

Commentary

EV Insurance: Challenges Ahead in the Struggling Motor Segment in Europe

Morningstar DBRS

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Key Highlights

- EVs have gained significant popularity in the EU in the past five years, jumping to 25% of total new car registrations in January through September 2025 from 18% in 2021.
- There are a number of factors indicating that insurance coverage of a BEV could be, on average, more expensive than that of a comparable ICE model.
- European insurers must adequately price their policies for EVs to preserve the underwriting profitability of their motor segments, which remain under pressure across Europe.

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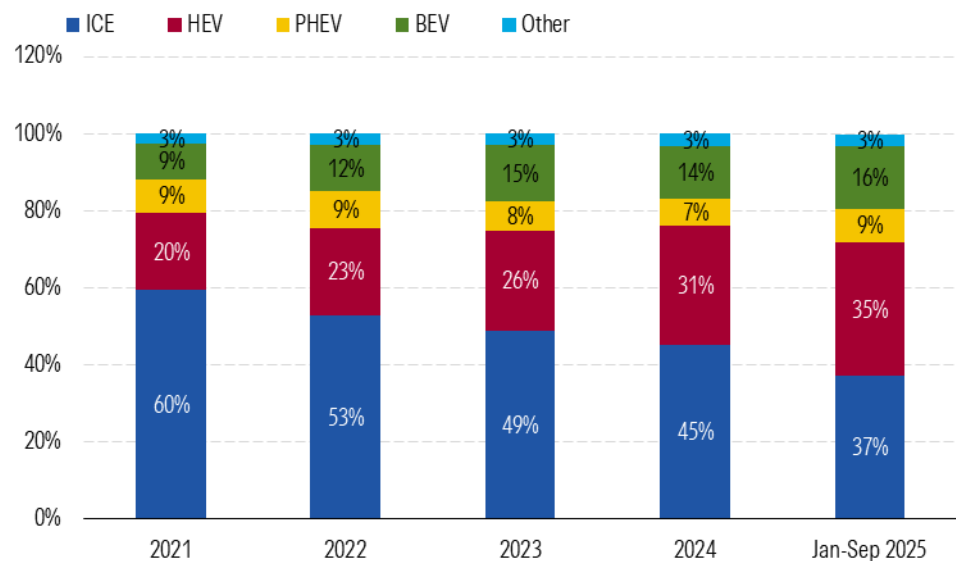
Overview

As the European Union (EU) and the UK are moving towards the implementation of their green agenda, electric vehicles (EVs) are becoming increasingly popular. Battery electric vehicles (BEVs) are currently more expensive than comparable internal combustion engine (ICE) vehicles, and their repair costs are typically higher than traditional fossil fuel-powered vehicles. As a result, insurance coverage for BEVs would likely lead to higher cost of claims and be more expensive for policyholders. European insurers must continue pricing their policies adequately to preserve their underwriting profitability considering that the motor insurance segment remains under pressure across Europe.

Electric Vehicles Gain Popularity in Europe

As reported by the European Automobile Manufacturers' Association (ACEA), in the EU, EVs, including BEVs and plug-in hybrids (PHEVs), are steadily increasing their market shares, accounting for 25.1% of all new car registrations from January to September 2025 (Exhibit 1), compared with 20.0% over the same period in 2024. On the other hand, ICE models significantly lost market share in new registrations, falling from 59,5% in 2021 to 37,5% in January through September 2025. Hybrid electric vehicles (HEVs) continue to be a popular category among consumers, accounting for 34.7% of the market.

Exhibit 1 New Car Registrations by Power Source in the EU (%)



Source: European Automobile Manufacturers' Association (ACEA), Morningstar DBRS.

Despite improving BEV penetration, in the EU, overall BEV market share has fallen short of early expectations. Indeed, BEVs' 16% market share for January through September 2025 is far from the 25% expected by the end of the year, according to ACEA. This highlights some of the BEVs' limitations, especially around affordability, which remains a significant hurdle for higher EV adoption. According to the International Energy Agency, in 2024, only 5% of BEVs were priced below EUR 30,000, compared with 25% for petrol and diesel vehicles. Therefore, it is not surprising that BEV market shares closely track GDP per capita in European countries, with Denmark leading the pack (63.8%) compared with Bulgaria (4.7%), as reported by ACEA. In the UK, BEVs already represent the most popular powertrain category after ICE vehicles, with a 23.3% market share, reflecting a 29.1% increase in registrations during January to September 2025 compared with the previous year.

What is Changing for Insurers?

While BEV sales are gaining traction in the EU and the UK, insurance companies will need to update their risk models to price EV insurance appropriately. There are several factors indicating that insurance coverage for a BEV would be, on average, more expensive than for a comparable ICE vehicle. As highlighted above, BEVs are on average more expensive than the same or comparable ICE models. This leads to higher replacement costs for insurers. In addition, EVs are, on average, more expensive to repair than comparable combustion-powered vehicles. This could be due to several factors, including the fact that BEVs tend to be more technologically sophisticated and include multiple electric and digital components, which might be difficult to repair or replace in case of an accident. Batteries are typically the most expensive component of an EV. As they are often under the vehicle's floor, they can be easily damaged in an accident. Replacing a damaged battery could be difficult and significantly expensive. In the event of a serious incident, the risk of fire is higher for EVs than for ICE vehicles, leading to higher claim costs.

While this would generally affect the severity and volatility of BEV claims compared with ICE vehicles, a recent study by the German Insurance Association concluded that BEV claims frequency is lower than that of ICE vehicles. In our view, this could be linked to BEVs' more limited autonomy, which could force drivers to drive less or at lower speeds to preserve the charge. However, BEVs could see claims frequency rise to levels comparable to those of ICE vehicles going forward as electric-powered vehicles become more popular and more efficient.

Is Car Insurance for BEVs More Expensive Than for Traditional ICE Vehicles?

There is only limited empirical evidence supporting the assumption that insurance coverage for BEVs is currently more expensive than for traditional ICE vehicles. However, this seems to be the case according to studies and research published by insurance comparison websites across Europe. In Italy, the website Segugio.it reported that, in Q1 2024, the average price of an insurance policy for an EV was EUR 620, higher than EUR 565 for a diesel car and EUR 483 for a petrol-powered car. Similarly, in Spain, the website Check24 reported that, in March 2025, insurance coverage for EVs was, on average, around 13% more expensive than comparable petrol cars. In the UK, a study by FWD Research revealed that, in 2023, the average cost of insuring an EV was twice as much as a comparable ICE model. However, in Germany, the website Verivox reported that EV premiums might have been lower than those for ICE vehicles in recent years due to high

competition among insurance companies in the EV segment. In France, insurance premiums for EVs increased in 2024 as they were no longer exempt from a tax on insurance agreements (TSCA).

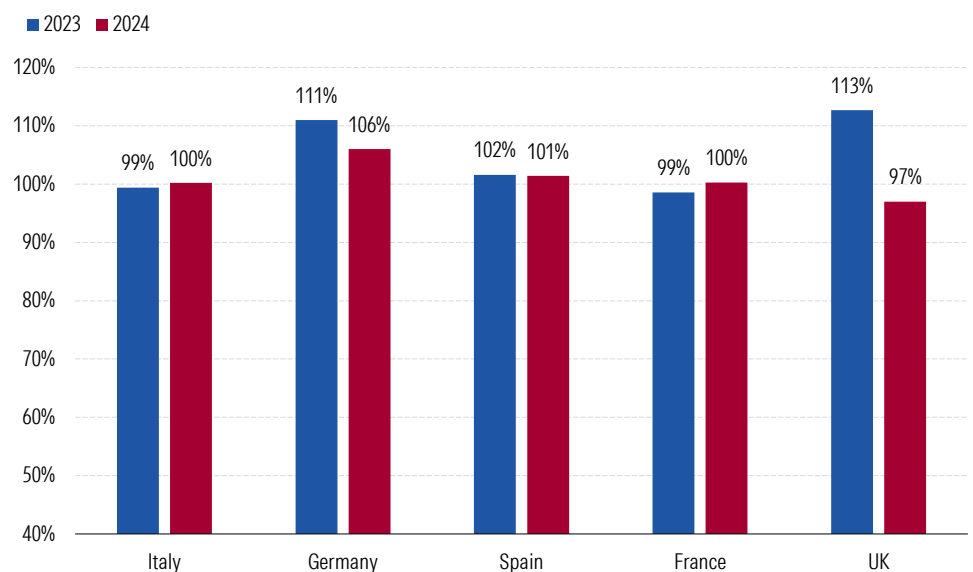
On top of the risk factors mentioned above, which can affect the cost of claims, we believe that the divergence between the pricing of insuring EVs and ICE vehicles can also be attributable to the lack of historical data for the former. Going forward, we expect the price difference to decrease as insurance companies gain more data about EV-related claims.

Underwriting Profitability of Motor Insurance is Struggling Across Europe

European insurers must adequately address the growing popularity of EVs to preserve the underwriting profitability of the motor segment, which remains under pressure across Europe. Given high inflation, rising labour costs, and higher parts costs, the motor insurance segment has shown weak underwriting profitability in recent years. In 2024, the motor segment's combined ratio was at least 100% in Italy, Germany, Spain, and France (Exhibit 2), indicating at least no underwriting profitability or losses.

Motor-related gross written premiums (GWP) accounted for slightly below 40% of total nonlife GWP in the EU in 2023, as reported by the European Insurance and Occupational Pensions Authority (EIOPA). Due to the high incidence of motor-related premiums on total nonlife premiums, low or negative underwriting profitability of the motor segment could potentially affect the overall underwriting profitability and credit profiles of nonlife European insurers. To offset the impact of higher claims, insurers across Europe have been forced to increase prices. Pricing actions, together with lower inflationary pressures, have improved combined ratios across Europe in 2025. With EV-related claims likely to be more costly, European insurers must continue pricing their policies accordingly to support the underwriting profitability of the motor segment, which accounts for most of the nonlife insurance business in Europe.

Exhibit 2 Motor Segment Combined Ratio in Certain European Countries (%)



Source: Italian National Insurance Association (ANIA), Allianz Research, MAPFRE Research, France Assureurs, EY, Morningstar DBRS.

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