

<b>Title:</b> <b>Removing the Insurance Check at Vehicle Licensing</b>  <b>IA No:</b> DFT00148  <b>Lead department or agency:</b> Driver & Vehicle Licensing Agency (DVLA)  <b>Other departments or agencies:</b> Department for Transport (DfT)	<b>Impact Assessment (IA)</b>		
	Date: 28/06/2013		
	Stage: Final		
	Source of intervention: Domestic		
	Type of measure: Secondary legislation		
Contact for enquiries: <b>Jason Donovan</b>			
<b>Summary: Intervention and Options</b>			RPC: AMBER

Cost of Preferred (or more likely) Option				
Total Net Present Value	Business Net Present Value	Net cost to business per year (EANCB on 2009 prices)	In scope of One-In, One-Out?	Measure qualifies as
£22.09m	£4.30m	£-0.46m	Yes	OUT

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

The Government is obliged to ensure that motorists have adequate motor insurance in place before they drive on the roads. To help enforce this, the Government currently perform simultaneous checks of insurance; once at the point of vehicle taxing and the other through the regular checks made by the Continuous Insurance Enforcement (CIE) scheme. The more comprehensive checks of insurance made by CIE mean that the time is right to remove the additional burden placed on motorists when taxing their vehicle.

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

The objective is to minimise the burden the Government imposes on motorists when taxing their vehicles whilst, at the same time, ensuring that motorists remain compliant with their legal obligation to have adequate motor insurance. The current performance and effectiveness of the CIE scheme means that the checks made at the point of vehicle taxing are disproportionate as a means to enforce insurance compliance.

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

Do nothing  
 This option would not alleviate the burden imposed on motorists and Government due to the requirement to conduct an additional check of licensing despite those frequently made by CIE.

Option 1 (preferred option)  
 Remove the insurance check when motorists apply to tax their vehicles. This will require an amendment to secondary legislation in order to deliver the policy objective. The removal of the check will result in a reduction of costs to both the public and Government and make it easier to tax a vehicle whilst ensuring insurance compliance.

<b>Will the policy be reviewed?</b> It yewill/will not be reviewed. <b>If applicable, set review date:</b> Month/Year						
Does implementation go beyond minimum EU requirements?			No			
Are any of these organisations in scope? If Micros not exempted set out reason in Evidence Base.		<b>Micro No</b>	<b>&lt; 20 No</b>	<b>Small No</b>	<b>Medium No</b>	<b>Large No</b>
What is the CO2 equivalent change in greenhouse gas emissions? (Million tonnes CO2 equivalent)			<b>Traded:</b>		<b>Non-traded:</b>	
			n/a		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 Minister: \_\_\_\_\_ Stephen Hammond Date: \_\_\_\_\_ 21/08/2013

# Summary: Analysis & Evidence

# Policy Option 1

**Description:** The removal of the requirement to check for evidence of a valid insurance policy will apply to all licensing channels. Motorists will no longer have to present a paper certificate, whilst the Government will no longer have to arrange for an electronic check if an application is made online.

## FULL ECONOMIC ASSESSMENT

Price Base	PV Base	Time Period	Net Benefit (Present Value (PV)) (£m)		
Year 2011	Year 2011	Years 10	Low: 16.05	High: 27.95	Best Estimate: 22.09

COSTS (£m)	Total Transition (Constant Price)	Years	Average Annual (excl. Transition) (Constant Price)	Total Cost (Present Value)
Low	0.2	10	0.0	<b>0.4</b>
High	0.2		0.2	<b>1.9</b>
Best Estimate	0.2		0.1	1.1

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

Government - there will be a one off cost of around £240,000 to amend IT systems. There may be a cost to DVLA if the proposal results in a significant impact on HM Courts & Tribunal Services. A 0.5% increase in cases heard at court would result in DVLA reimbursing HMCTS £90,000.

There have been no other costs identified for affected groups.

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

None have been identified.

BENEFITS (£m)	Total Transition (Constant Price)	Years	Average Annual (excl. Transition) (Constant Price)	Total Benefit (Present Value)
Low	0	10	2.1	<b>18.0</b>
High	0		3.3	<b>28.3</b>
Best Estimate	0		2.7	23.1

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

Public - between £0.6m and £1.4m savings per annum for the 553,000 vehicles registered to private motorists that want to use EVL but are unable due to insurance issues. Business - between £0.3m and £0.7m savings per annum for 42,000 vehicles registered to businesses that want to use the Electronic Vehicle Licensing (EVL) scheme but are unable due to insurance issues. Government - around £1.1m per annum through contractual saving by not checking the MID as well as an increase in EVL take up.

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

Government - potential reduction in transaction handling costs. Reduction in around 200 complaints about insurance issues with EVL. Businesses - motor dealers have identified that they will see a reduction in administration when registering/licensing new vehicles.

Key assumptions/sensitivities/risks	Discount rate (%)	3.5
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The 595,000 motorists who could not use EVL would decide to use EVL in the future. There may be a slight increase in short term insurance evasion but this will be mitigated by CIE. The £90,000 reimbursement cost is an assumption based on a sensitivity analysis using the way DVLA expresses it's VED evasion figure combined with CIE's risk mitigation. The unavailability of forecast transaction volumes past 2014/15 has lead to an assumption that benefits will rise as per trend.

## BUSINESS ASSESSMENT (Option 1)

<b>Direct impact on business (Equivalent Annual) £m:</b>			<b>In scope of OIOO?</b>	<b>Measure qualifies as</b>
<b>Costs: 0.0</b>	<b>Benefits: 0.5</b>	<b>Net: 0.5</b>	Yes	OUT

# Evidence Base

## Background

### Checking insurance at vehicle taxing

1. The Vehicle Excise and Registration Act 1994<sup>1</sup> requires a vehicle excise duty (VED) to be charged on all vehicles that are to be driven on the public road. Upon payment of the relevant amount of VED, a tax disc is issued to the vehicle keeper on DVLA's record.
2. In Great Britain, the Driver and Vehicle Licensing Agency (DVLA) currently collects VED for the Government through five different channels:
  - at the Post Office®,
  - at DVLA Local Offices (until October 2013 when offices will be systematically closing under the Modernising Network Services agenda),
  - DVLA's Electronic Vehicle Licensing (EVL) facility, either
    - by automated telephone service, or
    - Self-service portal via [www.gov.uk/tax-disc](http://www.gov.uk/tax-disc).
  - Automated First Registration and Licensing (AFRL) scheme
  - Fleets Relicensing scheme
3. The Road Traffic Act 1988<sup>2</sup> requires all motorists to be insured against their liability for injuries to others (including passengers) and for damage to other people's property resulting from use of a vehicle on a road. It is an offence to drive a car or allow it to be driven without insurance.
4. The Motor Vehicles (Third Party Risks) Regulations 1972<sup>3</sup> requires the DVLA to check for evidence of valid insurance when an application is made to license a vehicle. In addition to certificates, cover notes and temporary certificates are also accepted at the point of vehicle licensing.
5. The check of valid insurance at vehicle licensing should be able to establish a link between the person(s) named on the insurance certificate and the registered keeper. In most cases, the insurance certificate will be in the name of the registered keeper (the applicant). Where the names differ, some additional proof will be required to ensure that the registered keeper is covered by the policy.
6. In the past, the check for insurance at licensing was the only system of checking that motorists were complying with their insurance requirements. This check only ensured that there was a valid insurance policy in place on the day that licence was due. There was nothing in place to stop the applicant cancelling their insurance the next day and driving the rest of the licensing period without valid insurance.
7. Until the introduction of Continuous Insurance Enforcement (CIE) in June 2011, the only enforcement available was if the vehicle was spotted on-road. Vehicles caught being used without insurance can be seized, and ultimately destroyed, by the Police.

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<sup>1</sup> The Vehicle Excise and Registration Act 1994 (VERA). Legislation available at [www.legislation.gov.uk/ukpga/1994/22/contents](http://www.legislation.gov.uk/ukpga/1994/22/contents)

<sup>2</sup> The Road Traffic Act 1988. Legislation available at <http://www.legislation.gov.uk/ukpga/1988/52/section/156>

<sup>3</sup> The Motor Vehicles (Third Party Risks) Regulations 1972. Legislation available at <http://www.legislation.gov.uk/uksi/1972/1217/crossheading/production-of-evidence-of-insurance-or-security-on-application-for-excise-licences/made>

## Current levels of uninsured driving

8. Since 2004, the Motor Insurer's Bureau (MIB) has seen a reduction of close to 35% in the amount of claims received for uninsured and untraced accidents<sup>4</sup>, which remains the only definitive measure on the reduction in the level of uninsured driving.
9. The reduction in uninsured driving can be attributed to the combination of:
  - The Police enforcement approach that has been in place since 2005.
  - Since 2009, there has been increased activity to raise awareness of the consequences of no insurance.
  - The continual improvement of the accuracy of the records on the Motor Insurance Database (MID).
10. The penalty for driving without insurance is a maximum fine of £5,000 and 6-8 penalty points. In 2011, there were around 150,000 cases heard at court for motor insurance offences.

## Continuous Insurance Enforcement (CIE)

11. In June 2011, the Department for Transport and MIB introduced the CIE scheme, which compares the DVLA vehicle database with the MID managed by the MIB to identify those who are potentially keeping uninsured vehicles. The MID contains the insurance policy details of all insured UK vehicles and was set up by the Insurance Industry to help combat uninsured driving, reduce the number of uninsured motorists on the road, and therefore reducing the cost to the industry of compensating victims of accidents involving uninsured motorists.
12. The comparison of the DVLA vehicle records and the insurance policies held on the MID supplements on-road Police activity in identifying uninsured vehicles.
13. Those whose vehicle details fail to match are sent a letter by the MIB advising them:
  - If insured to contact their insurance provider to ensure their record is accurate and appears on the MID,
  - To make a Statutory Off Road Notification (SORN) if the vehicle is being kept off the road,
  - To update their vehicle record with the DVLA if they no longer have the vehicle, or,
  - To buy insurance.
14. Those who fail to follow this advice will be subject to enforcement action by DVLA that will include:
  - receiving a £100 Fixed Penalty Notice (FPN), and/or
  - court prosecution that carries a maximum fine of £1,000.
15. CIE allows DVLA the ability to identify each month those who keep uninsured vehicles in a way previously not possible. It encourages vehicle keepers to comply, rather than face enforcement action. CIE has prompted behavioural change, with vehicle keepers either meeting their obligation to insure their vehicles or ensuring that the data held on databases is both timely and correct.
16. Once a vehicle is identified as being potentially uninsured, comparisons are made to identify any recent update to the DVLA record and/or for details of any new insurance record to be entered or corrected on the MID. Keepers of vehicles without such changes or updates are

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<sup>4</sup> CIE-related figures are derived from monthly datasets originating in both DVLA's infrastructure and the MID. The data is managed by both MIB and DVLA and then updated and shared between the two organisations monthly. The uninsured and untraced claims figures is a reported measurement that MIB manage and update annually and then share publically, where appropriate.

issued with an Insurance Advisory Letter (IAL) from the MIB. IAL's are issued throughout the month.

17. Should a vehicle keeper fail to respond within 28 days to the prompt contained in the IAL, then a FPN is then issued by DVLA. Once an FPN has been issued the keeper is required to pay a penalty or face prosecution by Magistrates.
18. There has been over 9,600 prosecutions successfully proven at Court. DVLA are currently listing 3,000 cases each month for prosecution by Magistrates. During December 2012 and January 2013, an average of 50% of all cases closed 'in-month' were for a successful prosecution or for paying the FPN penalty.
19. Enforcing CIE from DVLA vehicle and MID records is designed to complement enhanced Police powers of seizure. This enables strong action to be taken without imposing additional burden on the courts, and shifts the focus of Police attention on-road to the most determined offenders.
20. The new CIE law that makes it an offence to keep a vehicle without either Statutory Off Road Notification (SORN) or insurance will run alongside the existing offence of using a vehicle with no insurance, which is enforced by the Police. The Police seize 150,000 vehicles each year for this offence, and offenders also face a £200 fixed penalty or a court fine of up to £5,000 and possible disqualification.
21. So far, the MIB have issued just over 1million Insurance Advisory Letters (IALs) advising people who appear to have no insurance what to do next, while DVLA have issued over 330,000 FPNs.

## **Red Tape Challenge**

22. The Government's Red Tape Challenge website focuses on reducing regulatory burden. It gathers views on which regulations should stay, which can be merged and which can be scrapped. During the Road Transportation theme of the Red Tape Challenge, a number of comments were received about the administration of the insurance check when licensing a vehicle. These were around the bureaucracy of the administration process and how the presence of the CIE scheme negates the need to produce evidence of insurance when licensing.

## **Consultation**

23. The DVLA held a formal public consultation exercise<sup>5</sup> to gauge public and business opinion on whether there is a need to undertake the check of insurance when taxing a vehicle now that the CIE scheme checks for insurance more regularly. The DVLA also undertook more targeted consultation with the Police and representatives of the Insurance Industry, which involved formal meetings and presentations to fully explain the proposal.
24. The response to the public consultation exercise identified that there was no overriding opinion on whether to remove the check or not. 46% of the responses supported the proposal and stated that the removal of the check was a common-sense approach given the introduction of the CIE scheme. On the other hand, 48% opposed the removal of the checks, with 78% of these noting concerns over an increase in the potential for insurance evasion due to low confidence in the ability of the CIE scheme to effectively enforce against insurance evasion. Whilst we do not believe that there will be a significant increase in insurance evasion, we are making plans to take the opportunity offered by the removal of the insurance check to strengthen the public's understanding of the CIE scheme and to remind motorists of their obligation for adequate motor insurance.

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<sup>5</sup> Further information can be found at [www.dft.gov.uk/dvla/consultations/consultation2012.aspx](http://www.dft.gov.uk/dvla/consultations/consultation2012.aspx)

25. It should be noted that the majority of business that responded were in favour of the proposal, whilst the majority of individuals were opposed to it. This outcome was expected as in general, individuals tend to be more risk averse to any potential loss following an accident, while larger companies may be better placed to absorb any such consequences.
26. Meetings with the Police have shown that there is support for the proposal. The Police stated that they prefer to use the information they get sent from the MID alongside ANPR technology when attempting to retrieve personal/motor details. This is opposed to the long-held belief that the non-display of a tax disc on a windscreen may be the first sign that the vehicle may be suspect. Having timely information available via links with the MID is seen as a more efficient and accurate source when compared to the reliance on the production and display of documents.
27. Representatives of the Insurance Industry also offered their support to removing the check. Meetings with the Association of British Insurers (ABI) highlighted that the industry did not envisage any impact on uninsured driving levels. They also view the removal of the check as an opportunity to re-energise the CIE scheme and increase publicity surrounding how CIE works. Furthermore, the MIB also wished to reinforce the success of CIE and the fact that the MID (in its primary role as an enforcement tool) is playing an important part in the increased trend in the reduction of uninsured driving since the introduction of CIE.

## **Rationale for Intervention**

### **Burden on motorists**

28. There are around 34million licensed vehicles on the road. Every time one of these vehicles are taxed motorists must provide evidence of insurance before they obtain a tax disc.
29. The introduction of CIE has resulted in there being two simultaneous checks of vehicle insurance. CIE performs regular checks to confirm that a valid insurance policy is place for a vehicle. On top of these checks, DVLA request an additional check for valid insurance when a vehicle is presented for licensing.
30. A further burden is that although around 20 million licensing transactions are successfully processed via DVLA's EVL system every year, around 595,000<sup>6</sup> of these transactions fail due to errors surrounding the validation of insurance details against the vehicle record. Of these 595,000 vehicles, the DVLA has identified around 42,000 vehicles that were registered to businesses. These motorists are then forced to license elsewhere<sup>7</sup>.
31. The extra burden on the public, businesses and Government that is created by the simultaneous checks, as well as the unnecessary failures, needs to be addressed. The Government believes that the time is right to remove the check of insurance at licensing now that a more frequent check is made through CIE.

## **Policy Objective**

32. The Government has a responsibility to ensure compliance with motor insurance laws in order to protect motorists against uninsured drivers. Therefore, the objective is to minimise the burden the Government currently imposes on motorists to prove they are covered by a valid insurance policy when driving on the roads. The presence of the CIE scheme means that we can now remove the burden of having to produce an insurance certificate when taxing a vehicle.

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<sup>6</sup> Figure obtained from a sample of EVL transactions between June 2010 and May 2011 undertaken by DVLA Data Analysis Team.

<sup>7</sup> DVLA's 2008 EVL Insurance Failure survey identified that those people who were unable to license their vehicles on EVL because of insurance issues eventually completed their transaction elsewhere, with 99% visiting the Post Office and the remainder attending the DVLA Local Office.

33. The removal of the insurance check will also increase the number of successful transactions via EVL, which will realise savings for both the public and Government.

## **Options**

### **Do nothing**

34. Motorists would continue to be burdened by having to produce physical evidence of insurance when licensing their vehicles, alongside the checks the Government makes via CIE.
35. Motorists will continue to be forced into licensing their vehicle via a less convenient channel because of insurance validation issues. The burden remains with the 595,000 motorists that fail every year to obtain a paper certificate and travel to their nearest Post Office® or DVLA Local Office in order to license their vehicle.

### **Option 1**

36. The Government proposes to no longer check for valid insurance when an application is made to license a vehicle. The removal of the check would apply to all licensing channels.
37. This option would not change the way in which the DVLA and the MIB administers CIE.
38. The proposal will only apply to Great Britain. The need to check for evidence of insurance when taxing a vehicle in Northern Ireland will remain as the CIE scheme has only been implemented in Great Britain.

This option will impact on the following groups:

#### **Public**

39. *Less burden when taxing their vehicle.* Every motorist that wishes to tax their vehicle will be able to do so without having to present evidence of a valid insurance policy. Motorists will no longer have to replace lost, stolen or damaged vehicle insurance certificates.
40. *Less chance of their EVL transaction failing and being forced to license via a different channel.* The 553,000 motorists that chose to tax online and failed due to insurance validation reasons will now be able to complete their application without fear of it failing because of insurance issues and, as a result, being forced to license elsewhere. CIE will continue to identify any uninsured vehicle keepers.

#### **Business**

41. *Less burden when taxing their vehicle.* 42,000 vehicles will now be able to be taxed without having to present evidence of a valid insurance policy. Businesses will no longer have to replace lost, stolen or damaged vehicle insurance certificates.
42. *Less chance of their EVL transaction failing and being directed to the Post Office® or DVLA Local Office to complete the transaction.* Businesses now face less risk of their EVL transaction failing.
43. *Less administration when registering vehicles.* Motor dealers will face less of an administrative burden when selling/registering vehicles (especially in light of the planned LO closures).

#### **Government**

44. *Less time dealing with queries about uninsured driving/failed transactions.* Complaints that stem from insurance-based problems will reduce. There will be no failed transactions due to



insurance issues as there will be no insurance validation required to process the licensing application.

45. *Increased take-up of EVL.* If the number of insurance failures were added to the overall amount, there would be 595,000 more transactions completed via EVL.

## **Post Office®**

46. *Less time taken to process the transaction.* The removal of the check will free up clerks time and reduce the amount of interaction needed to advise the customer what options are available when a transaction fails.

## **Insurance Industry**

47. *Decrease in the need to produce and issue paper vehicle insurance certificates.* The removal of the need to check for a paper insurance certificate may mean that the Insurance Industry could see savings by producing less paper insurance certificates. The Department for Transport are currently looking into whether the current requirement for an insurance certificate is still needed.
48. *Less casework/enquiries.* Insurers will deal with fewer complaints from customers who have problems taxing their vehicles because of insurance reasons. Although the Insurance Industry have confirmed that there are benefits to be had, they are unable to monetise the benefits in the Impact Assessment.
49. *Elimination of co-terminosity problems.* A vehicle tax disc expiring at the same time as an insurance policy can cause problems when it comes to renewing both at the same time. The removal of the check will see co-terminosity issues being made obsolete, meaning time will no longer be spent resolving co-terminosity issues.

## **Police**

50. *Increased potential for the redirection of resource.* There is a possibility that customers may choose to delay getting insurance for their vehicle as evidence of insurance would not be required at licensing. This may result in an increase in short-term insurance evasion, which may see a proportionate increase in Police resource required. However, this risk currently exists in circumstances where the insurance policy expires before the vehicle tax. Motorists may not renew their insurance policy until the vehicle tax is due.

## Costs and Benefits<sup>8</sup>

### Monetised Benefits

#### Public

51. There will be a reduction in the amount of people having to complete their application at the Post Office® following the rejection of their EVL transaction.

Table 1: shows the range of saving in leisure time if the 553,000 customers were able to transact via EVL and not be forced to complete their licensing application at the Post Office®. In order to estimate how long it takes someone to tax their vehicle at the Post Office, DVLA looked at a random sample of 500,000 Post Office® relicensing transactions during October 2011, matched their home postcode to the postcode they relicensed at and calculated the difference in drive time (minutes) from home to Post Office®. This showed that customers live within an average of 20 minutes drive from the Post Office® that they chose to license at. Combined with the 5mins it takes to transact at a Post Office branch<sup>9</sup>, this time can be used (when used alongside the average cost of an hour's leisure time (£6<sup>10</sup>)) to give a potential saving. The estimates take into account that whilst there is the potential for a maximum round-trip time of 45 minutes, it is based on the assumption that 100% of trips are made with the sole purpose of getting to the Post Office®. The likelihood of a customer popping to the Post Office branch to post a parcel (for example) and then deciding while they were there that they would pay tax would be quite rare as they would need certain documentation on them that most people don't necessarily tend to carry with them day-to-day. We also assume that the vast majority of motorists will combine the trip to pay VED with other tasks (such as shopping, or the commute to/from work). Therefore, we have estimated a high end time of 25 minutes to complete their vehicle tax application. Our low estimate of 10 minutes takes into account those that live and work nearer to a Post Office® than others and are able to walk to their nearest branch down the road.

<b>Estimate (time in minutes)</b>	<b>Saving (£m)</b>
Low (10)	0.6
Mid (18)	1.0
High (25)	1.4

#### Business

52. There will be a reduction in the amount of businesses having to complete their application at the Post Office® following the rejection of their EVL transaction.

Table 2: shows the range of saving in business time if the 42,000 vehicles were able to transact via EVL and not be forced to complete their licensing application at the Post Office®. Based on the same criteria used to estimate public savings, it is estimated that it would take around 25 minutes to complete the licensing transaction at a Post Office®. This time can be calculated alongside the average cost of an hour's business time (£38)<sup>11</sup> to give a potential saving.

<b>Estimate (time in minutes)</b>	<b>Saving (£m)</b>
Low (10)	0.3
Mid (18)	0.5
High (25)	0.7

<sup>8</sup> All financial figures are taken from DVLA's 2010/11 Service Level Agreement with the Department for Transport.

<sup>9</sup> Figure taken from the DVLA - Post Office SLA that is provided on a monthly basis by PO Ltd. The data is sourced from mystery shopping exercises undertaken for DVLA.

<sup>10</sup> Figure taken from DfTs 'Transport Analysis Guidance Unit 3.5.6' (2012). The link has also changed to [http://www.dft.gov.uk/webtag/documents/expert/pdf/u3\\_5\\_6-vot-op-cost-120723.pdf](http://www.dft.gov.uk/webtag/documents/expert/pdf/u3_5_6-vot-op-cost-120723.pdf) The £6 figure comes from averaging the non-working time values for the public between 2013-2022.

<sup>11</sup> Figure taken from DfTs 'Transport Analysis Guidance Unit 3.5.6' (2012). The link has also changed to [http://www.dft.gov.uk/webtag/documents/expert/pdf/u3\\_5\\_6-vot-op-cost-120723.pdf](http://www.dft.gov.uk/webtag/documents/expert/pdf/u3_5_6-vot-op-cost-120723.pdf) The £38 figure comes from averaging the non-working time values for businesses between 2013-2022.

## Government

53. The removal of the check for the EVL transaction would mean that the Government would save on the cost of the electronic check of the MID that is made. The Government will not have to pay to check the MID every time a unique licensing application is made via EVL.
54. The 595,000 vehicles that cannot complete their transactions online will complete their transactions via a different channel. A 2008 survey<sup>12</sup> showed that 99% of these motorists will license their vehicles at the Post Office®, whilst the remaining 1% will choose to use a DVLA Local Office (it should be noted that after October 2013, DVLA will begin closing various Local Offices, resulting in every customer that experiences an EVL transaction failure due to insurance issues only being able to relicense at a Post Office branch).

Table 3: showing the total amount of savings if Option 1 was implemented (presented in 2011/12 prices). The table assumes that 0% inflation has been applied post 2011/12. Unfortunately, the transaction unit costs for the periods past 2013/14 are unavailable. During the financial year 2011/12, it cost the Government £50m to administer vehicle licensing via the PO and EVL channels. This is made up of the Service Level Agreement (SLA) cost for licensing multiplied by the number of keepers who licensed. If the insurance check was abolished, it would cost the Government less, as the 595,000 vehicles that would have failed previously would now be able to transact via EVL at a lower SLA cost than if they had taxed at the PO. This cost would be £48.9m, realising a saving of £1.1m.

	Total licensing cost (PO & EVL) - Do Nothing option (£m)	Total licensing cost (PO & EVL) - Option 1 (£m)	Saving (£m)
<b>2011/12</b>	50	48.9	<b>1.1</b>
<b>2012/13</b>	51.6	49.6	<b>2</b>
<b>2013/14</b>	35.1	34.1	<b>0.9</b>
<b>2014/15</b>	36.9	35.9	<b>1</b>
<b>2015/16</b>	36.4	35.3	<b>1.1</b>

55. In the financial year 2013/14, there will be a considerable change in the transaction unit cost for taxing at Post Offices Ltd following the awarding of the Front Office Counter Services contract to the PO. This new, significantly lower, transaction cost will mean that, at first glance, there would appear to be a drop in the potential savings. There will also be an effect on transaction volumes when DVLA Local Offices are closed this year; however, the two primary licensing channels will mop up the LO customers. These changes mean that this saving cannot be directly compared to those of previous years. The point to note is that there will continue to be a consistent rise in savings if the check is removed.

## Non-monetised Benefits

### Government

56. There is a potential saving to be made from the reduction in the volume of complaints received from motorists who are unable to license their vehicles because of insurance issues. In 2010, DVLA received nearly 200 complaints about the problems when validating insurance through EVL applications. However, it is not possible to quantify the saving as the time taken to deal with individual complaints is not recorded. Furthermore, depending on the type of query, complaints are dealt with by different staff at varying grades – again, this information is not recorded so it is not possible to attribute a monetised saving.

<sup>12</sup> DVLA's 2008 EVL Insurance Failure survey. The survey identified that those people who were unable to license their vehicles on EVL because of insurance issues eventually completed their transaction elsewhere, with 99% visiting the Post Office and the remainder attending the DVLA Local Office.

57. Although the online check will be ‘turned off’ under the proposal, there will still be occasions where access to the MID is needed. As part of CIE, one of the associated enforcement practices includes the wheel clamping of vehicles identified as uninsured. In order to validate insurance, clampers will require access to the MID, which will come at a cost. At present under current wheel clamping procedures, the Government only pay database support and maintenance costs and are not charged per check. However, the subsequent cessation of income to the MIB following the switching off of the MID check could mean that a charge will be introduced to cater for the checks needed as part of the wheel clamping enforcement activity.

## **Monetised Costs**

### **Government**

58. There is a potential risk to DVLA if there is a rise in uninsured driving cases heard in court. DVLA would be liable to reimburse HM Courts & Tribunal Services (HMCTS) for the costs associated with hearing these cases at court if there is a significant impact on the court system as a direct result of the proposal. As the amount of insurance cases heard at court have been reducing annually, we would view a significant impact as being a rise in actual cases of a maximum 1% from the forecasted cases. In 2011, there were around 150,000 cases heard at court<sup>13</sup>.

Table 4: showing the amount DVLA would have to compensate HMCTS if the proposal resulted in a significant impact on the amount of motor insurance cases heard at court. The table uses the unit transaction cost for a single court case multiplied by the amount of cases in 2011. The table shows the average cost attributed to the proposal based on a maximum rise of 1% and a minimum of 0.1%.

	<b>Cost to DVLA (£thousand)</b>		
	Low (0.1% rise)	Mid (0.5% rise)	High (1% rise)
<b>2011</b>	18	90	180

59. At present, every time a motorist applies to tax their vehicle online, a check of the MID has to be made to validate that adequate insurance is in place. The Government is charged (as required contractually) every time the MID is checked. If the need to check is removed, there will be no reason to keep the online check of the MID. In order to remove the check from the online system, there will be a one-off cost associated with switching off the current IT instruction. DVLA’s IT providers have identified that it will cost around £240,000 to make the necessary system changes to switch the check off.

60. There will be a one-off cost associated with issuing new instructions to the Post Office. The DVLA Post Office Contract Team has estimated a cost of £5000 + VAT for this work.

### **Business**

61. There have been no monetised costs to business identified.

<sup>13</sup> Figure taken from [www.justice.gov.uk/downloads/statistics/criminal-justice-stats/2011/motoring-tables-1211.xls](http://www.justice.gov.uk/downloads/statistics/criminal-justice-stats/2011/motoring-tables-1211.xls)

## **Non-monetised Costs**

### **Insurance Industry**

62. DVLA have discussed this with representatives of the industry as part of the consultation process. Whilst they agree that there will be possible administrative savings as a result of the proposal, they have not been able to attribute a financial figure.

### **Police**

63. Again, although DVLA met the Police on a few occasions, it was not possible to identify any direct monetary impact the proposal may have.

## **Risks/Uncertainties**

### **Short term evasion**

64. There is a possibility that short term evasion could rise, as customers may choose to delay getting insurance for their vehicle as evidence of insurance would not be required when they tax their vehicle. Furthermore, this risk was evident in a number of responses to the public consultation exercise, with the majority of people who did not support the proposal viewing the removal of the check as a loosening of the control around insurance enforcement. It is the Government's intention to use the opportunity offered by the removal of the check to launch some publicity to revitalise the message around CIE, to make people aware of the good work CIE has done to date and to increase confidence in CIE and its role in playing an important part in the fight against insurance evasion. It remains our view that the potential short-term impact (if any) may be relatively small because of the combined deterrent of CIE and on-road enforcement.

65. The measure of the effectiveness of CIE, which is a distinctly different, though no less important measurement to that of the number of claims received by MIB, demonstrates that between June 2011 and November 2012, the target pool of potentially uninsured vehicles fell by over 30%. This is a vast improvement on the 11-month period prior to CIE (July 2010 to May 2011), which saw a fall of less than 2%<sup>14</sup>.

66. Since June 2011, the number of vehicles registered and taxed with the DVLA has remained fairly constant. However, in that period, the number of vehicles on the MID has risen by 615,000.

67. We have also seen a higher response to the IAL than originally estimated (almost 65% compared to a forecast of 40%).

68. Whilst the current evidence points to CIE having a positive effect in reducing the number of vehicles being kept without insurance, there is no room for complacency. Other options to improve the effectiveness of the CIE scheme include:

- The MIB continue to analyse the MID to improve the completeness of 'real time' data held.
- Work is underway to further shorten the timescale before those suspected of keeping an uninsured vehicle are issued with an IAL. The increase in taking 3000 CIE prosecutions to Magistrates' Court each month supports this.

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<sup>14</sup> CIE-related figures are derived from monthly datasets originating in both DVLA's infrastructure and the MID. The data is managed by both MIB and DVLA and then updated and shared between the two organisations monthly. The uninsured and untraced claims figures is a reported measurement that MIB manage and update annually and then share publically, where appropriate.

- DVLA are now 'fast tracking' those identified as potentially repeating an offence under CIE directly to Magistrates' Courts without issuing any IAL or FPN. This prevents any opportunity to settle the repeat offence by paying a further penalty.

69. All the above signs are encouraging as they highlight CIE's ability to promote compliance and avoid the need for wholesale enforcement action, while, at the same time, improving the integrity of vehicle records held on respective databases.

70. It must be remembered that if the insurance check at the point of vehicle taxing remained in place, the current risk that exists where the insurance policy does not expire at the same time as VED will remain. In this scenario, motorists may choose to delay the renewal of their insurance policy until the VED is due or even cancel it until their VED is due.

## **Future savings**

71. DVLA are unable to forecast transaction figures past 2015/16. Although the forecasts go up to a certain point based on the information available, they are constrained by the availability of external factors which may give an indication of future customer, economic and business behaviours. In lieu of any indication otherwise, the volume is flat-lined for future years. However, DVLA's volumes are regularly reassessed and movements in indicators of future behaviours are monitored.

72. For this reason, the forecast savings to Government have been flat-lined at 2015/16 figures in the IA calculator. This has resulted in a potentially lower Government savings figure being attributed to the proposal, however, we expect the saving to increase according to the current trend shown up until 2015/16 in Table 1. DVLA are currently reviewing how they can improve its forecasting.

## **Assumptions**

73. It is assumed that those people who attempt but fail to license online will continue to use the online service as their first choice route. The assumption is justifiable because these people preferred to tax their vehicle using the online channel in the first instance and only used the PO when forced to after their application was rejected. This assumption is maintained throughout the forecasted savings when it comes to working out how many people will benefit from the removal of the check when taxing their vehicle online.

## **Wider Impacts**

### **Social impact**

74. **Statutory Equalities Duties impact:** there is no gender, race, sexual orientation, transgender, age disability, pregnancy/maternity or religious implications.

75. **Human Rights impact:** there are no implications resulting from the introduction of this proposal.

76. **Health and Well-being impact:** there are no changes to lifestyle brought about by the removal of the insurance check at licensing, as well as no foreseeable likelihood of a significant demand on any Health and Social Care services.

77. **Justice System impact:** we have completed a Justice System Impact Test (attached). Feedback from the Ministry of Justice confirmed that they agree to the proposal in theory, however, they stated that should there be any impact on HM Courts & Tribunal Services, DVLA would be liable for any costs that arise. DVLA are confident that the proposal will not impact significantly on HMCTS costs, mainly due to the performance of the CIE scheme to date.

## Financial impact

78. **Competition impact:** the removal of the insurance check will not affect the scope and nature of competition between businesses.
79. **Small Firms impact:** we have found that the implementation of the policy will have a minimal effect on small firms. These include smaller, licence-issuing Post Office® branches and insurance companies.

## Environmental impact

80. **Wider Environmental Issues impact:** the removal of the insurance check at relicensing will have no significant environmental impacts.
81. **Rural Proofing impact:** the impact the policy will have on rural communities has been fully considered and we consider there to be minimal and incidental impact on Post Offices in rural areas.
82. **Sustainable Development impact:** there will be no significant environmental or intergenerational impacts affected by this policy.

## Summary and description of implementation plan.

83. The preferred decision is to implement the removal of the insurance check when a vehicle is taxed. This option would ensure that motorists are not subject to additional burden when licensing their vehicles whilst still maintaining control over compliance with insurance laws.
84. In order to remove the check, we will have to amend Regulation 9 of The Motor Vehicle's (Third Party Risks) Regulations 1972 to remove the requirement to produce evidence of insurance when an application for a vehicle licence is made in GB. Changes to the legislation are expected to be completed by October 2013.
85. Despite the removal of the check, there will be no decrease in our ability to identify uninsured driving. The CIE scheme will ensure that motor insurance remains regularly checked and any evaders will be quickly identified and dealt with accordingly.

## One In, Two Out (OITO).

86. This measure is in scope of OITO as it can be defined as an 'OUT', this being a deregulatory measure whose direct incremental economic benefit to business and civil society organisations exceeds its direct incremental economic cost to business and civil society organisations.
87. As this measure is considered an 'OUT' via the implementation of deregulatory measures, it can be 'banked' against any future 'IN's.

## Regulatory Policy Committee

88. The impact assessment was sent to the RPC for their views before the consultation process begun. It was given an 'Amber' rating, meaning that it was considered acceptable to proceed to consultation as long as RPC concerns were addressed beforehand.

89. The Committee considered that the impact assessment should provide greater clarity on whether some of the benefits identified would accrue to business. It would also benefit from greater elaboration on the possible introduction of an additional charge, as well as benefiting from a more detailed discussion on the risks of this proposal. The impact assessment has been reworded to make clear that there are no costs to business. However, further analysis of DVLA's data has shown that around 42,000 of the 595,000 vehicles that were unable to license were owned by businesses. This benefit to business has been reflected in the Impact Assessment.
90. The Impact Assessment has also been updated to reflect that following the removal of the insurance check, any additional charge imposed to make a check of the MID as part of the CIE process would fall to Government.
91. The RPC recommended that the IA should include more information on the mitigation of risk surrounding the possibility that the proposal resulting in a rise in short term insurance evasion. The DVLA, as part of the consultation process, met with representatives of the Insurance Industry and the Police to establish the impact that this proposal could have on them. Discussions confirmed that they do not see the proposal adversely affecting them and further evidence of the effectiveness of the CIE scheme has been populated into the Impact Assessment.