

Title: REMOVAL OF THE EUROPEAN COURT OF JUSTICE VNUK DECISION FROM GB MOTOR INSURANCE LAW IA No: DfT00434 RPC Reference No: Lead department or agency: Department for Transport Other departments or agencies:	Impact Assessment (IA)
	Date: 16/09/2021
	Stage: Final
	Source of intervention: Domestic
	Type of measure: Primary Legislation
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Summary: Intervention and Options	RPC Opinion: RPC Opinion Status
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Cost of Preferred (or more likely) Option 2 (in 2019 prices)			
Total Net Present Social Value	Business Net Present Value	Net cost to business per year	Business Impact Target Status Qualifying Provision
£0	£240	-£28	

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

In 2014 the Court of Justice of the European Union (CJEU) ruling in the Vnuk case, it was directed that the obligation of compulsory motor insurance contained in Articles 3 and 10 of the EU Motor Insurance Directive (Directive 2009/103/EC) (“the 2009 Directive”), must be extended to include vehicles being used on private land. Its effect could also apply the 2009 Directive to vehicles not constructed for road use, potentially including those used in motorsports, agricultural machinery, and light electric vehicles. This is wider than the compulsory third-party insurance obligation in Great Britain (“GB”) contained in the Road Traffic Act 1988 (RTA), which only covers roads and other public places and ‘motor vehicles’, as defined in the RTA.

In 2019, the Court of Appeal (England and Wales) in Motor insurers’ Bureau (MIB) v Lewis upheld the 2018 decision in Lewis v Tindale which found that the interpretation of the 2009 Directive in the Vnuk judgement was directly effective and could therefore be enforced directly against the MIB, as an emanation of the state and the body responsible for compensating victims of uninsured and untraced drivers under the 2009 Directive via its Guarantee Fund. As the scope of the compulsory third-party motor insurance obligation in GB only extends to motor vehicles and to roads and other public places, the Lewis decision meant that the MIB’s liability for insurance claims extended beyond this, to accidents on private land and potentially to a greater range of vehicles not constructed for road use. The direct effect rights to claim compensation from the MIB created by Lewis were preserved in domestic law following the end of the EU Transition Period the European Union (Withdrawal) Act 2018. Without Government Intervention these liabilities will continue to rise and could be passed on to motor vehicle drivers in the form of a c.£50 increase to their premiums for motorcars to extend coverage for fraud and use on private land.

What are the policy objectives and the intended effects?

The policy objective is to remove the effects of the 2014 CJEU ruling in the Vnuk case from GB law and end the associated liability for insurance claims against the MIB. The intended effect is to clarify that compulsory third-party motor insurance is only required “on a road and other public place” and for “motor vehicles” as set out and defined in the RTA.

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

Baseline (Option 0) - Do nothing – current obligations continue. Costs remain a liability for MIB; potentially passed onto consumers by an increase in their premiums. The cost of this is estimated as £205 million for historic claims. This will continue to increase indefinitely if the law remains unchanged. There is also expected to be an ongoing annual liability to the MIB for Vnuk claims of £29 million per year.

Option 1 – Implement Vnuk. Requires primary legislation to change the RTA, to make third-party insurance compulsory on private land and for a wider range of vehicles. This would increase some consumer protections and would only require claimants to seek compensation from the MIB if the compulsory insurance obligation is not met. However, this option would be inconsistent with the rest of the RTA which does not apply to private land, could complicate enforcement of the insurance requirements as the police have limited access to private land, could duplicate insurance such as employer’s liability and public liability, and would also increase insurance premiums by around £2 billion per year.

Option 2 – Remove Vnuk (preferred). Requires primary legislation to change the RTA; removal would be prospective. This option is consistent with the 2016/17 consultation and would cost some consumer protection through access to compensation, but this is largely mitigated by pre-existing forms of insurance such as employers liability insurance. It benefits from ensuring consistency with the RTA, does not complicate enforcement, and avoids an increase in motor vehicles premiums by ending liability (via the MIB) for potential future claims.

Will the policy be reviewed? It will be reviewed. **If applicable, set review date:** 09/2026

Does implementation go beyond minimum EU requirements?		No		
Is this measure likely to impact on international trade and investment?		No		
Are any of these organisations in scope?	Micro Yes	Small Yes	Medium Yes	Large Yes
What is the CO ₂ equivalent change in greenhouse gas emissions? (Million tonnes CO ₂ equivalent)		Traded: N/A	Non-traded: N/A	

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 SELECT SIGNATORY: Date:

Summary: Analysis & Evidence

Policy Option 1

Description: Modify domestic legislation to ensure compliance with the Directive following the Vnuk judgement. Insurance will be required for a wider range of vehicles and extending the scope of cover beyond roads and other public places.

FULL ECONOMIC ASSESSMENT

Price Base Year 2019	PV Base Year 2022	Time Period Years 10	Net Benefit (Present Value (PV)) (£m)		
			Low: -£12,589	High: -£1,307	Best Estimate: -£6,940

COSTS (£m)	Total Transition (Constant Price) Years		Average Annual (excl. Transition) (Constant Price)	Total Cost (Present Value)
	Low	£3		
High	£16.6	£2,443.9	£21,075.7	
Best Estimate	£8	£2,035	£17,543.1	

Description and scale of key monetised costs by 'main affected groups' Actuarial work already carried out shows that the cost of this option will be in the region of £2 billion per year in increased motor insurance premiums to existing motorists and to those who would be required to obtain third-party liability insurance as a consequence of the extended scope of this option relative to the baseline. By volume, the largest costs will be borne by motorcar policy holders who could see an estimated £50 increase in their existing premiums. This increase in premiums is to extend coverage to include private land (~£20 for motorcars) and to cover for additional fraud expected from implementing Vnuk (~£30 for motorcars). However, it is expected that the increase in premiums for NISVs and for extending premiums for private land will be transfer payments. The same number of accidents are expected to occur on private land or involving NISV whether Vnuk is implemented or not. However, by implementing Vnuk, all motorists are paying for the cost of compensation to victims rather than the MIB or individuals involved in accidents. The total cost of the transfer is expected to be £1.23 bn per year. It is also expected that there will be increased costs to the police, the motor insurance industry, and the criminal justice system in terms of familiarisation and increased court time.

Other key non-monetised costs by 'main affected groups' There are challenges around enforcing motor insurance legislation on private land and there are questions around whether the intrusion of enforcement is proportionate to the extent of the offence of non-compliance. Enforcement on private land will also place increased demands on the police, who will have to consider where this enforcement sits in terms of their wider priorities and allocate resources accordingly. With the high costs of motorsport insurance, there will be costs to the industry, leaving questions of its sustainability and the impact this has on jobs in the sector. It is also expected that it will reduce the affordability of Newly in Scope Vehicles (NISV) and increase transport inequalities and social exclusion.

BENEFITS (£m)	Total Transition (Constant Price) Years		Average Annual (excl. Transition) (Constant Price)	Total Benefit (Present Value)
	Low	£0		
High	£0	£1,477.5	£12,717.8	
Best Estimate	£0	£1,231.9	£10,603.5	

Description and scale of key monetised benefits by 'main affected groups' Victims who are injured in collisions with existing and NISVs will have a route to the full compensation entitled to them. No expected impact or change to the ability for a high value compensation claim to be settled through the Periodic Payment Order process. The increase in compensation and revenues of insurance companies who distribute collect premiums and distribute compensation is assumed to be roughly the same as the total increase in premiums to extend coverage to private land for existing vehicles and for NISV to gain coverage. The benefits of compensation to those in accidents and to insurance company revenues are expected to equal £1.23 bn annually. Therefore, the transfer impacts are expected to have net cost of £0

Other key non-monetised benefits by 'main affected groups' Through incentives to maintain 'no-claims' discount, increasing the scope of insurance could improve the safety of vehicle used on private land and using NISVs. In turn, the perception of road safety could also increase.

Key assumptions/sensitivities/risks	Discount rate	3.5%
A key risk identified from the previous consultation was the likely increase in fraudulent claims, brought about by the lack of traceability markings on many of the NISVs. This together with claims being brought for collisions on private land, where there is less likely to be any corroborating evidence to support or refute any claim, creates increased risk of fraudulent claims. This option could duplicate insurance such as employer's liability and public liability.		

BUSINESS ASSESSMENT (Option 1)

Direct impact on business (Equivalent Annual) £m:			Score for Business Impact Target (qualifying provisions only) £m:
Costs: £13.8	Benefits: £0	Net: £13.8	
			£65

Summary: Analysis & Evidence

Policy Option 2

Description: Remove Vnuk from GB law which would remove the extension of provisions requiring motor insurance on private land. Avoids a potential increase in motor insurance for existing policy holders by ending liability to the MIB.

FULL ECONOMIC ASSESSMENT

Price Base Year 2019	PV Base Year 2022	Time Period Years 10	Net Benefit (Present Value (PV)) (£m)		
			Low: -£104	High: £103	Best Estimate: -£0.25
COSTS (£m)	Total Transition (Constant Price) Years		Average Annual (excl. Transition) (Constant Price)	Total Cost (Present Value)	
Low	£0.07		£23.9	£206.1	
High	£0.65		£35.9	£309.7	
Best Estimate	£0.25		£29.9	£257.8	
Description and scale of key monetised costs by 'main affected groups'					
<p>The Crown Prosecution Service (CPS) are expected to face familiarisation costs of £0.25 million. This is due to changes in who is entitled to compensation and where the liabilities lie for this, resulting in judicial staff facing costs of familiarising with the change in legislation. By removing Vnuk, victims will also no longer have a route to compensation through the MIBs Guarantee Fund if the accident involves an uninsured or untraceable vehicle on private land or involving a NISV (unless compensation could be obtained directly from the driver in uninsured cases). This is expected to reduce compensation by £29 million per year and this is assumed to be a transfer impact from the reduction in MIB liabilities.</p>					
Other key non-monetised costs by 'main affected groups'					
<p>By removing Vnuk, victims of accidents involving NISVs or occurring on private land will not be covered by the MIB run Guarantee Fund. Instead, victims will have to go through the court system to claim compensation. While the MIB investigate many notified claims, each year resulting in efficient processes, individuals do not, nor can they call on same technical or financial capabilities as the MIB. This is expected to increase the transaction cost to society of making a claim for an accident involving a NISV or occurring on private land and result in longer court proceedings, incurring additional costs to the justice system.</p>					
BENEFITS (£m)	Total Transition (Constant Price) Years		Average Annual (excl. Transition) (Constant Price)	Total Benefit (Present Value)	
Low	£0.0		£23.9	£206	
High	£0.0		£35.9	£309.1	
Best Estimate	£0.0		£29.9	£257.6	
Description and scale of key monetised benefits by 'main affected groups'					
<p>In the baseline option, claims and liabilities to the MIB will continue to increase as accidents under the scope of the Vnuk judgement occur, which is expected to increase insurance premiums. However, by removing Vnuk, the liabilities to the MIB and increases in insurance premiums is limited to historical accidents and claims to the MIB. This is expected to reduce costs to the MIB by £29 million per year compared to the baseline. However, it is assumed that the reduction in MIB liabilities is the same as the reduction in compensation to victims who, under this option, may have to personally cover the costs of the accident. Therefore, this is expected to be a transfer so the ongoing annual benefits in the above table should be equal to the ongoing costs.</p>					
Other key non-monetised benefits by 'main affected groups'					
Key assumptions/sensitivities/risks				Discount rate	3.5%
<p>The key assumptions refer to the familiarisation costs of the Crown Prosecution Service (CPS). It is assumed that there are the same number of CPS employees as in the latest available data source published in 2009. It is also assumed that all CPS staff face familiarisation costs. There is no breakdown of the type of staff and who faces familiarisation costs. To consider these uncertainties, sensitivity analysis has been carried out.</p>					

BUSINESS ASSESSMENT (Option 2)

Direct impact on business (Equivalent Annual) £m:			Score for Business Impact Target (qualifying provisions only) £m:
Costs: £0.00	Benefits: £29.9	Net: -£29.9	-£140

1.0 Policy Rationale

Policy background

1. In England and Scotland and Wales (Great Britain, or “GB”) third-party motor insurance is compulsory for motor vehicles and is primarily regulated by the Road Traffic Act 1988 (RTA). According to the Government’s Vehicle Licencing Statistics, at the end of 2020 there were 38.6 million licensed motor vehicles in GB, with motor cars making up the largest segment at 31.7 million¹.
2. The RTA does not regulate motor insurance in Northern Ireland, because this is a transferred matter. Instead, separate legislation, known as the Road Traffic (Northern Ireland) Order 1981, applies.
3. To support victims of uninsured and untraced drivers, the Secretary of State for Transport has signed agreements with the Motor Insurers’ Bureau (MIB). The MIB was founded in 1946 and it operates a fund of last resort to assist victims of accidents caused by uninsured and untraced drivers. MIB then seeks to recover all costs associated with a claim from an identified perpetrator of the accident where this is possible.
4. Under the RTA, motor insurance products can only be sold by insurers authorised to sell motor insurance. To qualify as an authorised motor insurer, insurers must be a member of the MIB. Members of the MIB provide funding for the MIB’s fund of last resort via the MIB levy. This is an annual fee paid to the MIB by these authorised insurers, calculated as a percentage of each insurer’s share of the motor insurance premium market.
5. The UK joined the European Union (the “EU”) in 1973 and left on the 31 January 2020, with the transition period concluding on the 31 December 2020. The ultimate arbiter of European law is the Court of Justice of the European Union (CJEU). The CJEU interprets EU legislation to clarify what European law means and its correct application by EU Member States when the court of an EU Member State refers a legal case to it. Its decisions are binding on all EU Member States, creating a form of law called European case law. The European Union (Withdrawal) Act 2018 kept European case law as it was and its effects on UK law at the end of the transition period in the UK as retained EU case law.
6. During the period of its membership of the EU, and throughout the transition period, the RTA was GB’s main legislative vehicle for implementing the EU’s laws regulating motor insurance. These motor insurance laws were known as the EU Motor Insurance Directives (the “EU MIDs”). The most recent EU MID was the 2009 Motor Insurance Directive (“the 2009 Directive”), which consolidated all the previous EU MIDs into one text, superseding the previous EU MID texts.
7. In 2014, the CJEU handed down a ruling on the case of a Slovenian farmer, Mr Vnuk, who was knocked off his ladder by a reversing tractor trailer. The incident took place on private land on a farm in Slovenia in 2007. This case was called *Damijan Vnuk v Zavarovalnica Triglav d.d.* (“Vnuk”). The CJEU ruled that any use of a vehicle that is consistent with its normal function requires insurance. This meant that the compulsory third-party motor insurance requirement under the 2009 Directive, was extended to include vehicles used on private land and a potentially greater range of vehicles, including non-road going vehicles.
8. This contrasts with the scope of the domestic compulsory third-party motor insurance requirement under the RTA which is limited to accidents on roads and other public places and has a narrower

¹ [Vehicle Licencing Statistics: Annual 2020 \(publishing.service.gov.uk\)](https://www.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/91111/vehicle-licencing-statistics-annual-2020.pdf)

definition of “motor vehicle”. Examples of the types of vehicles that could be brought into the scope of compulsory third-party motor insurance by this ruling include:

- Tractors on farm land;
- Motorsports vehicles;
- Electrically assisted pedal cycles;
- Ride on lawn-mowers;
- Newly built vehicles coming off a production line that are not yet registered;
- Mobility scooters; and
- Forklift trucks within factory premises.

9. As a Member State of the EU (at the time of the Vnuk ruling), the UK began the process of implementing the Vnuk decision into domestic law. Accordingly, the Department for Transport (DfT) launched a UK-wide consultation on motor insurance in 2016, titled Technical consultation on motor insurance: consideration of the European Court of Justice ruling in the case of Damijan Vnuk v Zavarovalnica Triglav d.d (C-162/13) (the “consultation”).
10. This public consultation invited views from members of the public and organisations on the policy options for implementation of the Vnuk decision. The consultation was launched in December 2016 and concluded in April 2017; the government published a summary of the responses it received in July of the same year.
11. The Government also commissioned the Government Actuary’s Department (GAD) to produce a detailed research report analysing the impact on motor insurance in the UK of five potential courses of action following the Vnuk ruling. The analysis was completed between 2017 and 2019 and involved an external peer review conducted by an independent actuarial firm. The report was published in February 2021 as the Vnuk impact analysis: combined report.
12. The cost to the insurance industry from implementation was estimated by GAD at approximately up to £2 billion per year (with existing motorcar policy holders facing an estimated £1.227 billion of that, equating to a c.£50 increase to existing motorcar policy holder’s premiums), primarily driven by the following factors:
 - Existing motor insurance policies enhanced to cover usage on private land;
 - Increased fraudulent claims. Claims involving Newly in Scope Vehicles (NISVs) on private land, where there are far fewer means of verifying or negating a claim, are widely thought to open huge opportunities for fraudulent claims and abuse by organised criminality.
 - Additional insurance costs of roughly £458 million for the motorsports industry. The nature of motorsports events means that serious injuries are more likely to occur because of a collision.
 - Agricultural and construction vehicles, currently covered under employers’ liability insurance to a liability level of £5m per claim, will attract higher premiums to provide cover for personal injury to an unlimited level (as required by motor insurance); and
 - Additional miscellaneous vehicles that are now in scope will see insurance premium costs.
13. Costs, that are more difficult to quantify, arise from implementation and the potential need to extend other vehicle requirements such as vehicle registration, as well as driving licensing and the driving offences contained in the RTA to include a wider range of vehicles and cover driving on private land so that there is consistency with the extension of motor insurance requirements. This would prevent motor insurance being the only requirements contained in the RTA that are extended to private land.

14. Meanwhile the European Commission published a series of 'roadmap' documents assessing the impact of Vnuk, which resulted in a consultation in 2017 conducted under the auspices of its regulatory fitness and performance programme (REFIT). In 2018, this culminated in a detailed impact assessment and a proposal to amend the 2009 Directive, which would codify Vnuk (and subsequent motor insurance European caselaw), subject to negotiation between EU Member States, the European Parliament, and the European Commission.
15. The European Commission stated in its impact assessment that the rationale behind its approach was to avoid 'disorderly implementation' and 'ensure legal clarity'. It elaborated that, "Infringement procedures would only be initiated after the transposition exercise has been finalised and only against those Member States that failed to transpose correctly". Infringement proceedings refer to the process of the European Commission taking legal action against a Member State when it considers that the Member State is in breach of EU law. The transposition exercise refers to the procedure by which Member States incorporate EU Directives into their national law within a given timeframe.
16. The UK participated in the negotiations to amend the 2009 Directive up until the point at which it left the EU in 2020. The negotiations concluded in a provisional agreement reached in June 2021, with adoption expected in autumn 2021. Once it has been signed and published in the Official Journal of the EU, it is understood the text will be transposed into national law within 24 months from the date of entry into force.
17. In 2019 the Court of Appeal (England and Wales) in the case of Motor Insurers' Bureau v Lewis upheld a previous 2018 decision in the case of Lewis v Tindale & Ors ("Lewis"). The court found that the MIB was responsible for meeting claims made by victims of accidents arising from the use of vehicles on private land. As the RTA only requires compulsory motor insurance for the use of motor vehicles on roads and other public places, and the definition of a vehicle in the RTA is narrower than Vnuk, this means that (since Lewis) the MIB has been faced with an ongoing extension of its obligations.
18. The cost of this current liability could be passed onto motor vehicle drivers in the form of an increase in insurance premiums. Currently, this liability on the MIB has been estimated by their analysis to be in the region of £205 million overall, to date. To note, there is the potential via either a direct claim from the victim or a contributory claim from the MIB for some of this liability to fall on the Department for Transport and by extension the UK Government.
19. Bespoke insurance arrangements exist in the GB (and predate the Vnuk decision), such as employers' liability and public liability insurance policies that cover some of the risks on private land. However, these do not provide as much cover as the Vnuk decision, but we consider that these are more appropriate forms of insurance to cover these risks, rather than motor insurance.

Problem under consideration

20. In 2014, the CJEU found in the Vnuk case that the obligation of compulsory motor insurance contained in Articles 3 and 10 of the 2009 Directive extends to the use of vehicles on private land. Its effect could also apply the 2009 Directive to vehicles not constructed for road use. This is wider than the compulsory third-party insurance obligation in GB in the RTA, which only covers roads and other public places and 'motor vehicles', as defined in the RTA.
21. In 2019 the decision in Lewis found that the interpretation of the 2009 Directive in the Vnuk judgement was sufficiently clear and precise to have direct effect and could therefore be enforced directly against the MIB, as an emanation of the state and the body responsible for compensating persons injured by uninsured and untraced drivers. As the scope of the compulsory third-party motor insurance obligation in GB only extends to motor vehicles and to roads and other public

places, the Lewis decision meant that the MIB's liability for insurance claims extended beyond this and applied to accidents on private land and potentially to a greater range of vehicles not constructed for road use. The direct effect rights to claim compensation from the MIB created by Lewis were preserved in domestic law following the end of the EU Exit Transition Period by the European Union (Withdrawal) Act 2018. These liabilities could be passed on to motor vehicle drivers in the form of a c.£50 increase to their premiums.

Rationale for intervention

22. To ensure alignment between the RTA and the role of the MIB for uninsured and untraced driving, Vnuk must either be implemented (Option 1) or GB law clarified to confirm that the third-party motor insurances requirement as set out in the RTA is not extended as per the Vnuk decision (Option 2). Option 2 would be achieved by removing the effects of Vnuk from GB law and ending the associated liability for claims against the MIB, so that it is clear compulsory third-party motor insurance is only required "on a road or other public place" and for "motor vehicles" as set out and defined in the RTA.
23. The liability on the MIB for Vnuk claims will continue under option 0, and this could lead to higher insurance premiums for motorists as the motor insurance industry seeks adjustment to fund the ongoing cost of this liability to them. This cost to motorists would be a form of Government failure generating ongoing inequitable, unintended consequences if nothing is done to correct how Vnuk operates in GB. This is not a result of the operation of the market, because the liability and associated potential costs to motor insurance premiums emanate from the law and not from market decisions. This increase in motor insurance premiums, are an inequitable charge because it must be paid irrespective of the income level of the policy holder or the way that they use their vehicle.
24. The proposed intervention options – to implement Vnuk under Option 1 and to remove the effects of Vnuk under Option 2 – can only be brought by Government because primary legislation is required to achieve the desired outcome. Option 2 would address the unintended consequences (of an increase in all motor insurance premiums) of the Vnuk and Lewis v Tindale cases, that were imposed on the Government by the EU and domestic courts respectively.
25. Government intervention via primary legislation is required to remove the effects of the Vnuk and Lewis decisions in GB law so that the original intention of the RTA in relation to motor insurance requirements in GB returns to primacy.

Policy objective

26. To remove the effects of the CJEU's Vnuk decision from GB law and end the associated liability for insurance claims against the MIB. This is intended to eliminate the significant and ongoing cost implications and liability associated with the ruling and the potential increase in motor insurance premiums. The liability for uninsured and untraced drivers will be consistent with the rest of the RTA, clarifying that compulsory third-party insurance is only required for motor vehicles, and only covers roads or other public places.
27. It is not expected that there are risks from the proposed policy intervention that will prevent the policy from fully realising its objective, beyond the usual risks associated with all legislation as it passes through Parliament.

Options considered

Option 0 – Do Nothing

28. The “do nothing” option assumes that Government makes no changes to domestic legislation. It is the baseline against which this impact assessment assesses options 1 and 2. Costs remain a liability for MIB; potentially passed onto consumers by an increase in their premiums. The cost is estimated as £205 million for historic claims. This will continue to increase if the law remains unchanged and could potentially be passed onto consumers by an increase in their motor insurance premiums. There is also expected to be an ongoing annual liability to the MIB for Vnuk claims at around £29 million.

Option 1 – Implement Vnuk

29. Requires primary legislation to change RTA, making insurance compulsory on private land and for a wider range of vehicles. Claimants will not need to seek compensation from the MIB unless the compulsory insurance obligation is not met which increases consumer protection. This option would be inconsistent with the wider RTA which does not apply to private land, could complicate enforcement as the police have limited access to private land, duplicate insurance such as employer’s liability and public liability, could cost the insurance industry around £2 billion per year and could lead to an increase in motorcar policy holder’s premiums by a potential c.£50.

Option 2 – Remove Vnuk (preferred option)

30. Removing Vnuk from GB law would require primary legislation to change RTA. Removal would be prospective and provisions requiring motor insurance on private land would end. Option 2 would be consistent with the 2016/17 consultation at the cost of some consumer protection, largely mitigated by pre-existing forms of insurance. It does not complicate enforcement and avoids a potential c.£50 increase in motorcar policy holder’s premiums by ending liability (via the MIB) for potential future claims (currently estimated at £205 million).

2.0 Costs and Benefits

31. This section sets out the costs and benefits of the two policy options. The baseline option, whereby no Government intervention is undertaken, is the ‘do nothing’ option and is used as the counterfactual against which the costs and benefits of option 1 and 2 are assessed.

32. As this proposal is not time-bound, the costs and benefits of the options have been assessed over a 10- year appraisal period in this IA, which is the default period specified in the Better Regulation Framework. Since this proposal will be implemented at the earliest opportunity that Parliamentary time can be found (possibly as early as 2022), the 10-year appraisal period begins on the date that the legislation is implemented.

33. Unless stated otherwise, all values are presented in 2019 prices (as a majority of data used in the analysis is in 2019 prices); and where costs and benefits are expressed in present value terms, they have been discounted to their present value in 2022 using a discount rate of 3.5% per year, as set by the HM Treasury Green Book.

Option 0 – Do Nothing

In the do-nothing option, we maintain the status quo. The effect of the Vnuk and Lewis decisions will remain in GB law.

34. This option would not meet the policy objective as the MIB would still be liable to compensate victims of collisions that involve an uninsured and an untraced motor vehicle on private land and for a wider range of vehicles as set out in Vnuk. This option is expected to increase insurance premiums for existing road users to cover the costs of MIB liabilities.

Option 1 – Implement Vnuk

35. Implement the CJEU's 2014 Vnuk decision in GB domestic legislation. Requires primary legislation to change RTA, making motor insurance compulsory on private land and for a wider range of vehicles. This would ensure alignment between the RTA and the role of the MIB for uninsured and untraced driving.

Summary

Monetised Costs

- Vehicle registration costs (direct)
- Familiarisation costs (direct)
- Coverage for fraud (direct)
- Judicial costs (direct)

Unmonetised Costs

- Enforcement costs (direct)
- Familiarisation costs (direct)
- Affordability of vehicles and increased transport inequality (indirect)
- Sustainability of motorsports industry (indirect)

Monetised Benefits

- HMT revenues (direct)
- Revenues from FPNs and Fines (direct)

Unmonetised Benefits

- Potential injury prevention (indirect)

Transfer Impacts

- Compensation to victims (transfer from premium payers to victims)
- Liability of claims

Costs

Transition Costs

Registration Costs

36. In implementing Vnuk, it is expected that vehicle requirements, including vehicle registration, will be extended to NISV and vehicles used on private land. While license plates and identifying features exist for some vehicles which may be exclusively used on private land, e.g. cars, motorbikes, or tractors, for many NISV there are no existing traceable features or license plates, and these would need to be developed.

37. Following the implementation of Vnuk, there are expected to be costs from developing identifiers and registering NISVs. The DVLA have provided estimated costs of £16.36 million for developing identifiers in the first year of implementation in 2019 prices. To calculate the transition registration

costs to NISV users, the estimated policy years from the GAD have been used. This assumes 1 million motorsports vehicles, 1.24 million other business vehicles and 480,000 miscellaneous vehicles, each measured in policy years. These values are reduced by 3.4% to account for expected non-compliance in registering vehicles, resulting in a total of 2.63 million vehicles being registered in the transition of implementing Vnuk. It is assumed that the current cost to vehicle owners of £55² to the DVLA to register vehicles would remain in the transition to implementing Vnuk. This results in expected registration costs of £144.5 million in the first year to NISV users.

38. The total transition costs of developing identifiers to the DVLA and registering vehicles to road users is £161 million in the central scenario.

Table 1 – breakdown of transitional registration costs

Costs to DVLA to develop identifiers	£16 million
Costs to NISV owners for registration of vehicles	£145 million
Total Costs of registration of NSV	£161 million

Familiarisation Costs

39. In implementing Vnuk in GB, there are several groups who will have costs to familiarise with the changes in regulations. These groups include the insurance industry, the police, the MIB, road users and victims of accidents. These costs are expected to be transitional.

Insurance Industry

40. The Insurance industry are expected to face familiarisation costs from understanding the legislation, extending existing policies to cover private land and create new policies for NISV. To create these policies, insurance companies must determine the risk of loss from vehicles and individual motorists by considering speed of vehicle, expected frequency and severity of claims, driving performance history, credit score and expected vehicle usage^{3,4}. This is particularly difficult for NISV where licenses are not currently required, and some users will not have any driver history.
41. Insurance companies will also have the responsibility of contacting existing customers and informing them of changes to insurance requirements and the impact of this on their premiums. As outlined in the discussions about insurance premiums, fraud may increase due to the increased opportunity and be more difficult to detect with few witnesses. Insurance companies will also need to develop new processes and staff skills in detecting fraud.
42. Based on these processes, it is expected that the insurance industry will face costs of £1.85 million in the central scenario. This is based on 112K insurance professionals being registered in the UK in 2017⁵. It is assumed that there are the same number of insurance professionals in 2021 and that they will all need to spend some time familiarising with the guidance, and will take on average, 1.5 hours per insurance professional. Based on the ONS Annual Survey of Hours

² <https://www.gov.uk/vehicle-registration/new-registrations-fee>

³ Gage, T. Bishop, R. Morris, J. (2015). 'The Increasing Importance of Vehicle-Based Risk Assessment for the Vehicle Insurance Industry'. *Minnesota Journal of Law, Science & Technology*. Vol 16 (2).

⁴ Association of British Insurers (ABI). (No Date). 'How Insurance Works'. Available from: <https://www.abi.org.uk/data-and-resources/tools-and-resources/how-insurance-works/>

⁵ Baccus, M. (2017). 'Insurance Census 2017'. Post Online [Online]. Available from: <https://www.postonline.co.uk/broker/2481654/insurance-census-2017-face-of-insurance>

⁵ Monks, G. (2018). 'Police Powers

and Earnings (ASHE), the annual salary of insurance professionals is £13.11⁶. With an uplift of 1.265 as outlined in DfT Transport Analysis Guidance (TAG)⁷, the hourly cost of familiarisation to insurance professionals is £16.58. Therefore, the total transitional costs of familiarisation to the insurance industry are expected to be £2.78 million. There is some uncertainty in these assumptions, and this is considered in the sensitivity analysis.

Motor Insurance Bureau (MIB)

43. The MIB are the organisation that pays victims compensation when involved in an accident with an uninsured or untraceable vehicle. Since the *Lewis vs Tindale* case in 2018, the MIB are also liable for claims involving NISVs or occurring on private land as insurance has not been compulsory in the GB. With implementation of the Vnuk judgement, the requirements for compulsory insurance would be extended and insurance companies would deliver compensation for accidents rather than the MIB (this assumes the compulsory insurance obligation is complied with the MIB will remain liable for uninsured and untraced driving). The MIB would face familiarisation costs in understanding what their responsibilities and liabilities following the implementation of Vnuk judgement are, and how this is different to their current obligations and in training staff.
44. In implementing Vnuk, there may be increased fraud for vehicles on private land or NISVs which are more difficult to trace, with many not having identifiers such as license plates. The MIB would face costs of developing processes to identify fraudulent claims. From the MIB annual reports from 2019, there are 204 claims operations staff⁸ and it is assumed in the central scenario that the numbers of staff have remained the same and each needs to familiarise the guidance. It is assumed that each of these staff will take 1 hour to familiarise with changes. Based on the ONS Annual Survey of Hours and Earnings (ASHE), the annual salary of insurance professionals is £13.11⁹. When the non-wage uplift is applied, the average hourly costs is £16.58. The total cost of familiarisation to the MIB is expected to be £3k.

Businesses with fleets

45. Businesses, particularly those with fleets, would have to familiarise with the requirements of Vnuk and the overlap with their employers' liability insurance. The requirement to purchase employers' liability insurance extends to almost all businesses with exceptions being very rare. Therefore, it is assumed that all companies purchasing business vehicles will have employers' liability in place at a value will be £10 million as this is the level of cover most employer's purchase. However, employers' liability insurance often only cover Third-Party Injury (TPI) claims and not Third-Party Damage (TPD) claims. To comply with implementing Vnuk, businesses would need to extend TPI cover from the cap of £10 million to unlimited and introduce TPD coverage.
46. It is expected that the familiarisation costs to businesses with fleets is £5.21 million. There are estimated to be 107k businesses with fleets in the UK¹⁰. It is assumed that each of these businesses will have a single fleet manager that would be required to familiarise with the guidance. It is expected that each fleet manager would require 2 hours to familiarise with the

⁶ ONS. Employee Earnings in the UK Statistical Bulletins. Available from: <https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/earningsandworkinghours/bulletins/annualsurveyofhoursandearnings/previousReleases>

⁷ Department for Transport (DfT). (2020). Transport Analysis Guidance. TAG Unit A4.1: Social Impact Appraisal. Available from: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/940958/tag-a4-1-social-impact-appraisal.pdf

⁸ https://www.mib.org.uk/media/517134/mib_annual_report_2019.pdf

⁹ ONS. Employee Earnings in the UK Statistical Bulletins. Available from: <https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/earningsandworkinghours/bulletins/annualsurveyofhoursandearnings/previousReleases>

¹⁰ Research and Markets. (2020). 'UK Fleet Market 2020: SME Purchasing Dynamics'. *Cision PR Newswire*. <https://www.prnewswire.com/news-releases/uk-fleet-market-2020-sme-purchasing-dynamics-301052962.html>

guidance and organise insurance for any of their vehicles. The average salary of a fleet manager is £19.18¹¹ per hour, and when the non-wage uplift is applied, the total average hourly cost to fleet managers is £24.26. The total familiarisation costs to businesses with fleets is expected to be £5.21 million.

47. There are a range of assumptions in estimating the familiarisation costs of businesses with fleets. To capture the uncertainties of these assumptions, sensitivity analysis has been carried out.

Total Familiarisation Costs

48. Table 1 provides the estimated total familiarisation costs from implementing Vnuk are £8.1m, with the following breakdown:

Table 2 – Total familiarisation costs

Group Facing Familiarisation Cost	Expected Familiarisation Costs (Million)
Insurance Industry	£2.8
MIB	£0.03
Businesses with Fleets	£5.2
Total Familiarisation Costs	£8.1

On-going Costs

Coverage for Fraud

49. In this option, compulsory insurance is extended to include private land and NISVs. For vehicles which already have some mandatory insurance requirements (existing vehicles), the extension to private land is expected to increase premiums through legitimate claims and an increased propensity for fraud.

50. Fraud is expected to increase from implementing Vnuk due to the increased opportunity from compulsory insurance on private land. Insurance systems in place to reduce fraud are at their weakest when there are few witnesses or security footage and so is expected to be less effective on private land compared to public roads. It is also expected that fraud prevention systems will take time to adapt to changes in legislation, while fraudsters will be quick to exploit such changes due to the well-organised nature of fraud.

51. To measure the change in fraud from the current situation under the RTA, a baseline model is constructed for motorcar losses as this is the vehicle type with the most publicly available information. This model is adjusted based on estimated increase in fraud from implementing Vnuk. It is assumed from GAD modelling that implementing Vnuk will increase TPI claims by 10%. There is no uplift to TPD claims for fraud given comments from the Insurance Fraud Bureau (IFB) that most fraudulent claims relate to bodily injury claims rather than property damage.

52. The additional fraudulent claims are expected to be faced by insurance companies who will be liable to pay compensation for fraudulent claims. However, any additional costs to insurance companies are expected to be exactly passed onto motor insurance premiums. Therefore, the costs of fraudulent claims are expected to be faced by premium holders of motorcars and motorcycles. Existing business vehicles are not included due to the IFB indicating that

¹¹ Talent.com - <https://uk.talent.com/salary?job=fleet+manager>

commercial vehicle fraud is of particular concern. NISVs are also not included as insurance professionals have outlined that although there is potential for fraud on private land, this has not been exploited and is not expected to be of material concern. Therefore, the baseline model is only uplifted for private motorcars and motorcycles and the costs are calculated in terms of a premium increase.

53. Motorcar premiums are expected to increase by £29.71 per policy to cover the additional costs of fraud to insurance companies. When there is full compliance, the size of the motorcar insurance market is expected to be 25 million vehicle year based on 5 and 10-year forecasts of the size of the motorcar industry. However, it is assumed there is a total non-compliance rate of 3.6% and therefore, it is expected that there are 24.1 million compliant vehicle years. Therefore, the total costs to motorcar premiums are expected to be £716 million.
54. The additional costs of fraudulent claims from implementing Vnuk on motorcycle premiums are expected to be an increase of £57.52 per policy. The motorcycle insurance market is assumed to have 720,000 vehicle years in 2018 based on 5- and 10-year estimates with more weight placed on the 5-year forecast. However, it is expected that there is a non-compliance rate of 3.6%, resulting in the total motorcycle insurance market having 694,434 vehicles. Therefore, the costs to motorcycles owners is expected to be £40 million.
55. Therefore, it is expected that there will be additional fraudulent claims from implementing Vnuk compared to the baseline. The costs of these claims are expected to be passed onto motorcar and motorcycle owners by a total increase of premiums of £756 million per year in the central scenario.

Judicial Costs

56. By implementing Vnuk, there are increased numbers of vehicles that would require insurance. For vehicle owners that do not comply with regulations and either drive or keep a vehicle that is uninsured, they may face prosecution through the criminal justice system (CJS), presenting costs to the judicial system. However, the number of cases and costs to the CJS depends on the non-compliance and enforcement rates.
57. Given the difficulties in enforcing insurance requirements for vehicles on private land, it is expected that the non-compliance rate in purchasing motor insurance would increase from implementing Vnuk. The current non-compliance rate for existing vehicles is assumed to be 3.4% and 0% for NISV as they do not currently require insurance. It is assumed that there would be an uplift of non-compliance by 5% to extend insurance to cover private land for vehicles which already have insurance and 10% uplift to the number of non-complaint vehicles through extending coverage to NISV. A breakdown of the total and change in non-compliance rates is given in table 6:

Table 3 – breakdown of non-compliance rates and numbers

Type of Vehicle	Total non-compliance rate	Change in non-compliance rate to baseline	Increase in number of non-compliant vehicles through implementing Vnuk
Existing Motorcars	3.6%	0.2%	42,273
Existing Motorcycles	3.6%	0.2%	1,217
Existing Business Vehicles	3.6%	0.2%	6,510
Motor Sports	3.4%	3.4%	34,066
Other Business	3.4%	3.4%	42,242
Miscellaneous Vehicles	3.4%	3.4%	16,352

58. However, the costs to the CJS depends on how many of these non-compliant vehicles are caught by police through enforcement measures. Currently, there are estimated to be 1 million vehicles on UK roads which are uninsured¹², and on average, each year 133,000 uninsured vehicles are seized¹³, resulting in an enforcement rate of 13%. It is assumed that the enforcement rate will remain constant throughout the enforcement period. Therefore, it is expected that there is the following increase in number of cases that go to court per vehicle type:

Table 4 – breakdown of increase of court cases

Type of vehicle	Number of additional cases in court for insurance non-compliance (000s)
Existing Motorcars	5.6
Existing Motorcycles	0.16
Existing Business Vehicles	0.87
Motor Sports	4.54
Other Business	5.6
Miscellaneous Vehicles	2.2
Total	19.0

59. The costs to the criminal justice system (CJS) are expected to be £438 for driving an uninsured vehicle and £328 for keeping an uninsured vehicle. Based on Ministry of Justice (MoJ) data, it is expected that 60% of cases are for driving uninsured vehicles while 40% are for keeping uninsured vehicles. Therefore, using table 7 and these costs, the total expected costs to the CJS from implementing Vnuk are expected to be £7.5 million per year. However, costs of non-compliance are excluded from the Business Impact Target as direct costs, as outlined in the BRE Framework, which means the EANDCB would be £0.

Ongoing Registration costs

60. As outlined in the transition costs, there are expected to be registration costs from implementing Vnuk. However, these are expected to be both transitional and ongoing. The ongoing costs are expected from the new sales of NISV each year in the appraisal period which will need to be registered if Vnuk is implemented. Figures of new sales are based on sales in 2018 from industry sources.

61. For other business vehicles, the vehicles considered include forklift trucks, agriculture vehicles, construction vehicles and an uplift of 5% to account for any missed vehicle types in this category. The total expected annual sales of other business vehicles are 112k per year. For Miscellaneous vehicles, the total expected new sales each year are 158k. For motorsports vehicles, there was no data available on sales of motorsport vehicles so it is assumed that there will be 210k sales per year based on the new sales of other business vehicles and miscellaneous vehicles. Therefore, the total expected sales of new vehicles each year that will need to get registered is 479k vehicles. It is expected that registration will have the same cost of £55 throughout the

¹² Davies, J. Dean, B. (2019). 'Untaxed and Uninsured Vehicle Report'. *Surrey Police*. Available from: https://surrey-pcc.gov.uk/wp-content/uploads/2019/05/09_OPCC-Performance-Report-May-Untaxed-Uninsured-Vehicle-Report-v2.pdf

¹³ Motor Insurance Bureau (MIB). (2020). 'Police Seize the UK's 2 million uninsured vehicle'. Available from: <https://www.mib.org.uk/media-centre/news/2020/february/police-seize-the-uk-s-2-millionth-uninsured-vehicle/>

appraisal period, resulting in an expected total annual cost of £25.47 million, considering non-compliant non NISVs at 3.4%.

62. It is also expected that the DVLA will have ongoing running costs from developing identifiers for NISVs at a cost of £290k per year. Therefore, it is expected that there will be an ongoing annual cost of registering vehicles of £25 million per year. Due to a number of assumptions and uncertainties, this impact is fully considered with high and low scenarios in annex 1.

Unmonetised Costs

Enforcement

63. Enforcing the implementation of Vnuk would involve monitoring the purchases of NISVs to ensure they are insured. Discussions with stakeholders suggest this may require multiple databases for each product, similar to the databases operated by the DVLA that monitor the number of vehicles bought, who owns them and whether they are insured. With the large number of NISV (2.72 million vehicle years annually), the cost of developing these databases is expected to be large and disproportionate but there is not yet any estimation of the monetary costs of building these databases.
64. As well as increased costs through developing databases, it is expected that enforcement would be more difficult and complicated. Police do not hold their own data in regard to uninsured vehicles or sales. Instead, this is data supplied to the police by the MIB and the DVLA. This makes police enforcement more complex, and reliant to the data others supply the police with. However, the police do have access to police databases about vehicles, individuals and premises which may allow them to more easily detect some forms of fraud through verifying identity.
65. Furthermore, it is expected that the enforcement rate of uninsured vehicles could decline through this option. Police could face difficulties enforcing insurance for vehicles used on private land as there are restrictions to police access to private land¹⁴. These difficulties could also mean that the police would not be able to easily access the site of a collision if the accident has occurred on private land.
66. The lack of traceable markings on NISV also make it difficult to monitor and enforce insurance. These factors are expected to contribute to low enforcement of uninsured vehicles if this option were implemented. These factors may result in a decline in the enforcement of uninsured vehicles through implementing the Vnuk judgement. If drivers perceive that compliance of insuring NISV is not going to be highly enforced, it could reduce compliance with insurance requirements.

Familiarisation Costs

Police

67. The police force are expected to face costs from familiarising with changes in legislation to implement Vnuk, particularly in respect to the impact on police powers and responsibilities in enforcement. With restrictions of police access to private land, creating guidance and training for enforcement on private land is expected to be especially important.

¹⁴ Monks, G. (2018). 'Police Powers to Enter your Home or Other Private Property'. *Hodge Jones & Allen*. Available from: <https://www.hja.net/expert-comments/blog/criminal-defence/police-powers-to-enter-your-home-or-other-private-property/>

68. It is expected that all uniform police patrol officers will need to spend time familiarising with the guidance. However, due to lack of data, there is no robust estimate of the number patrol officers that would face familiarisation time and costs. To give an indication of the familiarisation costs to the police from implementing Vnuk, some assumptions are made to create illustrative scenarios of costs, however, these are not included in NPV metrics due to the high uncertainty of assumptions.
69. It is assumed that that all local police and roads policing officers would be required to familiarise with the change in legislation from Vnuk. Using the latest figures, there are 62,353 local police officers¹⁵ and 4,276 roads policing officers¹⁶, resulting in 66,629 police officers assumed to need to familiarise with the change in legislation. It is assumed that each police officer in the central scenario requires 1 hour to familiarise with the changes and that the hourly wage is £24.05 based on the average hourly wage and the non-wage. Therefore, the assumed familiarisation costs for police is £1.6 million.
70. A high and low scenario have also been considered to illustrate the scale of potential costs. Due to high uncertainty, it is assumed that there is a 40% sensitivity for the number of police officers that would need to familiarise with the guidance. Some sensitivity is also applied to the average hourly wage to consider the 10th percentile for wages in the low scenario and 90th percentile of wages in the high scenario but the non-wage uplift is consistent at 1.265 across all scenarios. A 25% sensitivity has been applied to the average number of hours required to familiarise. Using these assumptions, the cost of police familiarisation across the low, central and high scenarios is shown below:

Table 5 – illustrative scenarios of familiarisation costs to police

	Low Scenario	Central Scenario	High scenario
Familiarisation Costs to Police	£490 k	£1.60 m	£3.37 m

71. Due to the high uncertainty of these assumptions, these values are not included in the NPV.

Road Users

72. Road users and vehicle owners may spend some time familiarising with the new legislation from implementing the Vnuk judgement and any actions they must take to comply such as registering vehicles and paying for insurance. However, these costs are not monetised due to lack of data to produce a robust figure. With the high number of road users and high variation in hourly wage, it is difficult to accurately estimate the cost of familiarisation.

Affordability of Vehicles and Increased Transport Inequalities

73. By implementing Vnuk, insurance premiums are expected to increase by £1.988 billion per year – fraud covers £756 million of these increases and, as discussed later, there is expected to be an increase of premiums of £1.23 billion per year across all vehicle types.

¹⁵ Home Office (2021). 'National Statistics: Police workforce, England and Wales: 31 March 2021'. Available from: <https://www.gov.uk/government/statistics/police-workforce-england-and-wales-31-march-2021/police-workforce-england-and-wales-31-march-2021>

¹⁶ Norbury. (2020). 'Roads Policing and its Contribution to road safety'. Parliamentary Advisory Council For Transport Safety (PACTS). Available from: <https://www.pacts.org.uk/wp-content/uploads/Roads-Policing-Report-FinalV11-merged-1.pdf>

74. With increased insurance premiums, the total cost of vehicle ownership also increases. While this could reduce the sale of vehicles, this depends on the elasticity of demand and the number of close substitutes available¹⁷. Usually, a specific type of vehicle will be quite elastic with other models or vehicle types⁶. However, in implementing Vnuk, the premiums will increase for many vehicle types, and so demand for each type of vehicle is expected to be relatively inelastic with the total cost of substitute vehicle types also increasing⁶.
75. However, as the affordability of all vehicle types decreases, there will be some groups who cannot afford their preferred mode of transport used before implementing Vnuk. This impact will not be felt equally by all, with lower-income groups being more greatly impacted than high-income individuals, contributing to the inequalities in mobility and transport^{18,19}. Vehicle ownership is highly correlated with mobility and having access to local services and activities such as jobs, learning, healthcare, food shopping or leisure. Not having access to these services can create disparity in social advantage and quality of life⁸. Implementing Vnuk can further create inequalities in mobility by reducing the affordability of private and business vehicles.

Sustainability of motorsports industry

76. Implementing Vnuk is expected to threaten the existence of the UK motorsports industry²⁰. The EU MID as interpreted by Vnuk would treat any motorsports collision involving vehicles such as go-karts to F1 as regular road traffic incidents requiring insurance⁹. The insurance premium for motorsports vehicles is expected to cost an average of £457.70 per ride, costing the industry roughly £458 million every year.

Benefits

HMT Revenues from Insurance Premiums

77. Motor Insurance is taxable at the insurance premium tax (IPT) rate of 12%²¹. The total premium increases from implementing the Vnuk judgement in the UK is expected to be £2 bn per year over the 10-year appraisal period when considering non-compliance. When considering social time preferences at a discount rate of 3.5%, it is expected that there are total increases of premiums of £17,114 million over the 10-year appraisal period.
78. Assuming that all vehicles have a standard rate of tax at 12%, the total tax revenues from the increase in premiums from implementing the Vnuk judgement is £2,054 million over the 10-year appraisal period using a social discount rate of 3.5%. However, following Green Book and HMT guidance, these values are not reflected in the economic outputs of NPV.

¹⁷ Cooper, R. John. A. 2012. *Economics – Theory Through Applications*. Saylor Foundation. E-book. Accessed 30/04/21.

<https://resources.saylor.org/wwwresources/archived/site/textbooks/Economics%20-%20Theory%20Through%20Applications.pdf>

¹⁸ Dunkerley, F. Rohr, C. Daly, A. (2014). 'Road Traffic Demand Elasticities: A paid evidence assessment'. *RAND Europe, prepared for the Department for Transport*. RR-888-DFT.

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/395119/road-traffic-demand-elasticities.pdf

¹⁹ Lucas, K. Stokes, G. Bastiaanssen, J. Burkinshaw, J. (2019). 'Inequalities in Mobility and Access in The UK Transport System'. *Foresight, Government Office for Science*.

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/784685/future_of_mobility_access.pdf

²⁰ UK Government. (2021). 'Government announces plan to scrap EU law, ensuring British driver avoid £50 a year insurance hike'. *Department for Transport*. <https://www.gov.uk/government/news/government-announces-plan-to-scrap-eu-law-ensuring-british-drivers-avoid-50-a-year-insurance-hike>

²¹ UK Government. (2013). 'Guidance: Insurance Premium Tax – A guide for users'. Available from: <https://www.gov.uk/guidance/insurance-premium-tax>

Revenues from FPNs and Fines

79. Some drivers are non-compliant and do not purchase insurance. One method of enforcing against the offence is by issuing fixed penalty notices (FPNs) through continuous insurance enforcement (CIE). Those vehicles that appear not to be insured, and for which there is no valid Statutory Off -Road Notification (SORN) in force, will receive an Insurance Advisory Letter from the Motor Insurers Bureau setting out the options the registered keeper must take to comply with CIE. Those who fail to do so will be issued with a Fixed Penalty Notice (FPN) by DVLA. Failure to respond to the FPN could result in prosecution at a Magistrates' Court.
80. Using average data for 2011 to 2015, there are expected to be 23,000²² FPNs from non-insurance each year before Vnuk with an average FPN value of £319. However, it is assumed that there will be a 2% uplift in this rate due to the expected non-compliance from implementing Vnuk. When measuring the change in Vnuk claims, it is expected that there will be an addition of around 40 FPNs issued, creating revenues of £147k. However, following BRE framework the direct impacts of non-compliance are not considered in the NPV.

Unmonetised Benefits

Potential Injury Prevention

81. An insurance obligation, which is significantly increased in this option, often acts as an incentive to users to drive safely by offering rewards and financial incentives for not being involved in accidents resulting in claims²³. The most common form of incentive is a no-claims discount, decreasing driver's premiums over time if they are not involved in accidents. This is expected to encourage safer driving as drivers seek to achieve lower premiums.
82. While road safety could be improved through the incentive from insurance obligation increased through this option, there is also the possibility that moral hazard could adversely impact road safety. Moral Hazard refers to an increase in the expected loss due and accidents due to individuals behaving more carelessly as a result of purchasing insurance²⁴. Currently if a victim claims compensation against a driver, if the claim through the court is successful, the driver may need to pay the cost. However, if the driver has vehicle insurance, they may drive less carefully or take more risks as they no longer face the full costs of behaviour with the insurer covering some of the consequences²⁵.
83. There is evidence that both the insurance incentive and moral hazard can influence behaviour, however it is unknown which may have greater influence on driver behaviour and the impact of this option on road safety.

²² Department for Transport (DfT). (2016). 'Extending the scope of compulsory motor insurance' *Impact Assessment number DfT00343*. Available from: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/579383/motor-insurance-vnuk-judgement-impact-assessment.pdf

²³ Aeron-Thomas, A. (2002). 'The Role of the Motor Insurance Industry in Preventing and Compensating Road Casualties'. *Department for International Development (DFID)*. Project Report PR/INT/243/02. Available from: <https://assets.publishing.service.gov.uk/media/57a08d43e5274a27b2001739/R8012.pdf>

²⁴ Kunreuther, H. (2008). 'Moral Hazard'. *Encyclopaedia of Quantitative Risk Analysis and Assessment*. <https://doi.org/10.1002/9780470061596.risk0655>

²⁵ Wasiak, R. (No Date). 'What is the incentive in insurance premiums?'. [PowerPoint Presentation]. *United BioSource Corporation: Evidence matters*.

Transfer Impacts

Compensation to Victims

Extension of Compulsory Insurance to Cover Private land and NISVs

84. It is expected that extending compulsory insurance to include private land will cost premium holders £1.23 billion per year. When discounted at a rate of 3.5% as outlined in the Green Book, and using a price base of 2019, the total increase in premiums across the 10-year period is expected to be £10.6 billion. This analysis assumed that the number of accidents following implementation of Vnuk will stay roughly constant as the baseline and that any change in claims is due to an increased awareness of ability to access compensation in a wider range of circumstances.
85. Similarly to the costs of fraud, to measure the impacts of extending compulsory cover to include private land, a baseline model has been constructed for private motorcar losses under the existing RTA and adapted to reflect the expected change in premiums to extend to private land. Private motorcars have been chosen as this is the vehicle type with the most publicly available information.

Existing Vehicles - motorcars, motorcycles and some business vehicles

86. Currently, vehicles only require insurance for use on roads and public places such as car parks, however, by implementing Vnuk, vehicle insurance would also be compulsory on private land such as farms, private lanes or construction sites. By extending compulsory insurance to private land, it is assumed there will be a 5% increase in TPI and TPD claims compared to the core baseline model. This low uplift is based on many types of private land having some access public or employee access and so are already covered in existing insurance premiums. Additionally, despite accidents that currently occur on private land resulting in personal liability, there is a lack of concern to the public and press coverage, suggesting these claims occur infrequently.

Motorcar premium increases

87. Based on the assumption that TPI increases by 5% to extend cover to private land, the increase in premiums is expected to increase by £19 on average per policy holder. When there is full compliance, the size of the motorcar insurance market is expected to be 25 million vehicle years based on 5 and 10-year forecasts of the size of the motorcar industry. However, it is assumed there is a total non-compliance rate of 3.6% and therefore, it is expected that there are 24.1 million compliant vehicle years. The total cost of extension to private land to premium holders is expected to be £467 million annually.

Motorcycle premium increases

88. To measure the baseline for motorcycles, the baseline core model is adjusted for motorcycles, including an uplift to TPI claims by 84%, and the assumption that TPI frequency and TPD frequency and severity are the same as the core model due to the lack of information.
89. Once the adjustment to the core model for motorcycles are considered, there is also the uplift to extend coverage to include private land from implementing Vnuk. This uplift is assumed to be a 5% increase in TPI and TPD claims, costing policy holders an average of £32.24.
90. The motorcycle insurance market is assumed to have 720,000 vehicle years in 2018 based on 5- and 10-year estimates with more weight placed on the 5-year forecast. However, it is expected

that there is a non-compliance rate of 3.6%, resulting in the total motorcycle insurance market having 694,434 vehicles. With non-compliance considered, the total increase in motorcycle premiums from the extension to private land are expected to be £22 million.

Existing Business Vehicle Premium increases

91. To extend insurance for businesses with existing cover to include private land, the total expected cost is £102 million per year. Based on 5 and 10-year forecasts, the size of the UK commercial vehicle insurance market with full compliance is 3.85 million vehicles per year, however, it is expected that there will be a non-compliance rate of 3.6%, resulting in 3.71 million commercial vehicle owners paying insurance premiums. The per policy vehicle increase is expected to be £27.38.

Newly In-Scope Vehicles (NISVs)

92. Through implementing Vnuk, there will be an increase to the types of vehicles requiring compulsory insurance. These vehicles include business vehicles that have not previously required insurance, motorsports vehicles and miscellaneous vehicles.

Motorsports Insurance Premiums

93. Motorsport races usually take place on private land or on roads that have been temporarily closed to the public. Where an event organiser has a permit issued by a governing body, for an on-road racing event, regulations allow the temporary lifting of parts of the RTA such that participants are not required to purchase TPI insurance. However, by implementing Vnuk, participants would require this insurance on both public and private land. Rather than number of vehicles, this category calculates insurance based on the number of rides in a motorsport's vehicle, with each ride defined as a single participant participating in a race.

94. Once the baseline model is adjusted to reflect motorsports vehicles, it is assumed that the historic average annual number of events and riders per event continues at 500,000 rides per year requiring insurance from implementing Vnuk. DfT asked for modelling to include an additional exposure of 500,000 rides to reflect new research on the size of the motorsport activity in the UK, taking the total motor insurance exposure to 1 million rides per year. However, it is expected that there will be a non-compliance rate of 3.4%, therefore, the expected number of rides that are expected to purchase insurance is 966k rides. The total premiums faced by the motor sport industry in the UK are £442 million per year with individual premiums of £458 per ride.

Other Business Vehicle Premiums (those which do not require insurance prior to implementing Vnuk)

95. This category consists of vehicles which are used for business activities but are only used on private land and so are not subject to the RTA. For example, agriculture vehicles, forklift trucks and construction vehicles.
- Agriculture Vehicles - There are expected to be 550,000 agriculture vehicles requiring insurance each year. This assumes that the average annual sales between 2011 and 2016 will continue and the recent past. The figure also assumed that the average life of agricultural vehicles is 15 years.
 - Forklift Trucks - It is forecast that there will be 270,000 active forklifts requiring insurance each year assuming the average annual sales from 2011-2016 is continued and the lifespan of a forklift truck is 10 years.

- Construction Vehicles – There are expected to be 360,000 active construction vehicles requiring insurance each year. The forecast market size also considers the average lifespan of vehicle of construction vehicles as 15 years.
- Uplift – agricultural vehicles, forklift trucks and construction vehicles are expected to capture most other business vehicles requiring insurance, however, there may be others which have not been included such as airport vehicles. There could also be some construction vehicles, forklift trucks or agriculture vehicles which are also used on public roads and so are considered within existing business vehicles. To allow for these uncertainties, the estimated size of insurance market vehicles has been increased by 5%, which is an addition 59,000 vehicles.

96. The above assumptions result in a total of 1.2 million other business vehicles requiring insurance for the first time. However, there is expected to be a non-compliance rate of 3.4%, therefore, it is expected that 1.20 million business vehicle owners will buy insurance coverage. Overlap with employer's liability coverage is considered so that claims below £10 million are assumed to be 0 and all claims above £10 million are reduced by £10 million.

97. Premiums are expected to cost an average of £159.63 per annum, with a total cost of £191m to the business vehicle industry.

Miscellaneous Vehicle Premiums

98. This category considers vehicles not captured in other categories but are likely to face premiums if Vnuk is implemented. The below figures come from the GAD Combined Report to outline the exposure of implementing Vnuk:

- Mobility Scooters - It is estimated that there are between 75,000 and 80,000 mobility scooters sold each year and estimated to be 250,000 actively used mobility scooters in 2018.
- Electric Power Assisted Cycles (Electric Bikes) – Based on evidence from Bikmo, provider of electric bike insurance, the estimated market size is 150,000 vehicles in 2018.
- Golf Buggies – The estimated exposure of golf buggies is 27,500 vehicles.
- Segway – estimated exposure of 6,000 vehicles.
- Remaining vehicle types – other types of vehicles in this category include ride-on lawnmowers, children's toys, fairground rides and quad bikes. There is no reliable data on any of these so are assumed to be the same as the Segway exposure of 6,000 vehicles, resulting in a total of 24,000 remaining vehicles.
- Additional uplift – there may be some vehicles not captured in the above sub-categories. In line with the uplift for other business vehicles, the assumed uplift is 5%.

99. The total estimated insurance exposure of miscellaneous vehicles is 480,375 vehicles with full compliance. Taking account of the adjustments to the core model and the size of the miscellaneous insurance market, the average premium is estimated at £16.93. There is an estimated non-compliance of 3.4%, resulting in the total expected cost of premiums is £8 million.

Total costs to extend compulsory insurance to cover private land and NISVs

100. The total cost of extending compulsory coverage is £1.23 billion annually considering expected non-compliance is outlined in table 9.

Table 9 – total cost of extending compulsory insurance with breakdown by vehicle type.

Vehicle Type	Per Policy Increase (£)	Total Increase in premiums (£m)
Motorcars	£19.36	£467
Motorcycles	£32.24	£22
Existing Business Vehicles	£27.38	£102
Motorsports	£457.70	£442
Other Business Vehicles	£159.49	£191
Miscellaneous Vehicles	£16.93	£8
Total		£1,232

Revenues to Insurance Companies and Victim Compensation

101. As outlined, it is expected that there are premium costs of £1.23 billion per year by extending coverage to private land and NISVs. These premiums are expected to be paid to various insurance companies in a competitive market. It is assumed that all additional premiums will equal the increase in revenues to insurance companies. Therefore, it is expected that revenues to the insurance industry will be £1.23 billion per year.

102. It is expected that insurance companies will use much of these revenues to distribute compensation to victims of accidents involving NISVs and on private land as the increase in premiums is based on the risk of claim. Currently, Victims of accidents on private land or using NISVs must go through the court systems and claims through the MIB for compensation, however, by implementing Vnuk, victims of accidents will have an easier route to compensation through their insurers. Implementing Vnuk is also expected to increase awareness amongst the general public of the broader range of circumstances which are covered by insurance, and if in an accident, can claim compensation. This is expected to increase claims compared to the baseline, but there is no evidence to the scale of increase of claims and compensation received but it is assumed that it will be around the same value as the premium increases.

Logic of Transfer Payments

103. As it is assumed the same number of accidents will take place in option 1 as the baseline, the deserved victim compensation is also expected to be the same.

104. The impact on premiums is expected to be a transfer because it is changing who pays for the compensation rather than changing the economic value of compensation. The increase in premiums means that all motorists are paying for the compensation of those who are in an accident, rather than the MIB paying or individuals that should be getting compensation not receiving it. Therefore, premiums are distributing the cost of accidents on private land and involving NISVs across all policy holders. However, this is expected to result in many motorists paying for coverage of a risk they are not exposed to as many will not drive on private land but will have to purchase mandatory cover under Vnuk.

Liability of Claims

105. By implementing Vnuk, it is expected that there will be a transfer in liability to pay compensation to victims of accidents that occur on private land or involve NISVs. Currently, there are no requirements to have insurance for NISVs or on private land, yet victims of accidents of these circumstances are entitled to compensation under the EU MID. Therefore, the MIB are liable for the compensation paid to accident victims.

106. By extending the Scope of compulsory insurance to include private land and NISVs, much of the liability is transferred from the MIB to the insurance companies with which those involved have cover. However, insurance companies will only be liable for the claims with which one or both parties have insurance and those involved in the accident can be traced. For those who are non-compliant and are involved in an accident or vehicles which are untraceable, the liability remains with the MIB.

Option 2 – Remove Vnuk

107. Remove the CJEU's 2014 Vnuk decision from being retained case law in GB and end the associated liability on the MIB under the Lewis decision. This is intended to eliminate the significant and ongoing cost implications and liability associated with the ruling and the potential increase in motor insurance premiums. It is also intended to clarify the law so that the requirement to have third-party motor insurance is consistent with the rest of the RTA, only covering motor vehicles and roads and public places and ensures alignment between the RTA and the role of the MIB for uninsured and untraced driving. In GB law there are forms of insurance such as employers' liability and public liability that will continue to offer some protections for accidents occurring on private land.

Summary

Monetised Costs

- Reduction in tax revenues (direct)
- Familiarisation costs (direct)

Unmonetised Costs

- Transaction costs (direct)
- NHS provision of care for victims of accidents that would otherwise be reclaimed through insurance (direct)

Transfer Impacts

- Compensation to victims of accidents (from victims to insurance premium payers)

Costs

Transition Costs

Reduction in Revenues to the UK Government

Tax Revenues

108. By removing the Vnuk judgement from GB law and ending the associated liability on the MIB under the Lewis decision, victims of accidents involving untraced and uninsured NISVs or vehicles on private land will no longer be able to claim compensation from the MIB as in the baseline option. If the 'do nothing' option was taken forward, victims would have greater access to compensation with the MIB liable for this. To cover the costs of liabilities on the MIB and the levy, it is assumed that 100% of MIB liabilities are passed onto premiums via the levy they charge insurers in the long-term; however, in the case of the Vnuk liability, it is unclear if insurers pass this on in its entirety to premium holders. However, assuming that it is passed onto premium

holders both premiums, and insurance premium tax, will therefore be higher in the baseline than in option 2 (removing Vnuk).

109. If the baseline option is continued, the estimated ongoing annual Vnuk claims liability to the MIB is £29 million in 2019 prices. By removing Vnuk, the MIB are not expected to be liable for Vnuk related accidents. Therefore, it is expected that there will be a reduction of £29 million per year to MIB liabilities and, therefore, insurance premiums under the assumption that MIB pass all the Vnuk liabilities onto insurers and they then pass them onto premium holders.

110. With the potential for lower premiums, there could also be a reduction in insurance premium tax to HMT when compared to the baseline. Assuming an IPT of 12% the HMT revenue lost through tax in this option compared to the baseline is up to a potential £3.59 million per year in 2019 prices. When considering a discount rate of 3.5%, the total reduction in HMT revenues over the 10-years is expected to be £31 million. While these values give some context to the expected reduction in HMT revenues, these are not included in the NPV as per Green Book guidance.

Familiarisation Costs

111. Like option 1, option 2 would also face an increase in familiarisation costs. However, due to the relative similarity of the baseline option in practice and removing Vnuk from domestic legislation, i.e. there is no additional compulsory insurance regime to implement, these costs are expected to be lower than option 1.

112. One group that will face familiarisation costs are the Crown Prosecution Service (CPS). Since the Vnuk judgement and Lewis vs Tindale case, the CPS have been familiarising with the circumstances of accidents covered by the EU MID and where liability falls. Compared to the baseline scenario where the current liabilities remain, the CPS will need to familiarise all staff regarding the circumstances that are covered by the Guarantee Fund and where drivers are liable for third party damages and injuries.

113. The expected familiarisation costs to the CPS are £0.25 million in 2019 prices. As these costs are familiarisation costs, they are only expected to be endured in the first year of the change in policy. Based on the ONS Annual Survey of Hours and Earnings (ASHE), the annual salary of legal professionals is £32.40²⁶. When the non-wage uplift is applied, the average hourly costs are £41. It is assumed that all 6,000 CPS staff will need to familiarise with the changes from removing Vnuk and will take 1 hour to familiarise. It is assumed that the number of CPS staff have remained constant and will continue to stay constant over the appraisal period, however, due to uncertainty, sensitivity analysis has been carried out.

Unmonetised Costs

Transaction Costs

114. By removing Vnuk, victims of accidents involving NISV or occurring on private land will not be covered in by the MIB Guarantee Fund and instead, victims' only recourse will be to go through courts system to claim compensation.

115. Insurers and the MIB investigate large numbers of claims annually with 3.72 million notified claims to the Association of British Insurers (ABI) in 2019 for cars, motorcycles and other

²⁶ ONS. Employee Earnings in the UK Statistical Bulletins. Available from: <https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/earningsandworkinghours/bulletins/annualsurveyofhoursandearnings/previousReleases>

vehicles. Due to these large number of claims, insurers and the MIB have efficient processes in place to investigate and process these claims. Therefore, the transaction costs to society, such as costs to users and legal costs of making and processing claims, are low. However, in removing Vnuk, victims of accidents in scope of the Vnuk judgement who proceed through the courts system are expected to have considerably higher transaction costs with each victim and driver having no or little experience in processing claims and facing significant legal costs. Therefore, it is expected that there will be a welfare loss to society by removing Vnuk from GB law. However, the value of the welfare loss is difficult to estimate without comparison of costs to the MIB, insurers and individual victims.

NHS Provisions for victims of accidents

116. By removing Vnuk from GB law, the NHS may face financial impacts from injuries of accidents on private land or involving NISVs because victims will no longer be able to access compensation and care through the MIB as available in the baseline. Therefore, the provision of care through the NHS and the associated public costs are expected to be greater through option 2 compared to the baseline.

117. Currently in the baseline, the compensation payments from the MIB do not substitute the NHS provision but rather supplement it. While the NHS meets the costs of care in the baseline rather than the MIB, there are certain circumstances where the MIB may pay for a claimant to be removed from NHS care and receive treatment privately. The MIB may also pay for private operations to speed up the recovery process.

118. By removing Vnuk, the possibility of any private care provision from the MIB is removed. There will also be no provision of lump sum compensation payment from the MIB that may be used to fund private care. However, victims are under no obligation to use any compensation in this way. Therefore, it is expected that removing Vnuk will increase the probability of those injured in accidents on private land or involving NISVs using the NHS as the MIB compensation route is no longer available. However, this is not certain and difficult to quantify as there may be other sources of compensation and the number of claims that currently use private treatment options is unknown.

Transfer Impacts

Victim Compensation and Liabilities

MIB Liabilities

119. Since the Lewis decision, the MIB has been liable for claims in circumstances covered by Vnuk (accidents on private land and involving NISV). However, if the effects of Vnuk are removed from GB law, MIB will no longer be liable for these claims.

120. The estimated annual costs of ongoing Vnuk claims liability to the MIB under the 'do nothing' option is £29 million in 2019 prices, and this indicates a saving to the MIB by removing Vnuk from GB law. This estimate of annual ongoing liabilities is based on the Vnuk liabilities to the MIB in the 2020 accident year. It is assumed that the costs of the 2020 accident year would be the average annual cost over the appraisal period, however, this could be an underestimate due to prevailing claims inflation. There is also no adjustment made for COVID-19 in this estimate which may have resulted in an underestimate of average annual claim costs given that there were

reduced traffic levels²⁷ and fewer injury collisions in 2020²⁸. The total saving of MIB liabilities over the 10-year period is expected to be £295 million when using a discount factor of 3.5%.

121. This saving to MIB liabilities, is also expected to be a saving to premium holders in the long-term. Long-term, the liabilities to the MIB from Vnuk claims is estimated to be equal to the levy passed from MIB to insurers. It is assumed that any increase in insurance levy will be reflected in insurance premiums to policy holders.

Compensation to Victims

122. As discussed, it is expected that MIB liabilities will be reduced by £29 million per year by removing Vnuk. However, it is estimated that the reduction in liabilities will be roughly equal to the lost compensation to victims of accidents. Once Vnuk is removed, victims would only be entitled to compensation where the driver is known, has the personal funds to satisfy any judgement and the accident occurred on a road or other public place. With no current identifiers, e.g. license plates, on many NISVs or vehicles used only on private land, it is expected that many accidents will occur where victims will not be able to gain compensation as there would not be an identifiable driver to seek compensation from.

123. Victims may be discouraged from making a claim as proceeding through the court system can be an expensive and time-consuming process²⁹. For example, the average personal injury claim from road accidents in courts has a duration of 4 to 9 months³⁰. Yet, those who are in an accident and do not receive compensation often face substantial losses. For TPI, losses may include medical costs, loss of earnings from absence from work and lack of recompense for the injuries suffered³¹. For TPD, losses include costs to repair damages and loss of convenience/independence while vehicles are in the garage³². Therefore, by reducing the scope of compensation coverage compared to the baseline, the costs to victims of accidents including NISV or occurring on private land is expected to increase either through losses from not receiving compensation or time and costs of claiming through court. These costs to victims of accidents currently covered by Vnuk are assumed to be roughly equal to the reduction in MIB liabilities, and therefore is considered a transfer payment.

Business Impact Target Calculations

The costs and benefits to businesses have been estimated over a 10-year period.

Option 0:

124. No direct business costs have been monetised in the BIT analysis as this option does not propose any legislative changes. Therefore, any actions taken by businesses would fall out of scope for EANDCB. The EANDCB score is estimated at £0.

²⁷ Department for Transport (DfT). (2021). 'Road Traffic Estimates: Great Britain 2020'. Available from: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/981967/road-traffic-estimates-in-great-britain-2020.pdf

²⁸ Department for Transport (DfT). (2021). 'Reported road casualties in Great Britain: provision estimates year ending June 2020'. Available from: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/956524/road-casualties-year-ending-june-2020.pdf

²⁹ Willis, H. (No Date). 'How often do injury claims go to court and what if they do?'. Quittance Legal Services. Available from: <https://www.quittance.co.uk/personal-injury/advice/general/will-my-injury-claim-go-to-court-and-what-if-it-does>

³⁰ Willis, H. (No Date). 'How long will my personal injury compensation claim take?'. Quittance Legal Services. Available from: <https://www.quittance.co.uk/personal-injury/advice/general/how-long-will-my-personal-injury-compensation-claim-take>

³¹ Cormack, A. (2018). 'How is Personal Injury Compensation Calculated?'. Coles Miller Solicitors LLP. Available from: <https://www.coles-miller.co.uk/news/blog/how-is-personal-injury-compensation-calculated-pib.html>

³² Mukerji, C. (2019). 'Claiming compensation under third-party motor insurance'. *The Economic Times*. Available from: <https://economictimes.indiatimes.com/tdmc/your-money/claiming-compensation-under-third-party-motor-insurance/articleshow/49086589.cms>

Option 1:

125. Option 1 has estimated costs to business of £307 million. Implementing Vnuk is expected to have transition costs to businesses including insurance companies, the Motor Insurers' Bureau (MIB) and businesses with fleet vehicles. Option 1 is also expected to present ongoing costs to businesses through an increase to motor insurance premiums and registration costs of business vehicles. Option 1 has estimated benefits to businesses of £24 million through the cost saving to the MIB by reducing ongoing annual Vnuk liabilities. The net Impact on businesses is expected to be £282 million.

Option 2:

126. There are not expected to be any direct costs to business through the removing of Vnuk due to the similarity of option 2 to option 0. There are expected direct benefits to businesses of £30 million through the reduction in ongoing annual claims liability to the MIB. Therefore, the net cost to business is expected to be -£30 million.

Indirect Costs and Benefits

Sensitivity Analysis

127. There is a lack of evidence surrounding the true implications of some of the impacts of implementing or removing Vnuk. Therefore, a number of assumptions have been made to each option. Annex 1 outlines the methodology and assumptions used to estimate the costs and benefits that have fed into each central estimation of impacts throughout this IA. Low and high scenarios are also estimated to capture the uncertainty from the assumptions.

3.0 Risks and unintended consequences

The key assumptions in the analysis are:

128. GAD analysis: We have used the GAD analysis to estimate the change in insurance premiums as a result of option 1. The GAD analysis itself makes a number of assumptions where there is limited data. For example, there was limited data on the number of vehicles (policy years) for some vehicle types, therefore assumptions were made on the limited data available at the time.

129. Rate of non-compliance: To consider many impacts of option 1, a non-compliance rate is applied. The non-compliance rates are based on assumptions that the number of uninsured vehicles remains constant throughout the appraisal period. It is also assumed that the enforcement rate remains constant as in the sources. There is also an assumed uplift in non-compliance from implementing Vnuk at 5% for private land for existing vehicles and 10% for NISV.

130. It is recognised that there are health and wellbeing benefits for users of mobility scooters, and riders of electrically assisted pedal cycles which are actively promoted. Under option 1, introducing a requirement that these users will need to incur the additional costs of obtaining motor insurance, is likely to have a detrimental impact of the promotion and use of these modes of transport.

4.0 Wider impacts

Equalities Impact Assessment

131. Under option 1, if we decide to impose a compulsory insurance requirement on the riders of mobility scooters then that will mean an additional cost on disabled people who are most likely to rely on these vehicles. For example, people with multiple sclerosis, obesity, chronic fatigue and the elderly who are the principal users of these vehicles. It is assessed there will be no impact under option 2 – removing Vnuk will apply to all people equally and is assessed to not have an adverse or disproportionately negative impact on people who share a protected characteristic. Considerations of equality of opportunity and fostering good relations will likewise not be impacted.

Justice impact test

132. If, as a result of option 1, the scope of the offence of using a vehicle without insurance is broadened to involve new types of vehicles, and the cost of motor insurance increases in a marked way, it is likely that more people will commit the offence of using a vehicle without insurance. Indeed, it might also be the case that some people will inadvertently use their vehicle without insurance, if they are not aware of the fact, they need insurance where previously it was optional.

133. Any increase in unlawful activity could require additional operational police activity in terms of identifying offenders and deciding whether to issue a fixed penalty notice or refer the cases to the Crown Prosecution Service.

Innovation Test

134. Removing Vnuk would not restrict innovation, but that implementing Vnuk (option 1) could potentially encourage innovation as insurers and underwriters would need to extend insurance to newly in scope vehicles and for the extension of insurance requirements to current vehicles used on private land.

Competition impact test

135. If, as expected, the average cost of motor insurance premiums increases as a result of these proposals (option 1), drivers will be looking for every opportunity to reduce their premiums, which means that they will be shopping around for the lowest premium. Given the existing competitiveness of the market we would expect to see a reasonably fast and positive response from the insurance sector. Although some users might be encouraged to switch, others might remain inactive and, as result, would bear a disproportionate cost. Furthermore, there will be opportunities for insurers to innovate with policies which are tailored to some of the new types of vehicles which will require compulsory insurance. Overall, this could lead to more competition within the market.

Small and Micro Business Assessment

136. The principal effect on businesses from option 1 is for those businesses which own fleets of newly in-scope vehicles. We do not expect this to be disproportionate as the actual effect will depend on the number and type of newly-in-scope vehicles that such businesses use.

137. However, it is worth noting that the industries most affected by these changes such as agricultural, transport and storage and motorsport businesses are dominated by SMEs and are particularly likely to be affected by option 1. Approximately 87% of businesses in the “agriculture, forestry and fishing” sector are classified as small, with 9 or fewer employees. In “transport and storage” this figure is approximately 89%. Option 1 may therefore have consequences for a large, and disproportionate, number of small businesses.

138. For option 2, we expect no disproportionate impact on small or medium enterprise as a result of removing Vnuk from GB law. This is because option 2 is relatively similar to the baseline option so there are not expected to be large impacts to businesses. The business expected to be impacted is the Motor Insurers' Bureau (MIB). However, the MIB had 483³³ employees in 2019 and so is not considered an SME.

5.0 Post implementation review

1. **Review status:** Please classify with an 'x' and provide any explanations below.

<input type="checkbox"/>	Sunset clause	<input type="checkbox"/>	Other review clause	<input checked="" type="checkbox"/>	Political commitment	<input type="checkbox"/>	Other reason	<input type="checkbox"/>	No plan to review
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Regulations to be reviewed every five years to ensure continued suitability.

2. **Expected review date** (month and year, xx/xx):

0	9	/	2	6	Five years from when the Regulations come into force
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3. **Rationale for PIR approach:**

Circle the level of evidence and resourcing that will be adopted for this PIR (see Guidance for Conducting PIRs):

Describe the rationale for the evidence that will be sought and the level of resources that will be used to collect it.

- **Will the level of evidence and resourcing be low, medium or high? (See Guidance for Conducting PIRs)**

As the preferred approach has overall benefits of >£50 million, the necessary level of evidence is high

- **What forms of monitoring data will be collected?**

Monitoring data should be collated on insurance premiums

We also suggest monitoring data on claims for injuries in accidents involving NISVs or in accidents with motor vehicles occurring on private land to consider volumes, outcomes and processing times

- **What evaluation approaches will be used? (e.g. impact, process, economic)**

Impact and economic evaluation approaches should be used to measure the policy impact on insurance premiums, consumer protection and insurance enforcement

- **How will stakeholder views be collected? (e.g. feedback mechanisms, consultations, research)**

Stakeholders (insurers, insurance agencies, lawyers, including CPS lawyers, and claimants) should be collected through in-depth interviews.

Rationale for not conducting a PIR:

Describe the rationale for why a PIR will not be conducted and why this is deemed to be the suitable route to follow.

³³ https://www.mib.org.uk/media/517134/mib_annual_report_2019.pdf

N/A

Key Objectives, Research Questions and Evidence collection plans

Key objectives of the regulation(s)	Key research questions to measure success of objective	Existing evidence/data	Any plans to collect primary data to answer questions?
Eliminate the significant and ongoing cost implications	What is the impact of policy on insurance premiums?	Insurance premium data	Interviews with SH to understand whether the policy is casually linked with changes in insurance premiums
Consumer protection	What is the impact of the policy on the level of consumer protection and have mitigations processes worked?	Data on claims for injuries related to accidents involving NISVs or with motor vehicles on private land (volume, outcome and time taken to process)	Interviews with SH to understand whether the policy is casually linked with any changes in levels of consumer protection
Enforcement	What is the impact of the policy on the enforcement of insurance?	N/A	Interviews with relevant SH

Annex

Annex 1 – Assumptions and sensitivity

Option 1 – Implement Vnuk

Vehicle Registration costs

Summary of Method:

Year 1 (transition costs)

- The costs of developing identifiers such as license plates required in registration to the DVLA in year 1 were gathered.
- The non-compliance rate is estimated and multiplied by the NISV in policy years in year 1 and subtracted from the total so that only compliant vehicle owners that are expected to register vehicles are considered. The cost of registering vehicles for their owners was assumed and multiplied by the number of expected complaint vehicles in year 1.
- The costs of developing identifiers to the DVLA and registration costs to vehicles owners of existing NISVs were summed for the total transition costs.

Ongoing Costs

- The costs of developing identifiers to the DVLA in subsequent years were obtained.

- The expected number of future sales in each subsequent years were assumed using industry sources for each type of NISV. However, there is no estimate for the number of motorsport vehicle registration per year so this is assumed based on the values gathered from other NISVs.
- The non-compliance rate is estimated and multiplied by the expected NISV needing registered each year and subtracted from the total so that only compliant vehicle owners that are expected to register vehicles are considered. The cost of registering vehicles for their owners was assumed and multiplied by the number of expected complaint vehicles in subsequent years.
- The costs of developing identifiers to the DVLA in subsequent years and registration costs to vehicles owners for new NISVs were summed for the total registration costs in subsequent years.

Assumption	Source	Further information	Scenario		
			Low	Central	High
Number of existing NISV (policy years)	GAD report: Vnuk Impact Analysis Combined Report, 2019.	<p>We have the estimated number of each type of NISV from the GAD report which considers the 5- and 10-year trends of market exposure for each type of vehicle, with greater emphasis on the 5-year trend.</p> <p>It is assumed that the exposure calculated in 2018 for each type of vehicle remains in 2022 in the first year of this policy.</p> <p>There is limited uncertainty with both 5- and 10-year trends considered but to consider changes in market exposure since 2018, a sensitivity applied.</p>	<p>Motorsports vehicles: 800,000</p> <p>Other Business Vehicles: 992,000</p> <p>Miscellaneous Vehicles: 384,000</p>	<p>Motorsports vehicles: 1,000,000</p> <p>Other Business Vehicles: 1,240,000</p> <p>Miscellaneous Vehicles: 480,000</p>	<p>Motorsports vehicles: 1,200,000</p> <p>Other Business Vehicles: 1,488,000</p> <p>Miscellaneous Vehicles: 576,000</p>
Number of new NISVs needing registered in subsequent years	<p>Other Business Vehicle Estimates:</p> <p>British Industrial Truck Association</p> <p>Agriculture Equipment Association (AEA)</p> <p>Construction Equipment</p>	<p>Industry growth rates of sales of NISV informed the ongoing costs of registering these vehicles in the central scenario. Due to potentially missing some types of other business and miscellaneous vehicles and the assumption that the value in each source would remain in subsequent years over the appraisal period, a +-20% sensitivity has been applied.</p>	<p>Motorsports Vehicles: 104,825</p> <p>Other Business Vehicles: 89,361</p> <p>Miscellaneous Vehicles: 126,420</p>	<p>Motorsports Vehicles: 209,650</p> <p>Other Business Vehicles: 111,701</p> <p>Miscellaneous Vehicles: 158,025</p>	<p>Motorsports Vehicles: 314,475</p> <p>Other Business Vehicles: 134,041</p> <p>Miscellaneous Vehicles: 189,630</p>

	<p>Association (CEA) 2018.</p> <p>Uplift of 5% from the GAD report.</p> <p>Miscellaneous Vehicles:</p> <p>Electric Bikes: Cycling Weekly.</p> <p>Segway's, mobility scooters, other miscellaneous vehicles and uplift of 5%: GAD report</p>	<p>However, no estimate could be gathered for motorsports. To consider these vehicles in subsequent years, the percentage of other business vehicles and miscellaneous vehicles expected to be registered on an ongoing basis as a percentage of the existing number from the GAD report was calculated and an average taken. This average was applied to motorsport values from the GAD report. A higher sensitivity of 50% is applied due to greater uncertainty.</p>			
Non-compliance rate	<p>Number of non-compliant vehicles: <u>MIB</u> Media Centre (2016)</p> <p>Surrey Police and Crime Commissioner (2019)</p>	<p>It is assumed that the rate of non-compliance and the enforcement rates remain the same as they are in the sources with no updated information.</p> <p>It is assumed that the number of non-compliant vehicles will increase due to Vnuk, so it is assumed there will be an uplift of 5% for the extension to private land and a 10% uplift for NISVs.</p>	<p>Motorsports: 3.3%</p> <p>Other Business Vehicles: 3.3%</p> <p>Miscellaneous Vehicles: 3.3%</p>	<p>Motorsports: 3.4%</p> <p>Other Business Vehicles: 3.4%</p> <p>Miscellaneous Vehicles: 3.4%</p>	<p>Motorsports: 3.5%</p> <p>Other Business Vehicles: 3.5%</p> <p>Miscellaneous Vehicles: 3.5%</p>
Cost to DVLA of developing identifiers for NISV	Policy Advisor from DVLA	<p>A cost range was given for developing identifiers both in implementation and ongoing running costs.</p> <p>The upper and lower bounds of the cost range were used as the estimates for the high and low scenarios and the average of these is used for the central scenario estimates.</p>	<p>Transition costs: £14.03m</p> <p>Ongoing Costs: £281k</p>	<p>Transition costs: £16.36m</p> <p>Ongoing Costs: £290k</p>	<p>Transition costs: £18.70m</p> <p>Ongoing Costs: £299k</p>
Cost of registering a vehicle to owners/	UK Government.	It is assumed that this value will be consistent throughout the appraisal period.	£55	£55	£55

Motor Insurance Premiums

Fraud Coverage

Summary of methods:

- The number of premium payers (in vehicle years) for motorcars and motorcycles has been extracted from the GAD combined report. These values assume 100% compliance.
- However, it is expected that there will be some non-compliance, and not all vehicle owners will purchase insurance. The non-compliance rate has been calculated for motorcars and motorcycles and subtracted from the total expected premium payers. The number of expected compliant vehicle owners that will purchase the mandatory fraud coverage is multiplied by the per policy increase in cost from Vnuk.

Assumption	Source	Further information	Scenario		
			Low	Central	High
Number of motorcars and motorcycles (policy years)	GAD report: Vnuk Impact Analysis Combined Report, 2019.	<p>We have the estimated number of motorcars and motorcycles from the GAD report which considers the 5- and 10-year trends of market exposure for each types of vehicle, with greater weight placed on the 5-year trend.</p> <p>It is assumed that the exposure calculated in 2018 for each type of vehicle remains in 2022 in the first year of this policy.</p> <p>There is limited uncertainty with both 5- and 10-year trends considered but to consider changes in market exposure since 2018, a sensitivity applied.</p>	<p>Motorcars: 20,000,000</p> <p>Motorcycles: 576,000</p>	<p>Motorcars: 25,000,000</p> <p>Motorcycles: 720,000</p>	<p>Motorcars: 30,000,000</p> <p>Motorcycles: 864,000</p>
Average additional increase in premiums per policy for fraud coverage	GAD report: Vnuk Impact Analysis Combined Report, 2019.	No sensitivity is applied based on the strong, evidence-based narrative of the GAD report in producing these figures	<p>Motorcars: £29.71 pa</p> <p>Motorcycles: £57.52 pa</p>		
Non-compliance rate	<p>Number of non-compliant vehicles: <u>MIB</u> Media Centre (2016)</p> <p>Surrey Police and Crime</p>	<p>It is assumed that the rate of non-compliance and the enforcement rates remain the same as they are in the sources with no updated information.</p> <p>It is assumed that the number of non-compliant vehicles will increase due to Vnuk, so it is assumed</p>	<p>Motorcars: 3.5%</p> <p>Motorcycles: 3.5%</p>	<p>Motorcars: 3.6%</p> <p>Motorcycles: 3.6%</p>	<p>Motorcars: 3.6%</p> <p>Motorcycles: 3.6%</p>

	Commissioner (2019)	there will be an uplift of 5%.			
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Extension to private land and NISVs

Summary of methods

- The number of premium payers (in vehicle years) for each vehicle type motorcars and motorcycles has been extracted from the GAD combined report. These values assume 100% compliance.
- However, it is expected that there will be some non-compliance, and not all vehicle owners will purchase insurance. The non-compliance rate has been calculated for motorcars and motorcycles and subtracted from the total expected premium payers. The number of expected compliant vehicle owners that will purchase the compulsory extension of insurance coverage is multiplied by the per policy increase in cost from Vnuk.

Assumption	Source	Further information	Scenario		
			Low	Central	High
Number of policy years by vehicle type	GAD report: Vnuk Impact Analysis Combined Report, 2019.	<p>We have the estimated number of each type of NISV from the GAD report which considers the 5- and 10-year trends of market exposure for each types of vehicle, with greater emphasis on the 5-year trend.</p> <p>It is assumed that the exposure calculated in 2018 for each type of vehicle remains in 2022 in the first year of this policy.</p> <p>There is limited uncertainty with both 5- and 10-year trends considered but to consider changes in market exposure since 2018, a sensitivity applied.</p>	<p>Motorcars: 20,000,000</p> <p>Motorcycles: 576,000</p> <p>Motorsports vehicles: 800,000</p> <p>Other Business Vehicles: 992,000</p> <p>Miscellaneous Vehicles: 384,000</p>	<p>Motorcars: 25,000,000</p> <p>Motorcycles: 720,000</p> <p>Motorsports vehicles: 1,000,000</p> <p>Other Business Vehicles: 1,240,000</p> <p>Miscellaneous Vehicles: 480,000</p>	<p>Motorcars: 30,000,000</p> <p>Motorcycles: 864,000</p> <p>Motorsports vehicles: 1,200,000</p> <p>Other Business Vehicles: 1,488,000</p> <p>Miscellaneous Vehicles: 576,000</p>
Average additional increase in premiums per policy	GAD report: Vnuk Impact Analysis Combined Report, 2019.	No sensitivity is applied based on the strong, evidence-based narrative of the GAD report in producing these figures	<p>Motorcars: £19.4 pa</p> <p>Motorcycles: £32.2 pa</p> <p>Existing Business vehicles: £27.4 pa</p> <p>Motorsports: £457.7 per ride</p> <p>Other Business vehicles: £159.5</p> <p>Miscellaneous: £16.9</p>		
Non-compliance rate	Number of non-compliant vehicles: <u>MIB</u> Media Centre (2016)	It is assumed that the rate of non-compliance and the enforcement rates remain the same as they	<p>Motorcars: 3.5%</p> <p>Motorcycles: 3.5%</p>	<p>Motorcars: 3.6%</p> <p>Motorcycles: 3.6%</p>	<p>Motorcars: 3.6%</p> <p>Motorcycles: 3.6%</p>

	Surrey Police and Crime Commissioner (2019)	are in the sources with no updated information. It is assumed that the number of non-compliant vehicles will increase due to Vnuk, so it is assumed there will be an uplift of 5% for the extension to private land and a 10% uplift for NISVs.	Existing Business Vehicles: 3.5% Motorsports: 3.3% Other Business Vehicles: 3.3% Miscellaneous Vehicles: 3.3%	Existing Business Vehicles: 3.6% Motorsports: 3.4% Other Business Vehicles: 3.4% Miscellaneous Vehicles: 3.4%	Existing Business Vehicles: 3.6% Motorsports: 3.5% Other Business Vehicles: 3.5% Miscellaneous Vehicles: 3.5%
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Judicial Costs

Summary of Methods:

- The change in non-compliance rate has been calculated and multiplied by the number of vehicles in policy years to find the expected increase in number of vehicles that will be non-compliance with the Vnuk judgement.
- The number of expected non-compliant vehicles is multiplied by the assumed enforcement rate to find those expected to be prosecuted for non-compliance in the justice system.
- The costs of driving and keeping an uninsured vehicle and the proportion of cases for each offence have been estimated. These values are multiplied by the number of vehicles that are expected face enforcement from non-compliance.

Assumption	Source	Further information	Scenario		
			Low	Central	High
Change in Non-compliance rate	Number of non-compliant vehicles: <u>MIB</u> Media Centre (2016) Surrey Police and Crime Commissioner (2019)	It is assumed that the rate of non-compliance and the enforcement rates remain the same as they are in the sources with no updated information. It is assumed that the number of non-compliant vehicles will increase due to Vnuk, so it is assumed there will be an uplift of 5% for the extension to private land and a 10% uplift for NISVs. This uplifted value is subtracted for the change in non-compliance from Vnuk.	Existing vehicles (motorcars, motorcycles, business): 0.1% NISV (motorsports, other business vehicles, miscellaneous): 3.3%	Existing vehicles (motorcars, motorcycles, business): 0.2% NISV (motorsports, other business vehicles, miscellaneous): 3.4%	Existing vehicles (motorcars, motorcycles, business): 0.2% NISV (motorsports, other business vehicles, miscellaneous): 3.5%
Number of vehicles in scope of Vnuk (policy years)	GAD report: Vnuk Impact Analysis Combined Report, 2019.	We have the estimated number of each type of NISV from the GAD report which considers the 5- and 10-year trends of market exposure for each types of vehicle, with greater emphasis on the 5-year trend.	Existing motorcars: 20,000,000 Existing Motorcycles: 576,000	Existing motorcars: 25,000,000 Existing Motorcycles: 720,000	Existing motorcars: 30,000,000 Existing Motorcycles: 864,000

		<p>It is assumed that the exposure calculated in 2018 for each type of vehicle remains in 2022 in the first year of this policy.</p> <p>There is limited uncertainty with both 5- and 10-year trends considered but to consider changes in market exposure since 2018, a sensitivity applied.</p>	<p>Existing Business Vehicles: 3,080,000</p> <p>Motorsports vehicles: 800,000</p> <p>Other Business Vehicles: 992,000</p> <p>Miscellaneous Vehicles: 384,000</p>	<p>Existing Business Vehicles: 3,850,000</p> <p>Motorsports vehicles: 1,000,000</p> <p>Other Business Vehicles: 1,240,000</p> <p>Miscellaneous Vehicles: 480,000</p>	<p>Existing Business Vehicles: 4,620,000</p> <p>Motorsports vehicles: 1,200,000</p> <p>Other Business Vehicles: 1,488,000</p> <p>Miscellaneous Vehicles: 576,000</p>
Enforcement rate	<p>MIB Media Centre (2020).</p> <p>Surrey Police and Crime Commissioner (2019)</p>	<p>The total number of uninsured vehicles over the last 15 years has been obtained from the MIB media centre. It is assumed that the enforcement has been steady over the 15 years so the total has been divided by 15 to get the annual number of seized vehicles from insurance non-compliance.</p> <p>This value is divided by the number of uninsured vehicles on UK roads in 2019 to provide an enforcement rate.</p> <p>It is assumed that the enforcement rate will stay constant throughout the appraisal period.</p>	<p>Enforcement rate: 13%</p>	<p>Enforcement rate: 13%</p>	<p>Enforcement rate: 13%</p>
Costs to court system for driving and keeping uninsured vehicles	DfT (2016)	<p>The average cost of keeping and driving a vehicle that is not insured to the CJS has been obtained from a published IA previously completed by DfT in 2016 and is assumed that the costs to CJS is the same as in 2016 and will remain constant through the appraisal period. While the data is from 2014/15, it is assumed these are in 2014 prices and have been unadjusted to 2019 prices.</p>	<p>Driving an uninsured vehicle: £350.23 per case</p> <p>Keeping an uninsured vehicle: £262.68 per case</p>	<p>Driving an uninsured vehicle: £437.79 per case</p> <p>Keeping an uninsured vehicle: £328.34 per case</p>	<p>Driving an uninsured vehicle: £525.35 per case</p> <p>Keeping an uninsured vehicle: £394.01 per case</p>
Proportion of cases for driving	Unpublished MoJ data (2020)	Given that there are different costs to CJS for cases that are	Proportion of case for	Proportion of case for	Proportion of case for

or keeping uninsured vehicles		keeping an uninsured vehicle compared to cases from driving uninsured vehicles, the proportion of cases for each has been calculated from MoJ data (2020) using an average across 2012 to 2019. It is assumed that the proportion of each remains constant throughout the appraisal period.	driving an uninsured vehicle: 48.2% Proportion of case for keeping an uninsured vehicle: 51.8%	driving an uninsured vehicle: 60.2% Proportion of case for keeping an uninsured vehicle: 39.8%	driving an uninsured vehicle: 72.2% Proportion of case for keeping an uninsured vehicle: 27.8%
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Familiarisation Costs

Summary of methods:

- The groups that are likely to face familiarisation costs have been identified as: insurers, Motor Insurers' Bureau (MIB), police, businesses with fleets and individuals.
- For each, the number of staff/employees that would need to familiarise with the changes to compulsory motor insurance have been estimated along with the number of hours each would need to familiarise.
- The average hourly salary for each groups that needs to familiarise with guidance has been estimated or obtained from various sources and a non-wage uplift applied using guidance from the Green Book.

Assumption	Source	Further information	Scenario		
			Low	Central	High
Number of individuals/staffs that need to familiarise with change in legislation	Insurers: ABI (2016)	Insurers: It is assumed that all those employed by insurance companies will need to spend some time familiarising with the change in legislation. The central scenario is all employees and a 20%+- sensitivity is applied due to potential change in the number of employees directly employed by insurance companies.	Insurers: 89,280	Insurers: 111,600	Insurers: 133,920
	MIB: MIB annual Reports and Accounts 2019.	MIB: It is assumed that claims operation staff will need to familiarise with the change in legislation. A 20%+- has been applied to allow for any change in number of MIB claims operation staff since 2019 or any additional staff in MIB that take time for familiarisation.	MIB: 163	MIB: 204	MIB: 245
	Businesses with Fleets: CISION PR Newswire	Businesses with fleets: The number of businesses with vehicles fleets are taken from industry sources and it is assumed that there is 1 fleet manager per business with a fleet that will need to familiarise with change in Vnuk legislation. A 20%+- sensitivity has been applied for any variation to this.	Businesses with fleets: 85,876	Businesses with fleets: 107,345	Businesses with fleets: 128,814
Average number of hours needed to familiarise per person		Insurers: it is assumed that an hour is needed per insurance clerk with a 25%+- sensitivity applied MIB: it is assumed that an hour is needed per claim staff with a 25%+- sensitivity applied.	Insurers: 1.2 MIB: 0.75	Insurers: 1.5 MIB: 1	Insurers: 1.8 MIB: 1.25

		<p>Police: It is assumed that an hour is needed per road police staff to familiarise with impact of legislation on role. A 25% sensitivity is applied.</p> <p>Businesses with fleets: It is assumed that fleet managers will spend 2 hours familiarising with guidance and making changes to compulsory insurance for fleet. There is a sensitivity of 50% applied as the time depends on size of fleet.</p>	Police: 0.75 Businesses :1	Police: 1 Businesses :2	Police: 1.25 Businesses: 3
Average Salary of those that need to familiarise with the guidance (£, per hour)	<p>Insurers: ONS ASHE database</p> <p>MIB: ONS ASHE database</p> <p>Businesses with Fleets: UK Talent.</p>	<p>Insurers: The mean on the ASHE database is assumed for the central scenario. For the low scenario, the 10th percentile value is used and for the high scenario, the 80th percentile is used as there is no 90th percentile.</p> <p>MIB: The mean on the ASHE database is assumed for the central scenario. For the low scenario, the 10th percentile value is used and for the high scenario, the 80th percentile is used as there is no 90th percentile.</p> <p>Businesses with Fleets: The median of fleet manager salary is used in the central scenario and the reported min and max salaries per hour are used as the min and max.</p>	<p>Insurers: £9.27</p> <p>MIB: £9.27</p> <p>Businesses with fleets: £15.59</p>	<p>Insurers: £13.11</p> <p>MIB: £13.11</p> <p>Businesses with fleets: £19.18</p>	<p>Insurers: £14.08</p> <p>MIB: £14.08</p> <p>Businesses with fleets: £25.18</p>
Non-wage uplift	Web TAG Unit A4.1	All: A non-wage uplift is applied following the Web TAG guidance. No sensitivity is applied.	Uplift: 1.265	Uplift: 1.265	Uplift: 1.265

Reduction in MIB Liabilities

Summary of methods:

- Ongoing annual liabilities to Vnuk have been extracted from the MIB report on Vnuk claims. This is adjusted using the GDP deflator to 2019 prices
- There is assumption regarding the percentage of this costs saving that would be achieved each year. And the liabilities are multiplied the expected percentage of cost savings each year.

Assumption	Source	Further information	Scenario		
			Low	Central	High
Expected future claims	MIB report on Vnuk claims (2020)	<p>MIB have outlined their ongoing annual liabilities from Vnuk which are assumed to end following the implementation of Vnuk.</p> <p>It is assumed the annual costs of claims in the claim year of 2020 would be the average that is faced throughout the appraisal period.</p>	£23.94m	£29.92m	£35.91m

		To consider any change to this average, a 20%+- sensitivity has been applied.			
% cost savings per year		<p>It is assumed that the MIB will still have all costs of Vnuk liabilities in the first year due to the implementation lag and time for insurance policies to be obtained or updated to reflect increased scope of mandatory coverage.</p> <p>By the second year, it is assumed that the MIB will have some of their liabilities but these will be less than in the first year.</p> <p>By year 3, it is assumed that the MIB will no longer face costs of Vnuk liabilities.</p>	<p>Percentage of costs savings released to the MIB.</p> <p>Year 1: 0%</p> <p>Year 2: 50%</p> <p>Years 3-10: 100%</p>		

Option 2 – Remove Vnuk from GB law

Familiarisation Costs

Summary of methods:

- It has been identified that the main group expected to face familiarisation costs is the crown prosecution service (CPS).
- The number of judicial staff that need to familiarise with the changes to GB law have been estimated and the number of hours each CPS will need to familiarise has been estimated.
- The average hourly wage of CPS staff has been obtained from industry sources and a non-wage uplift applied.

Assumption	Source	Further information	Scenario		
			Low	Central	High
Number of judicial staff needed to familiarise with guidance	CPS. Gov – About CPS	It is assumed that in the central scenario all CPS employees will need to familiarise with the guidance. To adjust for any changes in CPS staff, a 20%+- sensitivity is applied.	4,800 staff	6,000 staff	7,200 Staff
Number of hours needed to familiarise with guidance		It is assumed that all CPS staff will need an hour to familiarise with the change in guidance. due to some uncertainty and variation across roles, a 25% sensitivity is applied for high and low scenarios.	45 mins	1 hour	1 hr 15 mins.
Average hourly wage of legal staff (£, per hour)	ONS ASHE database	The category used is 'legal professionals'. The mean on the ASHE database is assumed for the central scenario. For the low scenario, the 10 th percentile value is used and for the high scenario, the 90 th percentile is used.	£14.75 per hour	£32.40 per hour	£56.74 per hour
Non- wage uplift	Web TAG Unit A4.1	A non-wage uplift is applied following the Web TAG	Uplift: 1.265	Uplift: 1.265	Uplift: 1.265

		guidance. No sensitivity is applied.			
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Reduction in MIB liabilities

Summary of methods:

- Data on the ongoing annual claims liability to the MIB from Vnuk claims in the baseline option has been obtained from the MIB and adjusted using the GDP deflator to 2019 prices

Assumption	Source	Further information	Scenario		
			Low	Central	High
MIB liabilities	MIB Report on Vnuk claims liabilities	The MIB have provided estimates of the number of annual ongoing claims. It is assumed that there would be no change to the ongoing annual liability in the baseline option during the appraisal period. To account for any variation, a 20%+- sensitivity has been applied to high and low scenarios.	£23.94m	£29.92m	£35.91m