MONEY BOX

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LEWIS: Hello. In today's programme, we've been looking at why the price of car insurance rose by 33% last year. The answer may surprise you. We look at who'll be the big losers in the welfare reforms announced this week. If you haven't heard of unisex insurance premiums, you may have to learn. Ben Carter's been looking into this.

CARTER: Yes, Paul. Judges in the European Court could be about to make it more expensive for men purchasing annuities and women paying for car insurance.

LEWIS: And a new way of taxing redundancy that puts all the advantage on the Revenue's side.

But first, if you've had your motor insurance premium notice through the door in recent months, you'll already know that premiums have shot up over the past year. The AA says the average cost of car insurance jumped by a third last year, the highest rise since its records began 17 years ago. The AA expects another 20% this year. Ruth Alexander's with me. She's been looking into this subject. Ruth, what's causing this price hike?

ALEXANDER: Well often this rise is put down to things like price competition, insurance fraud, and uninsured drivers causing accidents. But in my research, the most interesting thing to come out is that the number of car accidents and injuries is actually going down.

LEWIS: Sorry, why on earth is the cost of insurance rising if the number of accidents and injuries is falling?

ALEXANDER: It seems strange. Well the number of accidents may be going down, but the average cost of each accident is rising because this industry has changed. In the old days, a car accident would usually just involve an insurance company paying for some repairs, but now an accident is far more likely to also involve car hire costs and personal injury claims. The actuaries and consultants, Towers Watson, says the cost for insurers from injury related claims has almost doubled in 10 years.

LEWIS: So, as we said, accidents down, injuries down, costs up. Is that the reason?

ALEXANDER: Well if you want to understand how costs can really increase, it’s useful if you’ve heard of Darren Bent.

LEWIS: What me?

ALEXANDER: Mmn.

LEWIS: Is he a big name in insurance?

ALEXANDER: No, he’s a premiership footballer.

LEWIS: *(laughs)* Oh right, okay.

EXTRACT FOOTBALL GAME: Commentator follows goal scored by Darren Bent *(applause)*

ALEXANDER: Well Darren was in a car accident in 2007, which is why this is relevant.

LEWIS: So who did he not miss on that occasion?

ALEXANDER: Don't stereotype footballers, Paul. Darren was the innocent party. But there was another victim: the poor person who drove into the footballer's 72 grand Mercedes. While Darren's car was being fixed, he used a credit hire company to rent a replacement car. His hire car was an Aston Martin DB9 worth £105,000. The final bill for 3 months hire, at £573 a day, came to over 60 grand. When this bill was presented to the insurance company of the man who drove into Darren, Allianz, it refused to pay and the matter went to court. This month, after several hearings, a judge in Cambridgeshire said Allianz only had to pay roughly two thirds of the bill. Accident Exchange, the credit hire company involved, told me it plans to appeal, but Martin Saunders of Allianz said the decision was "right" and "important". He thought Darren Bent should have questioned the costs.

SAUNDERS: He should be looking to shop around and make inquiries and actually undertake a review on whether or not that £573 per day was reasonable. And indeed that's what the court found - that he hadn't done that and that he should have done it. I think what it's established is the fact that people just cannot take it for granted that just because they have a vehicle on credit hire, they will recover those costs in full. We say ask questions, you know ask how much this is going to cost, ask whether or not you're going to have to pay for it ultimately if the matter isn't ever going to be recovered. We'd also recommend that you shop around.

ALEXANDER: Now this is just an extreme example of how accidents have become big business. As soon as you have a crash which is not your fault, there are lots of companies who are in business to make money out of it. So whoever you first tell that you had an accident - whether it be a garage, roadside assistance or an insurance company - they can now make money selling on your contact details to a company that supplies hire cars, like in the Darren Bent case, a personal injury lawyer or even a repair garage. Now one senior person in the industry has described it to me as being like a "crazed merry-go-round", and in the trade the money that changes hands as your details get passed about are called “referral fees” and it is a lucrative business.

LEWIS: And Ruth, those fees obviously add to the cost of a claim and ultimately there’s only one person who can pay them. That’s you and me through our premium.

ALEXANDER: Yes. And Allianz, the insurer involved in the Darren Bent case, reckons a personal injury case with a credit hire element can generate up to £1,000 in fees. Now Martin Saunders from the insurer says that they receive referral fees to keep up with the rest of the market, but they would love to see an industry wide ban.

SAUNDERS: It is a dirty business. It does inflate the wrong and poor behaviours. We have seen claims frequency - the amount of claims that we get - rise, and I don’t think it takes an awful lot to actually relate that to some of the referral fees that we’ve seen paid and some of the accidents that thereafter come through. And that’s no good for us as an industry and it’s no good for the consumer in the long run either.

LEWIS: Strong stuff. And will this dirty business be stopped, Ruth?

ALEXANDER: Well a big civil litigation cost review recently recommended that referral fees be banned or capped, and the Ministry of Justice has just finished a consultation on the matter - so watch this space. In the meantime, Allianz has been trying to get the court to reduce some of the high cost, this referral fee “feeding frenzy”, as it’s been described to me, that that encourages. And they’re not the only insurance company who are starting to challenge the cost of the accident industry. Another rising cost is the expensive repairs themselves. Martin Saunders believes that some credit hire companies are inflating these bills.

SAUNDERS: I think there’s a very distinct possibility that is happening. We have seen cases where we strongly suspect that, although we have not yet been able to firmly establish that through the courts. But on a case by case basis, we do demand to see garages produce documents showing us when repairs were started, when parts were ordered, what chase-ups were happening so that the whole process is being managed, but it is certainly a deep consideration of ours.

ALEXANDER: And a repair industry insider has told me for instance that most repairs arranged by credit hire companies start on a Friday and finish on a Monday, turning a one day job into a four day car hire period. But it would be wrong to put all the blame on credit hire companies. It seems clear that every part of the car accident industry is partly to blame. For instance, two insurers are facing each other in court over accusations of inflated repair bills. Provident alleges invoices it received from RSA don't tally with the original garage repair bills.

LEWIS: Well thanks, Ruth. Live first now to Tony Baker. He's Director General of the Credit Hire Organisation that represents these car hire companies used in insurance cases. Tony Baker - the Darren Bent case, why should we pay for a star in an unreasonably priced car?

BAKER: Well it's not an unreasonably priced car.

LEWIS: *(over)* Well it's worth a lot more than the car that was hit.

BAKER: If you're involved in an accident that isn't your fault, you're entitled to be put back in the position before the accident. So if you're driving a family car or if you're driving a 4x4 or a disabled vehicle and it's been damaged by somebody else and it's their fault, you should be put back into a similar sort of vehicle because that's what you need to carry out your business, your family life or whatever.

LEWIS: Yes. Of course Darren Bent did have another car, which he could have used, didn't he?

BAKER: That was not questioned by the insurers at all.

LEWIS: Right. But why is a hundred and …

BAKER: *(over)* What was questioned was the rate per hire, and Allianz agrees these rates in advance as a party to an agreement between credit hire companies and insurance companies where the rates are agreed once a year, maximum rate, and they settle for every type of car claim.

LEWIS: Well clearly it didn't agree or it wouldn't have gone to court. Why is a £105,000 car a replacement for a £72,000 car?

BAKER: That is the period of repair …

LEWIS: *(over)* No, no, no, no, the car was worth that.

BAKER: … and everything we've done was to try and repair that car as quickly as possible. Allianz could have settled that claim a lot cheaper if they'd settled it quickly at the agreed rate that they'd agreed with the credit hire company. They chose not to.

LEWIS: But let's look at a more ordinary case. We've had an email from John. One of his vehicles dented a Mini. The repair cost £530. The driver of the Mini got a hire car which cost £7,400. That was an E class Mercedes when he'd had a Mini that was damaged. Is that reasonable?

BAKER: The insurance company that was probably undertaking the repairs, they must have been delayed in some way. There is an agreement between all insurers …

LEWIS: *(over)* But delay doesn't make an easy …

BAKER: *(over)* … virtually all insurers and virtually all credit hire companies that covers the terms, conditions and the daily hire rate for credit hire vehicles.

LEWIS: And how do you deal with the allegation that Ruth was making, that somebody had made to Ruth that she said earlier - that you know a lot of repairs start on a Friday and end on a Monday just to add a weekend to the time?

BAKER: It is incorrect.

LEWIS: So that's not right?

BAKER: It is not right, no. What insurers are trying to do is try and find any possible reason to publicise why we've got to increase premiums …

LEWIS: *(over)* Okay, well let's …

BAKER: *(over)* … and the reason they're having to increase premiums is one simple thing, and that is they've been charging unrealistic premiums over the last few years.

LEWIS: Right, so it's nothing to do with credit hire companies?

BAKER: Credit hire costs have fallen over the last 2 years.

LEWIS: Stay with us, Tony. With me also is Nick Starling. He's a Director of the Association of British Insurers. Nick Starling, Lloyds Market Association said to a committee of MPs the insurance market for cars was "dysfunctional". Do you agree?

STARLING: It's a word I've used to describe what's going on.

LEWIS: You do agree then. So why is it dysfunctional? You're in charge of it.

STARLING: There are a whole series of problems at the moment, which are leading to the rise in premiums. We have the massive increase in personal injury claims despite the fact, as you have said, accidents are going down; we've got a pervasive problem of fraud and uninsured driving; we've got very particular problems for some sectors such as young drivers. And these are all pushing up the costs.

LEWIS: Sure, but your members are selling cases on to personal injury lawyers in exchange for a fee. You're part of this "crazed merry-go-round" of spiralling costs.

STARLING: If you are unlucky enough to be the victim of an accident and it’s not your fault, you are a very valuable property, as your report set out, and people are out to get you, to get money from you. If it’s ever happened to you - I’m sure it’s happened to many of your listeners - you get endless phone calls from personal injury lawyers, you get the garage, you get the credit card companies coming at you.

LEWIS: But they only know your phone number because someone has sold it to them; and your members and other people involved are doing that all the time, pushing up the cost.

STARLING: Yes they are. They are in a system where that is how it happens.

LEWIS: Well how can you get out of that spiral?

STARLING: Well, first of all, there’s an extremely important set of reforms called the Jackson Reforms, which you mentioned in your report, which are aimed to clear up the whole problem of personal injury and the way that the system, the compensation culture is generating these costs. That includes the abolition of referral fees and our members agree that that should happen as part of a package of reform.

LEWIS: So they should be abolished. And let me just finally briefly put to you Tony Baker’s point that insurance companies are behind the rise of credit hire companies because you’re too slow and too inefficient at dealing with claims.

STARLING: No, that’s not the case. Our members want to deal with claims quickly. And as you report, if you’ve been injured or inconvenienced in any way by something that’s not your fault, you need to be looked after properly and quickly, and our members aim to do that.

LEWIS: Nick Starling of the Association of British Insurers, thanks, and also thanks to Tony Baker of the Credit Hire Organisation. And you can let us know your experiences of car accidents and the costs on our website, bbc.co.uk, and you can have your say there. Many of you are already, I must say.

Now the government's plans to shake up welfare and make work pay were published this week. The new Universal Credit will combine six means tested benefits such as income support, jobseeker's allowance, housing benefit into one universal benefit. Although no-one will be worse off at the point of change, the new Universal Credit will eventually pay less to 1.7 million households (mainly those on middle incomes) and pay more to 2.7 million (mainly on lower incomes). Universal Credit itself won't save any money, but other measures in the Welfare Reform Bill published this week will save nearly a billion pounds next year, rising to nearly 4 billion in 2014/15. Well to find out who might lose this money Lee Healey, Managing Director at Income Max is with me. Lee, can I call you a benefits nerd, and that is a compliment coming from me?

HEALEY: That is definitely … Yeah benefits geek, yes definitely.

LEWIS: Benefits geek, okay. How is this going to work? I mean who is going to lose money, first of all?

HEALEY: I mean, as you quite rightly stated, it should be middle income families that currently sort of benefit from the generosity of the tax credit system when they're working. Those families are probably going to start suffering under this new system because I think the new benefit system is very much going to be aligned at lower income families and it's going to encourage those families to take on work and so on and so forth.

LEWIS: Now there is this guarantee though, isn't there, which Iain Duncan Smith, the Secretary of State, has made much of, that no-one will lose at the point of change. How will that work?

HEALEY: It's a bold statement, isn't it, and the idea of course is these transitional payments. Now what the government have basically said is that you know there will be no cash losers. So at the point of transition when you move onto these new benefits, they will give you a cash payment to top you up to your old rates of benefit.

LEWIS: But it was made clear to me when I was talking to them that if you change your circumstances - if you take a job, if you have another child - then you may well find you're on a lower amount of money subsequently.

HEALEY: Exactly, and it's only going to be a transitional protection at that point when it kicks in.

LEWIS: Details to be worked out. But there's also a cap on benefits. Now where will that cap be? Because I've had a lot of emails and tweets saying this actually is an awful lot of money. I wish I was getting, what is it, £500 a week where benefits will be capped.

HEALEY: Yeah, I mean it's £500 a week for couples and lone parents.

LEWIS: There are people in work getting less than that, Lee.

HEALEY: Absolutely, I appreciate that.

LEWIS: Half the population.

HEALEY: £350 for a single person. No, absolutely, I can totally understand that. But of course you've got to factor in this is including housing costs, so it's going to include housing benefit as well. And if you've got a lot of children, if you've got disabilities, health problems - I mean to be fair the government are going to have some exemptions to that cap - disability living allowance claimants in particular.

LEWIS: Yes, so it will particularly affect people in high rent areas like Central London or most of London actually and some of the other big cities where housing benefit can be very expensive and rent is very expensive.

HEALEY: Absolutely.

LEWIS: Now the other big idea behind this - one of Iain Duncan Smith's main ideas - it will make work pay. Will it really make work pay?

HEALEY: I think it's a very interesting concept what they're doing here. Basically I think it's a bit of an experiment, but ultimately it's basically the taper rate, this 65% taper rate which they're going to introduce.

LEWIS: So this is the rate your benefit goes down if you get a job?

HEALEY: Absolutely. So that's kind of the rate it starts to reduce. And also it's very important that that needs to be kind of balanced with the higher earnings disregards that the government are going to introduce.

LEWIS: So you can keep more money from your job?

HEALEY: You can keep more money from your job, and also you can keep more money from your benefit.

LEWIS: Lee Healey, we must leave it there. I'm sure we'll be returning to it when we get more details. Lee Healey from Income Max, thanks very much.

Pensions for men could fall, those for women could rise following a ruling of the European Court - not made yet but due on March 1st. The court will announce if European law allows insurance companies to make different offers to men and women simply on the grounds of their sex. At the moment a woman will get a lower personal pension than a man of the same age with the same amount of money because on average women live longer, so her pension has to stretch over more years. If the court follows the legal advice it's been given, then such discrimination, however sensible it might seem, will have to end. I spoke to Billy Burrows, Director of Annuities at Better Retirement Group, to explain.

BURROWS: The effect it will have is that the actuaries will price annuities on gender neutral rates, which will mean that the rates for men will fall and the rates for women will rise.

LEWIS: By how much?

BURROWS: There's some scary figures around of sort of 5 to 10%, but the numbers that I did, which some actuaries agree with, suggest that the rates for single men may fall by about 2.5% and the rates for women may increase by 2.5%. But of course that's only a guess and I suspect it could be less bad than that.

LEWIS: And just to put some numbers on this. If somebody was lucky enough to have £100,000 in their pension pot, they wanted to draw a pension at 65, what difference would there be between a man and a woman now?

BURROWS: Currently a man of 65 would get an income of £6,633; whereas a female of the same age would only get £6,322. So that's, what, £300 a year less.

LEWIS: And what would the unisex annuity be?

BURROWS: Well we calculate for the man that would be about £150 a year less, and for the woman about £150 more a year. And don't forget that's every year until they die.

LEWIS: And those are flat rate annuities, of course. They're not inflation protected?

BURROWS: Correct, these are level annuities.

LEWIS: And where there's a couple and somebody has an annuity for themselves and then an annuity for their widow or widower once they die, would that sort of even out because in the nature of most couples anyway that will involve a man and a woman?

BURROWS: I think you raise an important point. I think one of the unintended consequences is that the joint life annuity rates will also fall, so many ladies could actually end up worse off because they rely on the husband's income and the widow's pension when the husband's died.

LEWIS: Now the judgement's on March 1st. Should women who are thinking of buying a pension, an annuity, hang on, and should men be purchasing one in the next few days to beat the court case?

BURROWS: I think that's an important point. Our advice and the advice of most other people is that those people thinking of buying annuities in the next few months may well do better by buying it sooner rather than later. However a word of caution: those people thinking of retiring some time in the future probably shouldn't rush into buying an annuity sooner than expected.

LEWIS: Billy Burrows of Better Retirement Group. And if you are buying an annuity never buy it from the company you saved up with. Get independent advice about the best annuity rate for you because your mistakes will last a lifetime. Now of course we don't know what the judgement on March 1st will be, which is why it's hard to know if you should rush out and buy an annuity or whether the court will give insurers give any time to phase in any changes. But it's not just annuities that could be affected if the ruling's passed. The way premiums are calculated for car and life insurance would also have to change. Our reporter Ben Carter's here. He's been looking at the figures.

CARTER: Paul, this could have a huge impact, especially on car insurance premiums. Figures from the motoring organisation the AA show that men aged between 17 and 22 are paying on average an annual premium of £2,963. The figure for females in the same age group is around £1,000 cheaper. And across the board, as drivers get older, it's around £300 less expensive for a woman to insure their car compared to men.

LEWIS: So if you're a man and you're shopping around for car insurance, perhaps you should wait until after this European Court ruling and women should get a move on and arrange cover before March 1st?

CARTER: Well Simon Douglas, Director of AA Insurance, said that while young women currently pay premiums that are up to 50% cheaper than their male peers, that will change and their premiums will increase substantially while they will probably fall a little for young men.

LEWIS: If of course the judges go with the advice they've had, which we don't know. Now are there other insurance products that could be affected?

CARTER: Yes, life insurance is also priced to take gender into account. Looking at a 50 year old non-smoker and based on a benefit of £100,000 over a 25 year term, the average monthly premium for a man is just over £27 per month and for a woman it's just under £22 per month, so around £60 a year cheaper for a woman. Health insurance won't be affected though. BUPA told me that gender does not affect the price of their health insurance policies.

LEWIS: Right, thanks very much Ben. And I'm sure we'll be coming back to that on the Saturday after March 1st.

People made redundant from April who get a payment of more than £30,000 could see a much bigger chunk of the excess going to the taxman. The tax due on redundancy payments isn't actually being changed, but the way it's collected is and that could mean a long wait to get back any overpayment. One Money Box listener, Bruce, emailed us to say that he'd discovered the change by chance. He's being made redundant in April. His payment will be well above £30,000 and this is what he wrote to us. 'I learned of the effect of this change on me in the last few days. I spoke to three people from HMRC this morning who initially knew nothing about this. The majority of my payment will initially be taxed at 50% and I will have to wait a year to get the huge interest free loan to HMRC refunded.'

LEWIS: Well that was one listener's fear and experience, I suppose. Live now to talk to John Whiting of the Chartered Institute of Taxation. John, how is this taxation changing?

WHITING: Well one thing to say - the absolute amount of tax that you will pay in the long-run isn't altering, but what is changing is the way it's collected, as you said. Currently if you get a redundancy payment over this famous £30,000 tax free, your employer, ex-employer takes 20% at source basic rate tax. What is going to change - or at least this is the Revenue proposal, we haven't seen the final rules yet - is that from April what they will do is they will use what's known as a 0T code. What that will mean is they'll take much more upfront, and frankly for most payments there'll at least be a swatch at 50% - the new 50% tax rate. Of course that's what's driving it.

LEWIS: But 50% tax starts at £150,000. Why will another 20 grand on top of a £30,000 payment be taxed at 50%?

WHITING: Well unfortunately what will happen is they'll do it on what's known as a month one basis. So in other words, in April if you get a say £50,000 payoff - that's £20,000 taxable, £30,000 tax free - they sort of pretend that it's £20,000 a month that you'll be getting and tax you accordingly. And of course that's an imaginary salary payoff of £240,000 - comfortably into the 50% tax bracket - so they whip quite a lot of tax from your redundancy payment.

LEWIS: And of course very many people, most people I suspect, will not have to end up paying that much tax on it …

WHITING: Indeed.

LEWIS: … so when and how will they get it back?

WHITING: Well unfortunately in normal circumstances … We're asking the Revenue if they're going to change their way of paying back, but normally they've got to wait until after the year ends. So of course this is improving the Revenue's cash flow at a time when people frankly need every penny. You can understand it if somebody's getting a million pound payoff, but for somebody getting a relatively modest payoff, it's bad news.

LEWIS: Yes, that is an interest free loan to the Revenue, isn't it, briefly?

WHITING: Well it is and nothing more, nothing less. And it's going round the other way. And as I say, you can understand it for the million payoff, but not for the £50,000 payoff.

LEWIS: John Whiting, thanks very much for talking to us. That is it for today. You can find out more on all those subjects from our website: bbc.co.uk/moneybox. Download the podcast, etcetera, send us your ideas, and of course have your say (as many of you are) on those car insurance payments. Vincent Duggleby's here on Wednesday with Money Box Live, taking questions this week on finding financial advice. I'm back with Money Box next weekend. You can read my money thoughts every day on my twitter, Paul Lewis Money. Today the reporters Ruth Alexander, Ben Carter; the producer Lesley McAlpine. I'm Paul Lewis.