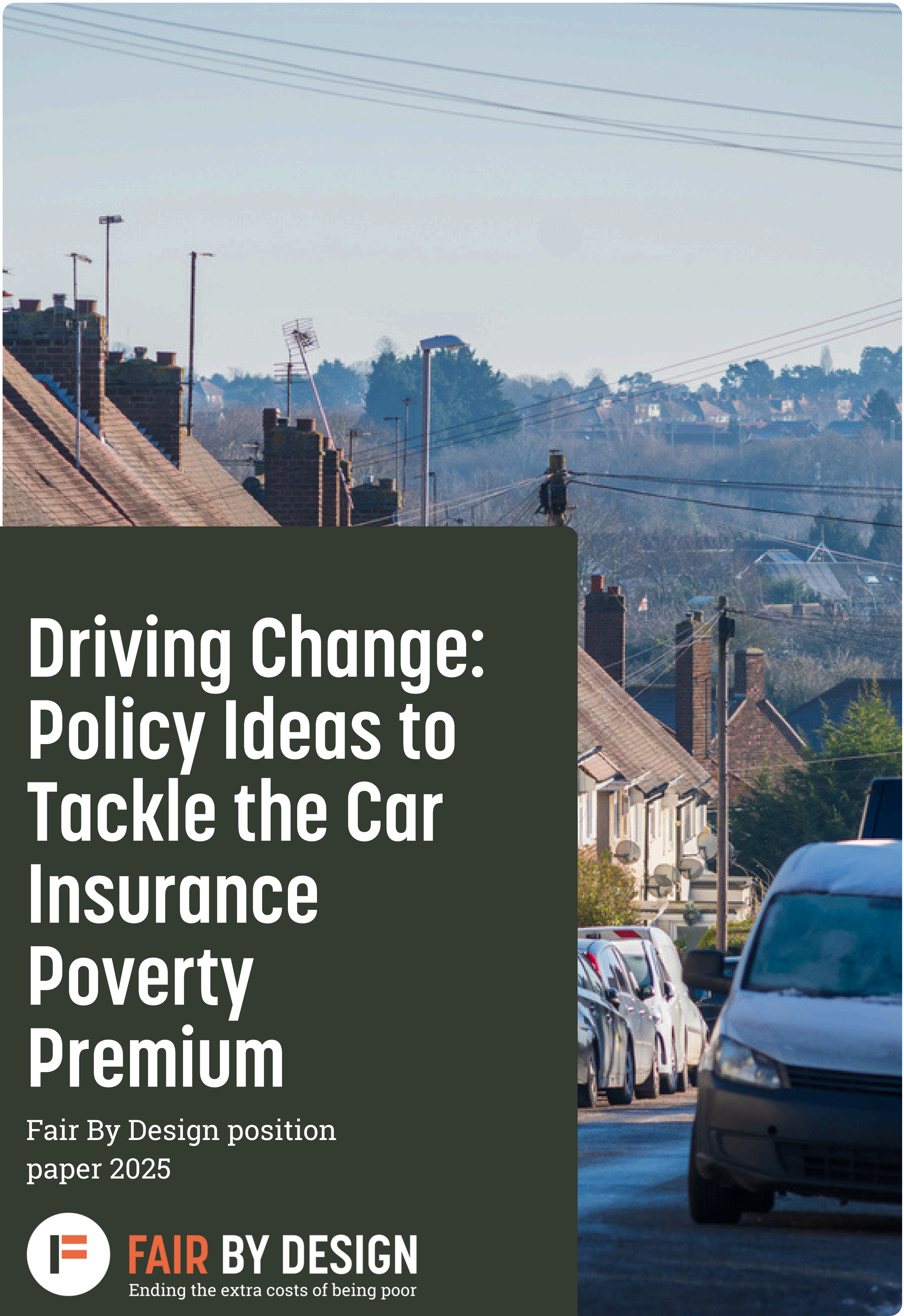

Driving Change: Policy Ideas to Tackle the Car Insurance Poverty Premium

Fair By Design position paper 2025

FAIR BY DESIGN
Ending the extra costs of being poor

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About the Author

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Rebecca joined Fair By Design in December 2024. She previously worked at the Association of British Insurers first as the Head of Health and Protection and then as the Chief Sustainability Officer. Prior to that she was the Head of Policy and Public Affairs at the Institute and Faculty of Actuaries. Rebecca is also the Founder of a social enterprise 'I have a voice', which teaches young people about how they can engage with democratic processes and supports them to pursue careers related to policy and public affairs.

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About Fair By Design

Fair By Design is dedicated to reshaping essential services such as energy, credit and insurance so that they don't cost more if you're in poverty – also known as the poverty premium. Fair By Design works with regulators, Government, Parliament and industry to eliminate the poverty premium.

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The purpose of this paper is to explore a range of interventions that could eliminate or significantly reduce the poverty premium in motor insurance. We intend to use this as a foundation for convening so that we can collectively interrogate and develop these and no doubt other ideas, as well as to identify opportunities to work together to conduct further research or pilots. Our aim is to encourage the Government, regulators and insurers to be bold and innovative.

"We need to go back to first principles and ask ourselves what is insurance for. I think there is a market opportunity for an insurer that is fair - this isn't about charity it is about an inherent sense of justice. Why does it have to cost more for people who don't have a lot of money."

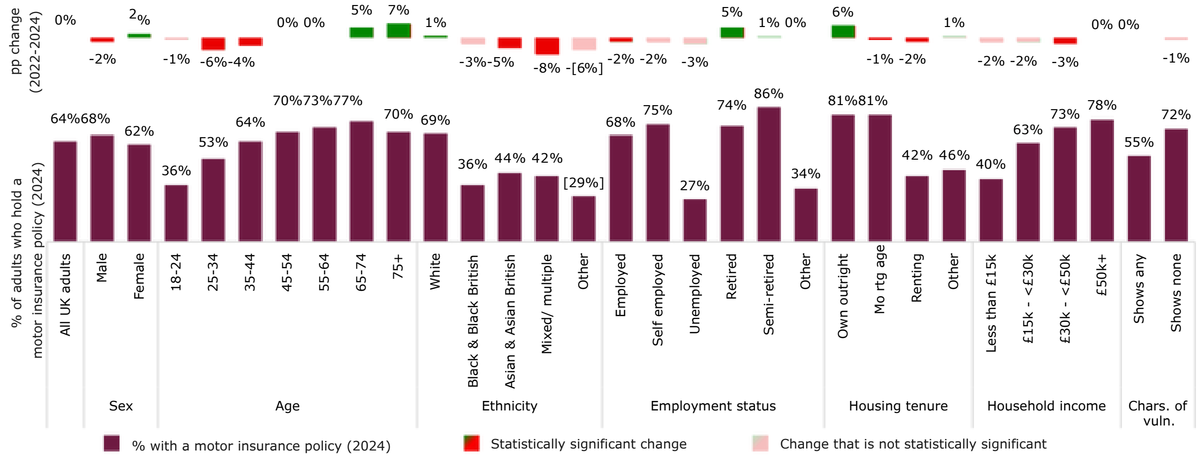
Val, Fair By Design Lived Experience Panel Member.

Introduction

In many parts of the country, being able to drive directly impacts our ability to access employment especially shift work, further education and healthcare services. It also enables us to take part in activities that improve our health and sense of community such as seeing friends and family, buying food in bulk from larger supermarkets which can often be cheaper, and taking part in physical exercise. This means that in some parts of the country lack of access to a car can exacerbate and entrench poverty.

Car ownership is expensive in many ways, but the cost of car insurance has increased so much in recent years that the Government has set up a taskforce to "crack down on spiralling costs of car insurance" and "deliver a fairer deal for drivers" with a "focus on those hardest hit by rising costs, including ethnic minorities, those on lower incomes and elderly and young drivers". The FCA's 2024 Financial Lives Survey found that between 2022 and 2024, the number of people holding motor insurance policies decreased etc among adults aged 25-44, renters and among Black and mixed/multiple ethnic adults, at the same time it rose amongst homeowners and those aged 65+.

Motor insurance held and percentage point change since 2022, across a variety of demographic segments (2024)



Base: All UK adults (2024:17,950/ 2022:19,145)
Question: POSum1. Product holding summary 1

Financial Lives 2024 survey General insurance & protection Selected findings May 2025

Our research with the University of Bristol shows that high car insurance premiums disproportionately affect low income households who can pay over £300 extra each year for their insurance. This increases to almost £400 extra per year if they also need to pay in monthly instalments instead of paying annually.

We also commissioned the University of Bristol to assess the impact of someone's postcode on the cost of their car insurance and to investigate whether price differences could be attributed to a range of risk factors. They obtained over 1,000 motor insurance quotes for a single female driver, aged 40, with a five-year-old hatchback. The only variable altered was the location of the insured individual. This research found that:

- many factors that are outside of an individual's control affect the cost of their premium e.g. local crime rates, the number of collisions in the area and the age profile of the local population; and
- there is a 15-20% uplift in cost for drivers in more deprived areas that they could not directly link to the risk factors included by this research.

We also commissioned research to assess the interaction between poverty premiums and different protected characteristics. This research showed that people with disabilities, lone parents who are typically female, and racially minoritised groups are more likely to be charged higher car insurance premiums or to be priced out of car ownership and car insurance altogether. This research also found that people who had more than one characteristic that is protected by the Equality Act 2010 had an even higher chance of incurring this poverty premium i.e. the risk was compounded.

No studies to date have captured the full complexity of actuarial models. However, the findings of our research, as well as research by other organisations such as Citizens Advice Bureau and Which? raise legitimate questions about fairness and transparency. We recognise the value of accurate pricing models in promoting 'less risky' behaviours and ensuring robust risk management and a stable insurance sector. However, the insurance sector's current approach to pricing ignores social fairness, and the role of markets and policy in either creating a thriving and productive economy and society, or entrenching inequality.

Given the importance of insurance to our economy and society we would like the Government and regulators to reassess whether the move towards greater risk-reflective pricing, without any over-arching policy and regulatory interventions that consider social fairness, is a good outcome.

To assist with this assessment, we want to collaborate with insurers and the FCA to use anonymised and aggregated claims data to enhance everyone's understanding of the drivers of the poverty premium so that we can work towards data-driven solutions.

Premium finance is the other significant component of the poverty premium in car insurance. Many low-income customers are unable to afford to pay for their car insurance all in one go and instead pay in monthly instalments. These instalments often carry excessive charges that exceed the actual cost of providing the service and they often carry high APRs despite the low credit risk associated with the product. This means that those who can least afford to pay more for their car insurance end up paying disproportionately higher prices. These concerns are evidenced in the FCA's Premium Finance Market Study Update Paper, and it is imperative that its findings lead to quick and decisive regulatory action to ensure fair pricing practices.

In addition to regulatory action, the Government has established both a Motor Insurance Taskforce and an Access to Insurance Subcommittee, reporting to the Financial Inclusion Committee. This is the most momentum we've had behind this issue to date. To make the most of it, policymakers, regulators and industry must work together to address the root causes of the poverty premium. Market-wide interventions that are driven by policy and regulation, rather than reliance on individual insurers, are needed to make insurance more affordable for low-income households.

This matters because in many parts of the country there is a lack of reliable and affordable public transport. This means that being able to drive directly impacts someone's ability to access employment, education, healthcare services and many other services and daily activities that support people to get and stay out of poverty. This means that in some parts of the country lack of access to a car can exacerbate and entrench poverty.

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Why access to a car matters: Testimonials from Fair By Design's Lived Experience Panel Members

"I have two children with special needs and one of them hates going on public transport. But I am applying for PIP and I've been told that being able to drive could complicate that and I don't want to endanger my application, so I've given up on getting a car for now." Michael

"I struggle on public transport because of my anxiety and without my car I'd be very isolated even though I don't use it much because of the cost to run it. I mainly use it to get to hospital appointments and things like that." Brian

"My car means more to me than where I live. It is 18 years old and not worth anything, but in the past having a car enabled me to couch-surf and have somewhere to sleep when I haven't had a roof over my head. It is the one stable thing in my life. Over the last 2 years my car insurance has increased every time I've moved, even though it has been less than 5 minutes away. The most recent time they told me it is because I had moved somewhere where there are more expensive cars on the road, whereas the last place was because of car thefts - you can't win either way. And it costs you £25 every time you want to update your insurance." Val

"When I was a social worker, it was essential to have a car. Some people tried to do it on public transport, but it wasn't really possible. Then when I became a carer for my mum, who used a wheelchair, it was also really helpful to have a car. You could nip out to the shops quickly for example." Panel Member

SUMMARY OF RECOMMENDATIONS

The rest of this paper explores the following interventions:

1. Reduce Risk

We are calling on the Motor Insurance Taskforce to put pressure on the Department for Transport and FCA to roll out 'Vision Zero' or similar systems-focused approaches to reducing risks. Specifically, collating data from a range of sources, including insurers, and using it to publish data-driven strategies that will address the risk factors that are having the most significant impact on high risk, low-income road users.

The Motor Insurance Taskforce is ideally placed to identify the risk factors that are increasing premiums (e.g. collisions, theft, fraud, repair costs) and bring companies together to reduce them. It should make sure that it is able to assess which risk factors are making premiums even higher in areas with high levels of deprivation and ethnic diversity as insurers' current approach to pricing is leading to the highest costs for these groups. A systemic approach to risk reduction has also been shown to improve equitable access to other modes of transport reducing the overall transport poverty premium.

We are not calling for the disclosure of proprietary algorithms or data sets, or a move away from risk-reflective pricing. Instead, we are advocating for aggregated, anonymised insights and independent audits to ensure that pricing practices do not inadvertently penalise low-income customers. Transparency builds trust and enables regulators, policymakers and customers to work collaboratively with insurers to improve outcomes.

The Taskforce and FCA should consider what levers it can use to ensure that all customers receive information which helps them to reduce their premium, without it resulting in them taking out a policy that does not meet their needs.

Improving the transparency of pricing models to support risk reduction measures could have the added benefit of encouraging individual behaviours that would further reduce claims, such as adopting telematics, adding a security device, or reducing mileage if this information is consistently shared with customers.

In addition, many insurers are now offering policies with varying exclusions allowing insurers to cater to a wider range of customer needs and risk profiles. However, this can lead to unexpected costs and poor outcomes if it means customers do not have the level of cover that meets their needs.

2. Consumer Protections

2.1 Consumer Duty

We would like to work with the motor insurance industry to share good practice regarding the implementation of the Consumer Duty for motor insurance customers on low incomes. As a first step, we have developed a checklist that motor insurers could use to assess whether their firm's pricing structures, product design, distribution and customer support meet the FCA's Consumer Duty (Appendix 1). We plan to test with the industry and consumers to ensure that it is proportionate, useful, and aligned with existing governance processes.

In tandem, the cross-government Motor Insurance Taskforce and the Financial Inclusion Committee should assess whether the insurance sector is delivering value for money for low-income customers, given they are disproportionately paying more for motor insurance. **If insurers fail to provide evidence of fair pricing and fair value i.e. Consumer Duty compliance, the FCA and/or CMA should use their regulatory powers to investigate and, if necessary, intervene.**

2.2 Inclusive Design and an Inclusive Culture

We want inclusive design to be embedded in the regulatory process, for example being used as standard by regulators when they are developing new rules, conducting new market studies and evaluating their impact.

Effective inclusive design is more than just a methodology to apply to specific products and services to tackle existing poverty premiums. It is about organisations, markets and an economic system that embraces diversity as a source of innovation so that new poverty premiums do not arise in the future. It is an important tool for re-designing our policy and regulatory framework so that is inclusive and equitable.

Inclusive design is one part of the picture for embedding a breadth of lived experiences into policymaking and regulation. For those voices to be taken seriously, and the culture of the sector to shift, it is important to have a diverse workforce that represents the lived experience of customers.

One of the barriers to progress on workforce diversity equity and inclusion in the financial services sector is the lack of government clarity, which has stalled efforts to even take the first step and measure the socio-economic diversity of the workforce. **The regulators should immediately continue their work on measuring diversity, equity and inclusion within their workforce and the workforce of the markets that they regulate. We acknowledge that this requires certainty from the Government and so we're also calling on the Government to support this agenda.**

2.3 Socio-Economic Duty

We would like the Government to make good on its promise of introducing the Socio-Economic Duty and, as part of this process, make sure that it covers regulators, including the FCA.

The Consumer Duty focuses on individual outcomes and fair treatment at firm-level, but it does not require market actors to examine how systemic issues like poverty or geography shape accessibility and affordability – and crucially prevent this leading to discrimination. Therefore, this would build on the Consumer Duty as it would place greater emphasis on regulators proactively promoting the inclusion of individuals facing socioeconomic disadvantage in markets, rather than just avoiding negative outcomes for existing consumers.

2.4 The Competition Markets Authority (CMA)

Given motor insurance prices remain higher for low-income customers, and premiums are rising, we recommend that the CMA resumes its investigation of this market. Specifically, to investigate whether consumers on low incomes are consistently paying more for car insurance due to market failures or unfair pricing practices.

The Competition and Markets Authority (CMA) does not have a direct regulatory role over insurance pricing (which is primarily the responsibility of the FCA), but it does play a key role in tackling the poverty premium in car insurance through its responsibilities.

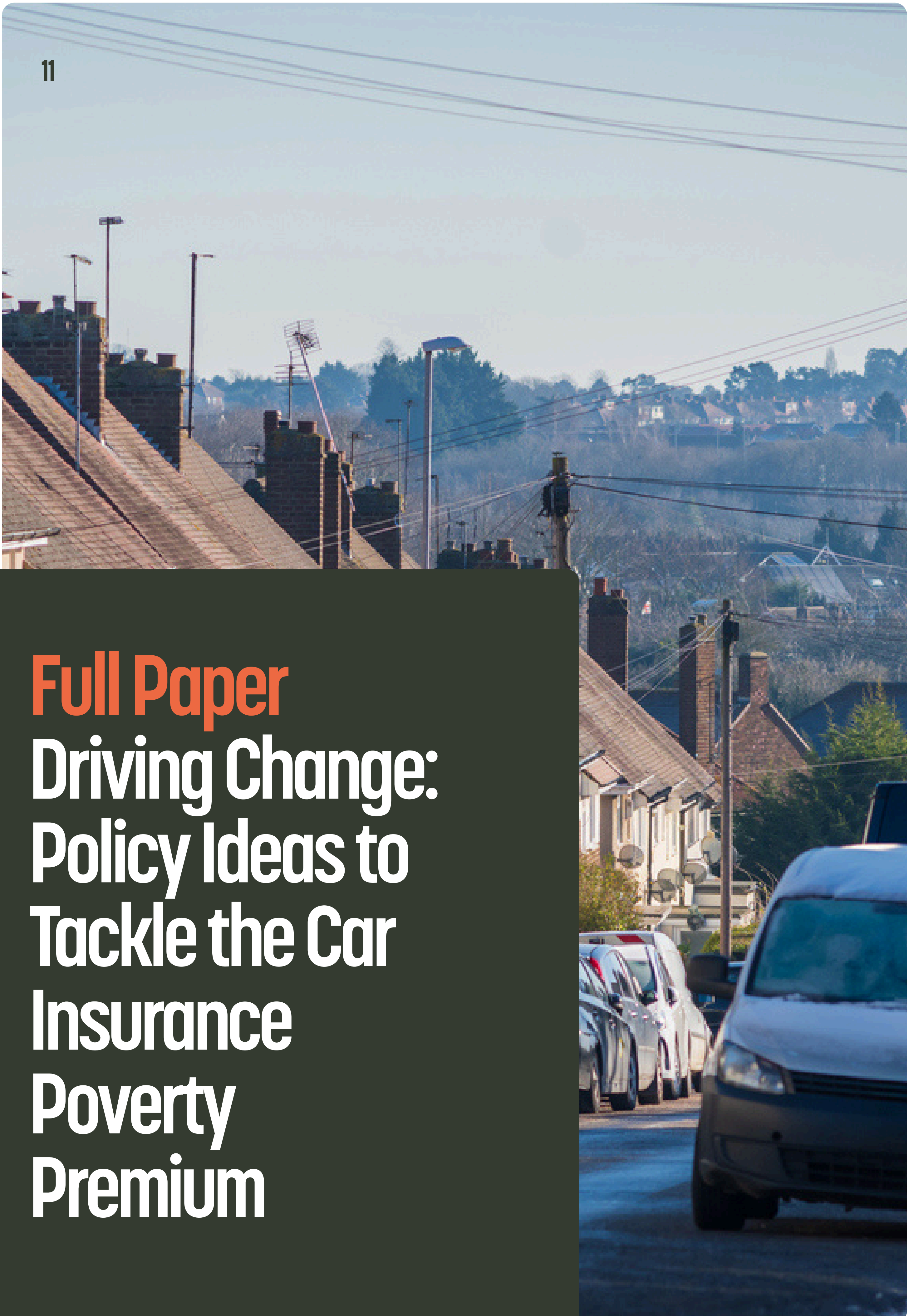
3. Targeted Discounts

The Government could introduce a discount scheme to make essential insurance coverage more affordable for low-income households who live in high-risk areas. This could be part funded through a more progressive approach to Insurance Premium Tax (IPT), cross-subsidy amongst insured drivers e.g. through a levy or social tariff, or a government funded voucher scheme.

4. Conclusion

The poverty premium in motor insurance is not just a pricing issue. It is a systemic barrier to mobility, employment and financial inclusion. We appreciate that some of these interventions will have resource implications, however we hope that they'd also support opportunities such as improved trust and reputation, access to currently underserved markets and better risk management.

We are not proposing that insurers move away from risk-based models. Our proposals are focused on evolving approaches to pooling and cross-subsidises so that they are more transparent and equitable. We want to work with the industry, regulators, policymakers and customers to drive co-designed solutions that are fair, sustainable, and grounded in shared values of transparency, inclusion and risk reduction.



Full Paper
Driving Change: Policy Ideas to Tackle the Car Insurance Poverty Premium

1. Reduce Risk

Insurers can help to reduce the risks that are driving up car insurance premiums both by supporting nationwide improvements in road safety and by incentivising changes in individual behaviour. The Motor Insurance Taskforce is well-placed to drive forward system-level change and to ensure that the benefits from these interventions are passed on to customers.

1.1 A systems approach to risk reduction

There are lots of risk factors outside of an individual's control that increase the cost of their car insurance such as the number of uninsured drivers, the number of collision hotspots and the impact of fraudulent claims in a specific area. The Motor Insurance Taskforce is well-placed to bring together all relevant parties to:

- Identify the factors that are increasing premiums, ideally with an emphasis on the factors affecting areas with high levels of deprivation and high premiums; and
- Address these risk factors by working with local government, regulators and the insurance and motor industries so that premiums come down.

Using aggregated public sector data (i.e. crime rates) and insurer data it should be possible to ascertain at postcode level what the main drivers are of heightened premiums. This would support both targeted measures such as tackling collision hotspots and a better understanding of which risk factors are driving up premiums nationwide e.g. fraudulent claims and uninsured drivers. This would lead to a data-driven approach to reducing premiums for all, as well as enabling the Government to focus on the interventions that would have the most positive impact on households in postcodes with high levels of deprivation.

This could build on the work of local and combined authorities across the country that are setting up cross-sector road safety partnerships to prevent deaths and serious injuries on our roads and in doing so bringing innovative ideas and new data. These partnerships are relevant to car insurers as:

- The largest element of someone's motor insurance premium is for the cost of compensation for injuries to other drivers, passengers or pedestrians. Serious collisions can mean life-changing injuries, with compensation sometimes running into the tens of millions of pounds.
- These partnerships are exploring additional data sources to allow them to proactively tackle road safety risk and understand road users' behaviour to create a cultural shift. Insurers could both contribute their knowledge to the development of these data sets and then use them to improve the accuracy of their pricing models

These strategies are particularly important for addressing the poverty premium as across England a higher proportion of road casualties happen in areas of high deprivation. Transport for London recently reported that people living in the 30% most deprived postcodes in London have almost double the risk of being killed or injured in a road accident compared with people from the 30% least deprived postcodes.

By taking a system, rather than individual driver, approach many of these strategies also aim to achieve equitable access to transport for all. By giving people more sustainable and reliable travel options, including improving options for walking and cycling, roads become less congested for those who are unable to take public or more active forms of transport. This improves accessibility for people living with disabilities and reduces transport-related social exclusion. This means a systems approach can reduce the overall transport poverty premium as well as the car insurance poverty premium.

Countries such as Norway and Sweden have successfully used this 'Vision Zero' approach and now have the lowest fatality rates in the world.

We are calling on the Motor Insurance Taskforce to task the Department for Transport and FCA to roll out 'Vision Zero' or similar systems-focused approaches to reducing risks. Specifically, collating data from a range of sources, including insurers, and using it to publish data-driven strategies that will address the risk factors that are having the most significant impact on high risk, low-income road users.

1.2 Supporting customers to reduce their individual risk

The annual renewal of motor insurance creates a regular opportunity to provide information to customers that supports them to make informed decisions about the actions they can take to reduce their premium.

Telematics

Research shows that telematics reduces car insurance premiums yet take up remains low:

- Earlier this year, Redtail Telematics commissioned YouGov to survey 2,000 motorists. The survey found that an individual could reduce their premium by 13% if they switched to a policy with telematics.
- A 2024 survey published by The Green Insurer, found that only 8% of drivers use telematics devices. Around 59% of respondents stated that they would only use telematics if it substantially lowered their premium. The good news is this survey found that 85% of drivers using telematics reported up to 20% reductions in the cost of their insurance.
- The Department for Transport (DFT) and Health and Safety Executive (HSE) commissioned research into the effectiveness of vehicle safety technologies. It found that drivers with telematics in their vehicle have approximately 20% fewer collisions and see a significant reduction in the severity and cost of claims.
- Zurich analysed the effects of telematics for one of its corporate customers that insures many vehicles. It found that telematics can reduce the cost of claims by making the claims process more efficient by providing data-driven insight into the cause of a claim. It also found that the changes in driving behaviour that are encouraged through feedback mechanisms in telematics reduced fuel costs by 15%, which could further help low-income households to reduce their costs.

Rolling out telematics is not without its challenges. Telematics devices are not without cost, and some customers mistrust how their data will be used. This scepticism was prevalent amongst some of our Lived Experience Panel Members who had heard of people who work shifts having to pay more because they drive at night. A Panel Member suggested that a dashcam that does not monitor how you're driving, but can speed up claims, would be a better option. Other Panel Members felt that telematics could be particularly useful for people convicted of a driving offence and young drivers, until they build up no claims – both to reduce their individual premiums and improve road safety for everyone, bringing down premiums overall. However, the evidence shows that telematics can reduce premiums by up to 20% and improve road safety. These benefits align with both insurer and consumer interests.

Choice of vehicle

Thatcham Research is an independent, not-for-profit automotive risk intelligence company that is funded by UK motor insurers. In 2024 it introduced Vehicle Risk Rating (VRR). The VRR system is built on five interconnected risk assessments – performance, damageability, repairability, safety and security. As the system develops, it should be able to provide consumers and insurers with more transparent information regarding the relative risk of a vehicle. **If specific car makes and models are considered high-risk, and therefore more expensive to insure, this has the potential to incentivise carmakers to prioritise designs and technologies that enhance safety, security and cost-effective repairs.**

When it was launched, Thatcham Research's CEO stated: "This will not only help insurers price premiums more accurately but also encourage manufacturers to consider insurance outcomes when designing vehicles and implementing technologies."

In May 2025, the ABI's quarterly motor claims data showed that repairs have become a key component of higher claims costs and premiums. This is being driven by several factors including replacement parts, higher labour costs, inflation, and a shortage of skilled technicians. **We're concerned that this is leading to low-income households paying more, even though they don't own these high-cost cars, because they live near to an affluent area meaning there are more high-cost cars on the road in their area. This is likely to be the case in many urban areas where car insurance costs are highest. This is an example of a pricing factor that is risk-reflective but is not fair by design.**

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Making choices transparent and easy to understand

There are many pricing factors that affect an individual's premium. Many of these factors are outside of an individual's control or are hard to change. For example, where you live, your occupation, your age, if you have access to off-road parking, or can afford a car with the latest vehicle safety technologies. However, there are several steps that drivers can take such as paying annually rather than monthly, additional vehicle security measures, choosing a vehicle that's cheaper to insure, increasing their voluntary excess (potentially to a level that is unaffordable), trying to reduce their mileage or taking out a telematics policy.

In addition, many insurers are now offering policies with exclusions e.g. without windscreen cover or access to a courtesy car. This allows insurers to cater to a wider range of customer needs and risk profiles, potentially lowering premiums in return for less coverage. However, the variety of exclusions and excesses available can lead to confusion, unexpected costs and poor outcomes. For example, someone may take out a policy with fewer features or a higher excess, which could lead to them being left without access to a car if their car is damaged and they are unable to pay their excess, or for a relatively small repair, or if they are not provided with a courtesy car whilst their car is being repaired. If they rely on their car for work this can be financially catastrophic.

Insurers and price comparison websites are well-placed to identify drivers who could reduce their premiums, whilst still taking out an appropriate level of cover, and provide them with information on the steps they could take. The Taskforce and FCA should consider what levers it can use to ensure that all customers receive information which helps them to reduce their premium, without it resulting in them taking out a policy that does not meet their needs.

2. Consumer Protections

2.1 The Consumer Duty

The Consumer Duty is already informing the FCA's approach to premium finance and we urge the FCA to take swift and decisive action as a result of its Premium Finance Market Study.

There are other products available that provide customers with credit at no additional cost if they make their repayments on time, such as Buy Now Pay Later (BNPL). In addition, other household bills such as Council Tax, service charges and un-metered water bills are spread out over a year without additional charges. There is also evidence that interest rates being charged by motor insurers often exceed the cost of credit in other regulated sectors, including home insurance.

Therefore, we would like extra charges for paying monthly to be eliminated. As a minimum premium finance should be reduced so that it is brought into line with the costs to service this method of payment and to reflect the relatively low credit risk given the insurer can cancel the policy if one or more payments are missed once reasonable notice is provided. There are also other reasons customers may prefer to pay monthly, for example:

> **"Even if I could afford to pay for my car insurance in one go I wouldn't as I prefer the flexibility of monthly payments as I don't want the hassle of trying to cancel my insurance and getting a refund. My insurance has already gone up a lot because I only had third party cover when I had my own car, but it broke down and so now I am leasing a car and must have fully comp cover."**
>
> *Charlotte, Fair By Design Lived Experience Panel Member*

We want the Consumer Duty to be applied beyond premium finance. The cross-government Motor Insurance Taskforce and the Financial Inclusion Committee must call on the industry to demonstrate that it is compliant with the Consumer Duty. This would mean the insurance industry has to demonstrate that it is delivering value for money for low-income customers, given they are disproportionately paying more for motor insurance.

If insurers fail to provide evidence of fair pricing and fair value, the FCA and/or CMA should use their regulatory powers to investigate and, if necessary, intervene.

Examples of this could include:

- An insurer is making higher profit margins from low-income customers, either because of their approach to pricing risk or premium finance.
- Their pricing models result in cross-subsidy of high-income drivers by low-income drivers e.g. low-income drivers are paying more because other people in their area are driving cars which are expensive to repair or replace.
- Communication to customers on what is driving their high premium, including the impact of paying monthly, is not effectively communicated and well-understood by customers.
- Offering compensation below the fair market value for written off or stolen vehicles, expecting customers to negotiate for higher amounts. This practice can disadvantage vulnerable customers who may lack the confidence or knowledge to challenge such offers.
- Claimants experiencing issues such as repeated paperwork requests and lack of communication, with vulnerable customers facing more significant challenges to manage complex claims processes and redress processes if they have not been treated fairly.
- Do car insurance products meet the needs of low-income households, e.g., are they able to reduce their premium through actions such as reducing their mileage, adding security devices or telematics, without hidden additional costs such as higher excesses?
- Are the needs and financial inclusion of low-income customers incorporated into an insurers' governance structures and responsibilities?

We would like to work with the motor insurance industry to share good practice regarding the implementation of the Consumer Duty for motor insurance customers on low incomes. As a first step, we have developed a checklist that motor insurers could use to assess whether their firm's pricing structures, product design, distribution and customer support meet the FCA's Consumer Duty (Appendix 1). We plan to test with the industry and consumers to ensure that it is proportionate, useful, and aligned with existing governance processes.

"With my daughter's insurance we decided to pay monthly, which you have the added 10% on. So because your income is lower, you have to pay a higher premium... no, it's definitely not fair."

Zahada's Story: Insurance and the poverty premium

2.2 Embed inclusive design principles into the policy and regulatory framework

Insurers, regulators and policymakers need to know what customers really experience, and they should be regularly collecting information on how that experience is changing. Consumers are experts by experience of how a market works for them, and so they are well-placed to explain how policies, regulations, products and services meet their needs. Inclusive design requires regulators, government and businesses to work alongside people with a relevant breadth of lived experiences to ensure that all consumers can access the products and services they need.

Effective inclusive design is more than just a methodology to apply to specific products and services to tackle existing poverty premiums. It is about organisations, markets and an economic system that embraces diversity as a source of innovation so that new poverty premiums do not arise in the future. It is an important tool for re-designing our policy and regulatory framework so that is inclusive and equitable.

Inclusive design recognises that there is not a ‘one-size-fits-all' to financial inclusion and that to achieve equitable outcomes different people will benefit from different consumer protections, policy interventions, financial products and services, communications and incentives. Academic research shows that people with protected characteristics have an increased likelihood of paying a poverty premium for financial services, compared with people living in low-income households who do not have a protected characteristic, and that this is compounded if someone has more than one protected characteristic.

The FCA should lead by example and apply inclusive design principles to its own work. Currently the FCA requires firms to commit to inclusive design principles as part of its consumer vulnerability guidance, however, it does not commit to following the same principles. For markets to be fully inclusive, the regulatory environment must also be inclusive as firms and competition alone will not lead to equitable outcomes for consumers. The poverty premium is a prime example of the current regulatory environment and market practices leading to inequitable outcomes.

We want inclusive design to be embedded in the regulatory process, for example being used as standard by regulators when they are developing new rules, conducting new market studies and evaluating their impact.

We have produced two guides on inclusive design, in partnership with the Money Advice Trust - one for regulators and one for firms. These guides outline:

- The practicalities of creating an organisation-wide culture shift, for example the importance of leadership and training.
- Tools you can use in an organisation such as procurement and funding incentives.
- Activities and workshops you can run as part of your inclusive design process.

Inclusive design has many benefits including:

- Increasing market reach and driving innovation, which can support both financial inclusion and inclusive economic growth by transforming currently under-served groups into consumers.
- Building insight that increases the likelihood that interventions will work well for the target beneficiaries and avoiding unintended consequences that could lead to harm or inefficiencies.
- It can help develop policymakers' ability to position and embed policy interventions that could otherwise be driven by bias or a limited understanding of other people's realities.
- It aligns with existing requirements under the Equality Act (2010) and the Consumer Duty. Therefore, including this approach will support compliance.

Inclusive design in essential services – regulators guide, Money Advice Trust and Fair By Design

2.3 A diverse workforce and culture of inclusion a cross the insurance industry

Inclusive design is one part of the picture for embedding a breadth of lived experiences into policymaking and regulation. For those voices to be taken seriously, and the culture of the sector to shift so that it delivers equitable outcomes, it is important to have a diverse workforce that represents the lived experience of customers and that working environments are inclusive.

Research shows that businesses with a diverse workforce, including at the most senior levels, outperform their competitors. This is unsurprising – businesses that consider the widest possible range of perspectives when developing their products and services are most likely to anticipate problems and find new ways to meet the needs of their customers.

Yet people from lower socioeconomic backgrounds are under-represented in the financial services sector. Research by the FCA found that almost 9 in 10 senior roles in financial services are held by people from higher socio-economic backgrounds, and employees from lower socio-economic backgrounds take 25% longer to progress, despite no evidence of a difference in performance. This data is not available for the insurance sector specifically, which employs over 300,000 people, or with a breakdown for motor insurers. The ABI has undertaken work to capture this data.

To address the lack of diversity in the sector and better understand whether the sector is inclusive and equitableIn the FCA and PRA published a joint Discussion Paper on diversity and inclusion in the financial sector. The paper states that *"research shows evidence of correlations between diversity and inclusion and positive outcomes in risk management, good conduct, healthy working cultures, and innovation... Our goal is to see increased diversity and inclusion in financial services translate into safer and sounder firms with better internal governance and risk management, a more innovative industry, and financial products and services that meet the diverse needs of consumers."*

From a product-specific perspective the paper acknowledges that "the products offered to customers still do not always meet the needs of disadvantaged groups" and for retail customers that *"firms need to be sufficiently diverse and inclusive to be able to understand and meet the needs of their diverse customer bases; otherwise their customers are at more risk of harm. For example, customers may not be offered suitable options for their circumstances, they may have difficulty in accessing products and services, or there may not be products and services that meet their needs. This can lead to disengaged consumers, and potential exclusion from financial services."*

From a regulatory perspective it acknowledges that it would support "existing work around the treatment of consumers, including vulnerability and the proposed new Consumer Duty."

Improving the employment opportunities for people from lower socio-economic backgrounds in such a significant sector to the economy will have the dual benefit of improving the accessibility of products and services to people on low incomes and directly reducing the poverty premium by supporting people into employment, which will increase their earnings and lift them out of poverty.

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One of the barriers to progress is the lack of government clarity. Under the previous Government the Treasury Select Committee urged the Government to call on regulators to drop its proposals to improve diversity and inclusion across the sector, which they did. The current Government is progressing several changes in Equality Law and the regulators are waiting until they receive a steer from Government before progressing this agenda further.

We support the Social Mobility Foundation, Progress Together and up Reach's joint letter to the FCA and PRA calling on them to immediately continue their work on measuring diversity, equity and inclusion within the markets that they regulate. We acknowledge that this requires certainty from the Government and so we're also calling on the Government to support this agenda.

2.4 Introduce a Socio-Economic Duty that applies Regulators

The Labour government has committed to enacting a Socio-Economic Duty (SED) and included this in its recent call for evidence on possible equality law reform. This Duty would require specific public authorities to consider how their decisions might help to reduce the inequalities associated with socio-economic disadvantage. This would apply to strategic decisions such as deciding priorities and setting objectives. We are calling for the SED to be applied to regulators as they would then have to consider socio-economic inequality in how they set rules, supervise markets, and measure success — embedding fairness into system-level design.

Including regulators, such as the FCA, within the Duty could have a positive impact on consumers in the car insurance sector. If the FCA had to abide by this Duty, it would mean they had to proactively consider the structural impact of market policies and practices on people from socio-economically disadvantaged backgrounds.

The Consumer Duty focuses on individual outcomes and fair treatment at firm-level, but it does not require market actors to examine how systemic issues like poverty or geography shape accessibility and affordability – and crucially prevent this leading to discrimination. Therefore, this would build on the Consumer Duty as it would place greater emphasis on regulators proactively promoting the inclusion of individuals facing socioeconomic disadvantage in markets, rather than just avoiding negative outcomes for existing consumers.

As we have already discussed, people on low incomes are often charged higher premiums because of factors outside their control such as living in areas with higher crime or collision rates. This means that even if individual insurers' pricing models are actuarially justified and in line with the Financial Conduct Authority's (FCA) Consumer Duty, the market in its entirety is entrenching disadvantage by making car insurance more expensive for people on low incomes. The need to use a car does not diminish just because someone is on a low income. A car is often essential for getting people to work or their place of education and it is often the only form of transport suitable for some disabled people - who are more likely to be living in a low-income household. A SED would help to ensure that risk-based pricing is balanced with the broader societal impact of exclusion from essential services.

For example, it could lead to the FCA:

- Requiring greater transparency of insurers' risk models so that it can assess whether, across the market, approaches to pricing are entrenching socio-economic inequality.
- Encouraging 'socially fair' underwriting models that improve access to motor insurance for those currently priced out of the market to improve financial inclusion for those on low incomes.
- Embedding inclusive design principles into its strategy, regulatory development and evaluation of outcomes.

We are not advocating for the abandonment of actuarial fairness, but for its evolution. Social fairness and actuarial fairness are not mutually exclusive. Driving positive behaviours through premiums, alongside legislative and regulatory interventions that ensure financial inclusion, have delivered positive results in other areas of insurance (e.g. flood) and in other countries' approaches to insurance (the approach to health and social care insurance in several countries bridges actuarial and social fairness). Risk-based pricing must and can be balanced with moral hazard and the broader societal impact of exclusion from essential services.

Some may argue that the Chancellor's remit letter to the FCA, in November 2024, that introduces a "have regard" for financial inclusion for the FCA negates the need for a SED. However, there has been no public update from HM Treasury or the FCA on the implementation of the 'have regard' since the remit letter. In addition, the Chancellor has announced a review of regulators' "have regards" as part of the Government's drive to streamline regulation. This means that there is a risk that the financial inclusion "have regard" could be scrapped. Therefore, extending the SED to regulators would avoid the pitfalls of politicisation of these issues, ensuring that socio-economic inequality is protected in legislation and therefore will be tackled structurally and permanently.

We would like the Government to make good on its promise of introducing the Socio-Economic Duty and, as part of this process, make sure that it covers regulators, including the FCA.

> "When I do my car insurance, they ask, are you disabled? Are you a single parent? Are you married, are you divorced? What is your job title? Does it matter that I am a single parent at home because I am looking after my kids or in ill health, I'm a careful driver! But I have a disability, I feel that I am penalised for my circumstances. Because we are already suffering and living in poverty, we should not be charged more."
>
> *Low-income focus group participant, Insurance and the poverty premium, Social Market Foundation*

2.5 The role of the CMA

The Competition and Markets Authority (CMA) does not have a direct regulatory role over insurance pricing (which is primarily the responsibility of the FCA), but it does play a key role in tackling the poverty premium in car insurance through its responsibilities:

1. Promoting Competition and Market Fairness

The CMA works to ensure that markets function well for consumers, including vulnerable and low-income groups. The CMA can launch studies into whether competition in markets (like motor insurance) is working effectively. If it identifies that low-income consumers are consistently paying more due to market failures or unfair pricing practices, it can recommend or enforce changes. The CMA conducted a comprehensive investigation into the motor insurance market in 2014 and identified practices that were reducing competition and leading to higher premiums. Since then, premiums have risen significantly, with a small decrease more recently following increasing scrutiny. This suggests further investigation is required.

Legacy premiums were a key focus following the 2019 GI Market Study and to some extent this has been addressed, but customers who ‘haggle’ are still getting better prices both if they look to renew with their existing insurer and if they’re looking to switch insurer.

> “My current insurer is always cheaper than on price comparison websites and I always call them up as I am always able to negotiate to get more money off. It is amazing how quickly they can reduce the price for you.”
>
> *Val, Fair By Design Lived Experience Panel Member.*

2. Supporting Data-Driven Regulation and Consumer Transparency

The CMA has an interest in ensuring that consumers can make informed choices, especially when it comes to complex or opaque products like insurance. While the FCA oversees financial services, the CMA can advocate for broader policy changes or support transparency initiatives to help consumers compare prices and understand value for money. The CMA is also increasingly active in examining how algorithms, AI and bigger data sets impact consumer choice and fairness. This is a key issue in insurance pricing, as there is the potential for them to entrench disadvantage for people in low-income areas. They can also improve transparency by improving pricing accuracy and reducing the need for assumptions. Explainable AI techniques can also help insurers to understand how algorithms arrive at their pricing decisions. Helping customers to understand how their premium is calculated can build trust and help customers to take actions that could reduce their premium.

As part of this the CMA could look at price comparison websites and how insurers communicate with consumers. Fair By Design's Lived Experience Panel Members found price comparison websites useful for raising concerns with insurers as well as finding the best price, but some had also been caught out by 'the fine print'.

> **"Price comparison websites are useful. When I had to renew my car insurance I could check how much my quote went up when I ticked the boxes for being disabled and unemployed. It went up by around £100 for the year. When I called my insurance company, they said it is because I am more likely to be driving more if I am not in work all day, which just isn't true. The insurance company wasn't helpful and just told me to shop around."**
>
> *Brian, Fair By Design Lived Experience Panel Member.*

3. Collaboration with the FCA and Other Regulators

The CMA regularly works with the FCA, particularly where there is overlap in consumer protection and market outcomes. For example, in the dual pricing investigation (also known as the "loyalty penalty"), the CMA worked with the FCA to highlight and reduce harm to loyal consumers. The CMA's findings informed the FCA's 2022 General Insurance Pricing Practices reforms, which banned the 'loyalty penalty' and required insurers to offer renewing customers the same prices as new ones.

Given motor insurance prices remain higher for low-income customers, and premiums are rising, we recommend that the CMA resumes its investigation of this market specifically to investigate whether consumers on low incomes are consistently paying more for car insurance due to market failures or unfair pricing practices.

3. Targeted Discounts

Several of the arguments we have made above also make the case for introducing a targeted discount for car insurance:

- Car insurance is a legal requirement in the UK (unlike other forms of insurance).
- In many regions in the UK, a car is not a luxury but a necessity for full participation in society including education and employment. Yet, low-income households typically face higher premiums. This is regressive and exacerbates financial strain.
- Governments and regulators in the UK and overseas have a track record of intervening in the insurance market in a way that complements existing under-writing models, whilst addressing inequalities and financial exclusion.
- Many risk reduction measures (i.e. Vision Zero ambitions) will take time to implement and have an impact on premiums.

In addition:

- While insurers price based on risk, the social cost of excluding low-income drivers (e.g., unemployment) may outweigh the cost of any discount.
- Similar to subsidized housing, energy assistance, or public transit discounts, insurance support for low-income households would improve their financial resilience.

A discount could either be a set lump sum that is reviewed regularly based on whether premiums overall are rising or falling, or it could be based on a set proportion of all or part of someone's premium.

Whilst basing it on someone's entire premium intuitively feels 'fair' and straightforward approach, we are aware of concerns that this could negatively interact with incentives for individuals to reduce their premium i.e. buying a vehicle with a smaller engine or better security features or driving safely and avoiding low-cost claims to gain a no claims discount. Therefore, basing it on the proportion of their premium linked to their postcode and factors outside of their control, whilst potentially more difficult to administer and regulate, would avoid perverse incentives.

Our preference would be to adopt the most straightforward approach, alongside our earlier recommendation that customers should be better signposted about how they can further reduce their premiums. Our view is that low-income households are not likely to use this discount to buy a car that is more expensive to insure, and they will use it to save money.

Eligibility for the discount should be based on both eligibility for means-tested benefits and household income so that it covers all low-income households. There are data complexities for achieving this, but work being undertaken to support interventions in other markets such as energy which could help insurers and their customers to navigate this complexity.

It could be funded through one or more of the following:

- A progressive discount in Insurance Premium Tax (IPT) - IPT adds an extra £67 to the cost of the average price paid for motor insurance. IPT could be spread across car insurance customers in a more progressive manner either by making it a set amount, rather than a proportion of someone's premium, or having tiered rates, akin to income tax.
- Cross-subsidy across customers – through an industry levy or another mechanism like a social tariff, which could be conditional and timebound akin to Flood Re.
- A voucher system where eligible customers get a specific monetary amount off their premium or a discount based on the value of their premium.

3.1 Insurance Premium Tax (IPT)

The Association of British Insurers (ABI) has been calling for a reduction to IPT. It commissioned research by Public First which found that the cost of IPT has doubled, per household, since October 2015. This is a more rapid increase than the increase in tax applied to alcohol or gambling and comparable to rises in tobacco duty. These penalise people for being responsible and taking actions to improve their financial resilience. Unsurprisingly Public First's survey of 2,000 adults found that reducing IPT would be popular with the public - almost 4 out of 5 respondents said that it is unfair for the government to raise taxes on taking out insurance, even if they are trying to bring in additional income. It is even more unfair for motor insurance as unlike other forms of insurance it is a legal requirement.

This research also found that IPT is not well-understood by the public and they question whether this is why the Government has quietly increased this tax compared to the big announcements it has made about taxes such as those on tobacco and sugar. In an era where the Government and regulators are calling on the industry to improve transparency to ensure fair value for customers, it seems only fitting that the Government holds itself to the same standards.

The UK and several countries apply variable tax rates and exemptions for vehicles that have lower emissions e.g. VAT and Vehicle Excise Duty, demonstrating that a tiered approach is possible. We appreciate that basing this on the individual driving a car, rather than the car itself, is more complex from a data matching and assessment perspective. However, there are several data initiatives already underway across government that could improve the feasibility of this approach i.e. the ability to quickly assess whether someone's income is below a certain threshold and their postcode, should living in a high-risk area be part of the eligibility criteria.

In recognition that in the 2024/25 financial year, the UK Government received a record £8.88 billion in revenue from IPT, we would like the government to explore the impact on its balance sheet of either reducing IPT for low-income households, or redistributing IPT in a manner that is more progressive, akin to the tiered approach in the UK for income tax.

3.2 Cross-subsidy

We are not proposing that insurers move away from risk-based models. Our proposals are focused on evolving approaches to pooling and cross-subsidises so that they are more transparent and equitable. Pooling of risk across customers, knowing that some people will need and receive a pay out and others will not, is the backbone of insurance.

However, as technologies have advanced and risk management has improved, insurers have moved increasingly towards risk-reflective pricing models, but this doesn't mean that risk is not being cross-subsidised across customers. For example, low-income drivers, with relatively cheap cars, pay more if they live in an area where there are drivers with more expensive cars on the road, or if there are more uninsured drivers on the road, or if there are more people making fraudulent claims in their area. The regulatory framework and insurers pricing models deem this 'actuarially fair', but is it fair when you consider fairness through the lens of the outcome for low-income households?

In addition, empirical research shows a significant 'middle ground' in the way members of society construe fairness in insurance pricing, in terms of whether individuals should be priced according to their risk of loss or whether losses should be shared across the pool of insureds, even if this requires lower-risk individuals to subsidise those at higher risk. The public's views are based on whether the factors used to classify high-risk individuals are considered discriminatory and within their control. This same research assessed several government-legislated insurance pools that were mandated to provide affordable insurance to high-risk individuals to balance actuarial and social fairness. It found that they can be successful at doing this when they do not de-link the two approaches i.e. risk reduction measures are undertaken within an agreed timeframe, alongside timebound cross-subsidy.

> **"Insurance is peace of mind you know - life is uncertain and there are lots of commodities in our life that we need like mobile, like car, like washing machine... So we need actually the insurance to cover up uncertain situations."**
>
> *Low-income focus group participant, Insurance and the poverty premium, Social Market Foundation*

Flood Re is an obvious example to learn from as it is based on the risk profile of an area, and it is timebound. It includes commitments from the Government and industry to improve the resilience of properties in flood prone areas, both by making changes to the buildings and by putting in place flood defences. The principles of Flood Re's Build Back Better Scheme could translate to motor insurance. For example:

Flood Re's Build Back Better	Translating this to car insurance
Up to £10k for resilience measures.	Grant or voucher for anti-theft devices, telematics, advanced driving courses or affordable off-road parking.
Partnership with insurers and local authorities to improve flood defences.	Similar partnerships to improve road safety in deprived areas.
Promotes prevention, not just payout.	Encourages individual and societal behavioural and environmental improvements to reduce future risk.
Funded through scheme levies and insurer participation.	Could be funded via a Motor Re levy, which could be partially met by reducing IPT, or met entirely by insurers, noting this will increase some people's premiums. If this resulted in less uninsured drivers (because car insurance is more affordable) there could also be redistribution from that pooling mechanism.

- We are calling on the Motor Insurance Taskforce to explore the merits of a timebound levy that is used to reduce premiums for people on low incomes who live in areas with high premiums. This should be done alongside an objective to improve the affordability of car insurance within a specific timeframe.
- Affordability could be improved through investment in road safety, including improvements to public transport, reducing fraud and car theft, and working with manufacturers to improve their VRR to improve vehicle safety and the cost of repair.
- Affordability could also be improved by supporting low-income customers to take out policies with low or no excess. In its 2024 Quinquennial Review Flood Re recommended that the excess on claims should be removed.

3.4 A voucher scheme

The government could also introduce a voucher/discount scheme for car insurance. It could be a flat-rate, or a proportion of someone's overall premium – this proportion could be static or tiered. It could be state-funded or funded through cross-subsidisation. Voucher schemes exist and have existed in the UK in the past e.g. the Warm Homes Discount, Childcare vouchers and concessionary travel and so there are precedents to learn from.

We would like to work with the industry and academics to understand the cost-benefit analysis of financial exclusion from car insurance versus the cost of a targeted discount (in any of the ways discussed in this section); and the impact different approaches would have on taxpayers, other insurance customers and insurers, as well as low-income households.

4. Conclusion and next steps

The poverty premium in motor insurance is not just a pricing issue. It is a systemic barrier to mobility, employment and financial inclusion. We appreciate that some of these interventions will have resource implications, however we hope that they'd also support opportunities such as improved trust and reputation, access to currently underserved markets and better risk management.

We are not proposing that insurers move away from risk-based models. Our proposals are focused on evolving approaches to pooling and cross-subsidises so that they are more transparent and equitable. We want to work with the industry, regulators, policymakers and customers to drive co-designed solutions that are fair, sustainable, and grounded in shared values of transparency, inclusion and risk reduction.

"I need my car to work as I work in different areas and the buses that I need have stop running during bad weather , and taxis are unaffordable for me. My car gives me freedom, without it I find it hard to buy food at supermarkets/bulk buy (local shops are very expensive) and go to work. I recently had to spend 6 weeks without my car as it broke down and it caused me a lot of stress. My policy included a courtesy car, but only for 28 days and there were delays at the garage where the insurers sent my car to get fixed and so it took more than 7 weeks to repair it. They didn't keep my me updated with what was happening and how long it was going to take even when I was left without a courtesy car."

Fair By Design Lived Experience Panel Member.

Appendix 1: Consumer Duty & Poverty Premium Checklist

1. Fair Value and Pricing Practices

- Have we assessed whether premium finance charges (for monthly payments) represent fair value and are not generating disproportionate profits from low-income customers?
- Have we tested whether our risk-rating factors (e.g. postcode) indirectly penalise low-income consumers in a way that may breach fairness or be considered discriminatory?
- Do we routinely analyse profit margins across different income groups and socio-economic segments to identify whether any group (e.g., customers in deprived postcodes) consistently pays more without a clear risk-based justification?
- Can we evidence that differences in pricing are supported by objective and relevant risk data, and not unexplained loadings that disproportionately affect people in poverty?

2. Transparency and Consumer Understanding

- Have we tested whether customers understand what drives their premium price, especially those in areas of high deprivation or low financial literacy?
- Have we evaluated whether price comparison websites or brokers are presenting our pricing structures clearly and fairly for financially vulnerable customers?
- Is our communication on premium financing, risk-based pricing, and renewal options clear, jargon-free, and accessible to all socio-economic groups?
- Are we confident that low-income customers understand how to raise complaints and seek redress to the same extent as middle-to-high income customers?

3. Products and Target Market

- Has the target market for each motor insurance product been defined to ensure that it does not exclude or unfairly penalise low-income consumers?
- Do we offer or explore products designed for vulnerable or low-income consumers, such as basic cover with lower excess or telematics-based discounts?
- Have we assessed whether our distribution channels align with reaching low-income customers with suitable products?

4. Monitoring and Data Collection

- Do we collect and analyse data on customer outcomes by income level, postcode deprivation index, or other proxies for socio-economic status?
- Have we commissioned or participated in independent audits or third-party research to assess the poverty premium in our pricing structures?
- Is there a regular review process to monitor whether low-income consumers are receiving fair outcomes?

5. Governance and Oversight

- Is the Board receiving regular updates on how low-income or vulnerable customers are treated under current pricing practices?
- Are findings from internal audits or FCA reviews on pricing fairness escalated to senior governance committees?
- Do we have a cross-functional working group (product, compliance, pricing, actuarial, legal) addressing poverty premium issues and responsible for mitigation actions?

6. Engagement and Improvement

- Have we engaged with consumer groups (e.g. Citizens Advice, Fair By Design, Money and Pensions Service) to better understand the impact of our practices on low-income households?
- Have we taken steps to educate consumers, particularly those on low incomes, about ways to reduce their premiums (e.g. through telematics, car security)?
- Are we prepared to provide data to regulators such as the FCA if asked to demonstrate that our pricing structures do not disproportionately harm low-income consumers?

7. Forward-Looking Strategy

- Are we reviewing how evolving technologies (AI, machine learning) might unintentionally entrench biases that worsen the poverty premium?
- Have we considered how to contribute to systemic solutions (e.g. working with local authorities on crime reduction) to lower risk factors and premiums for deprived areas?
- Are we prepared for regulatory developments such as a potential Socio-Economic Duty or the introduction of a social tariff?

Barrow Cadbury Trust

Fair By Design is managed by the Barrow Cadbury Trust on behalf of a group of foundations.

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Fair By Design is dedicated to reshaping essential services such as energy, credit and insurance so that they don't cost more if you're in poverty – also known as the poverty premium. Fair By Design works with regulators, Government, Parliament and industry to eliminate the poverty premium.

Contact us: fairbydesign.com